# 1957 2017

**60 YEARS** OF GROWTH AND EXPANSION

cogeco

2017 ANNUAL REPORT

# PROFILE

Cogeco Inc. is a diversified holding corporation which operates in the communications and media sectors. Through its Cogeco Communications Inc. subsidiary, Cogeco provides its residential and business customers with Internet, video and telephony services through its two-way broadband fibre networks. Cogeco Communications Inc. operates in Canada under the Cogeco Connexion name in Québec and Ontario, and in the United States under the Atlantic Broadband name in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through Cogeco Peer 1, Cogeco Communications Inc. provides its business customers with a suite of information technology services (colocation, network connectivity, hosting, cloud and managed services), through its 16 data centres, extensive FastFiber Network® and more than 50 points of presence in North America and Europe.

Through its subsidiary Cogeco Media, Cogeco owns and operates 13 radio stations across most of Québec with complementary radio formats serving a wide range of audiences as well as Cogeco News, its radio news agency.

Cogeco Inc.'s subordinate voting shares are listed on the Toronto Stock Exchange (TSX: CGO). The subordinate voting shares of Cogeco Communications Inc. are also listed on the Toronto Stock Exchange (TSX: CCA).

**POWERFUL** CONNECTIONS
FOR OUR CUSTOMERS

**GENUINE** CONNECTIONS
WITH OUR CUSTOMERS

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# SINCE ITS FOUNDING IN 1957, COGECO HAS HAD A FASCINATING HISTORY, MARKED BY SIGNIFICANT GROWTH. EXPLORE SOME OF THE MAJOR MILESTONES OF THIS ONE-OF-A-KIND JOURNEY!

## 1957
**COGECO'S BEGINNINGS**
The Canadian Radio-television and Telecommunications Commission (CRTC) grants Henri Audet a broadcast licence for television station CKTM-TV (Radio-Canada affiliate in Trois-Rivières.)

## 1972
**ACQUISITION OF LA BELLE VISION**
Cogeco Cable makes its first cable acquisition with La Belle Vision, serving the cities of Trois-Rivières and Shawinigan.

## 1985
**INITIAL PUBLIC OFFERING FOR COGECO**
Cogeco becomes a publicly traded company.

## 1986
**ACQUISITION OF CFGL-FM**
The Company acquires CFGL-FM, its first Montréal-area radio station, now known as Rythme FM.

## 1987
**ACQUISITION OF CÂBLESTRIE AND TÉLÉ-CÂBLE BSL**
Cogeco Cable acquires several regional cable companies (including Câblestrie and Télé-Câble BSL) in Québec, tripling its customer base in the process.

## 1989
**FIRST EXPANSION OUTSIDE QUÉBEC**
Cogeco Cable acquires the Burlington and Oakville systems in Ontario, growing from a regional operator into a major national company and doubles its customer base.

## 1993
**INITIAL PUBLIC OFFERING FOR COGECO CABLE**
Cogeco Cable becomes a publicly traded company.

## 1994
**HIGH-SPEED INTERNET**
Cogeco Cable becomes the first cable company in Canada to offer high-speed Internet service over its cable network.

## 1996
**FURTHER EXPANSION INTO ONTARIO**
Cogeco Cable acquires 25 cable networks (totalling 300,000 subscribers) in Ontario.

## 1998-2001
**GROWING FOOTPRINT IN QUÉBEC AND ONTARIO**
Cogeco Cable acquires more than 19 cable systems.

## 2008
**FIRST ENTRANCE IN THE BUSINESS ICT SECTOR**
Cogeco Cable enters the Business ICT sector with the acquisition of the Hydro Telecom fibre network in Ontario.




Henri Audet (second on the left) is congratulated as he stands in front of the CKTM-TV building which, at the time, was located in the basement of the Mont-Carmel church.

# 60 YEARS OF GROWTH AND EXPANSION

## 2011

**ONE OF QUÉBEC'S LARGEST BROADCASTERS**

Cogeco purchases the Québec radio stations of the Corus network, bringing the number of stations it operates to 13, and creates the Cogeco News agency.

## 2012

**EXPANSION INTO THE U.S. MARKET**

Cogeco Cable enters the U.S. market by acquiring the cable system operator Atlantic Broadband, active in West Pennsylvania, Miami Beach in Florida, Maryland/Delaware, and Aiken in South Carolina.

## 2013

**ACQUISITION OF PEER 1 HOSTING**

Cogeco Cable acquires Peer 1 Hosting, one of the world's leading IT hosting services providers, specialized in managed hosting, dedicated servers, colocation and cloud computing services.

## 2014

**REVENUE OF MORE THAN $2 BILLION**

Cogeco reaches a milestone, with more than $2 billion in annual revenue.

**LAUNCH OF COGECO TIVO SERVICE IN CANADA**

TiVo, the leader in advanced television services, is now offered in Canada by Cogeco Cable.

## 2015

**CREATION OF COGECO PEER 1**

Cogeco Cable builds on its position as a leader in the Business ICT sector, creating Cogeco Peer 1 by combining the forces of its Cogeco Data Services and Peer 1 Hosting subsidiaries.

**ACQUISITION OF METROCAST CONNECTICUT**

Cogeco Cable's U.S. subsidiary, Atlantic Broadband, acquires the Connecticut system owned by MetroCast Communications, expanding its presence in the United States.

## 2016

**COGECO UNVEILS NEW BRAND LOGOS AND NAME**

The company and its subsidiaries head into 2016 as one strong and unified entity under a compelling and recognizable brand.

**COGECO CELEBRATES 30 YEARS ON THE TORONTO STOCK EXCHANGE (TSX)**

On November 29th, Louis Audet was joined by members of the Cogeco teams to open the Toronto Stock Exchange (TSX) in celebration of 30 years of being traded on the market.

## 2017

**ACQUISITION OF METROCAST**

Cogeco Communications announces that its U.S. subsidiary, Atlantic Broadband entered into a definitive agreement to purchase all of the MetroCast cable systems.

# THREE-YEAR FINANCIAL PERFORMANCE

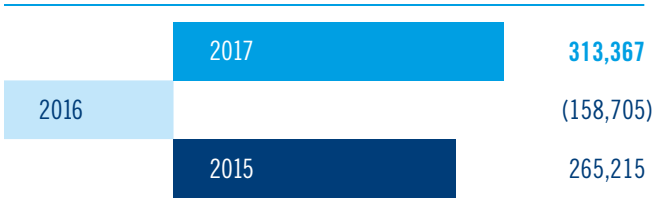
### REVENUE
(in thousands of dollars)




### ADJUSTED EBITDA*
(in thousands of dollars)




### PROFIT (LOSS) FOR THE YEAR
(in thousands of dollars)




### FREE CASH FLOW*
(in thousands of dollars)




* The indicated terms do not have standardized definitions prescribed by 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 Management's Discussion and Analysis ("MD&A").

# FINANCIAL HIGHLIGHTS

| YEARS ENDED AUGUST 31, (in thousands of dollars, except percentages, per share data and number of shares) | 2017 $ | 2016 $ | CHANGE % |
|---|---|---|---|
| **OPERATIONS** | | | |
| Revenue | 2,347,678 | 2,307,403 | 1.7 |
| Adjusted EBITDA | 1,035,545 | 1,018,762 | 1.6 |
| Integration, restructuring and acquisition costs | 3,191 | 8,802 | (63.7) |
| Claims and litigations | — | 10,791 | — |
| Impairment of goodwill and intangible assets | — | 450,000 | — |
| Gain on disposal of a subsidiary | — | (13,107) | — |
| Profit (loss) for the year | 313,367 | (158,705) | — |
| Profit (loss) for the year attributable to owners of the Corporation | 108,985 | (29,351) | — |
| **CASH FLOW** | | | |
| Cash flow from operating activities | 977,081 | 759,030 | 28.7 |
| Acquisitions of property, plant and equipment, intangible and other assets | 431,307 | 470,357 | (8.3) |
| Free cash flow | 390,274 | 298,072 | 30.9 |
| **FINANCIAL CONDITION[1]** | | | |
| Cash and cash equivalents | 212,283 | 68,344 | — |
| Short-term investments | 54,000 | — | — |
| Total assets | 5,499,376 | 5,495,520 | 0.1 |
| Indebtedness[2] | 2,633,159 | 2,974,119 | (11.5) |
| Equity attributable to owners of the Corporation | 578,556 | 503,344 | 14.9 |
| **PER SHARE DATA[3]** | | | |
| Earnings (loss) per share | | | |
| Basic | 6.56 | (1.75) | — |
| Diluted | 6.52 | (1.75) | — |
| Dividends | 1.36 | 1.18 | 15.3 |
| **WEIGHTED AVERAGE NUMBER OF MULTIPLE AND SUBORDINATE VOTING SHARES OUTSTANDING** | 16,618,229 | 16,728,185 | (0.7) |

(1) At August 31, 2016, total assets and equity attributable to owners of the Corporation were restated as reported in note 3 of the Consolidated Financial Statements.

(2) Indebtedness is defined as the aggregate of bank indebtedness, balance due on a business combination, principal on long-term debt and obligations under derivative financial instruments.

(3) Per multiple and subordinate voting shares.

# MESSAGE TO SHAREHOLDERS

Dear fellow shareholders,

In fiscal 2017, Cogeco Inc. ("Cogeco" or the "Corporation") once again achieved continued growth through enhanced sales and marketing efforts combined with rigorous cost control discipline in our spending and remains well-positioned to create value in the years ahead. What's more, we took positive steps towards consolidating our position as a leader in communications in North America.

Consolidated revenue increased by 1.7% in fiscal 2017 to reach $2.35 billion, while adjusted EBITDA reached $1.04 billion, up by 1.6%. Profit for the year reached $313.4 million and the Corporation generated free cash flow of $390.3 million. Dividends paid to our shareholders increased by 14.5% to $22.6 million.

## AFTER 60 YEARS, COGECO CONTINUES ON ITS PATH OF GROWTH AND EXPANSION

In 2017, Cogeco and its employees celebrated the company's 60th anniversary. In 1957, Henri Audet founded a television station in the burgeoning city of Trois-Rivières, Québec. Decade after decade, Cogeco has continued to grow as an Internet, video and telephony provider, as well as a global provider of essential business-to-business products and services. Today, Cogeco is an ambitious and diversified communications and media company with over 4,700 employees in North America and Europe.

## COGECO COMMUNICATIONS

Our performance in fiscal 2017 was characterized by steady growth and continued focus on operational efficiency in our three operating segments: Canadian broadband services, American broadband services and Business information and communications technology ("Business ICT") services. Furthermore, this milestone year for Cogeco Communications was punctuated by an important announcement in July 2017 in the American broadband services segment, that is, Atlantic Broadband's acquisition of the MetroCast cable systems, valued at US$1.4 billion.

In addition to this clear commitment to our American broadband footprint, our Canadian and American broadband service segments continued to demonstrate an ability to grow profitably, expanding and enhancing existing services at attractive prices. We improved our networks with state-of-the-art technologies while also improving our customers' experience, building our customer loyalty and retention.

In the Business ICT services segment, we continued to focus on improvements and generating positive cash flows. The leadership team has been committed to building and consolidating its client and partner relationships, positioning themselves as trusted advisors to medium and large customers, bringing more relevant solutions to market and cross-selling services. In addition, our continued focus on controlling and optimizing our capital expenditures has resulted in meaningful free cash flow results.



**JAN PEETERS**
Chairman
of the Board

*"Fiscal 2017 has been a year of further consolidation for Cogeco, as we continue to build on a solid foundation, in all our markets. With a renewed sense of ambition and unity amongst our businesses, we are focused, more than ever, on ensuring sound capital management, which allows us to support future growth and create solid shareholder value."*

## INITIATIVES

### Canadian broadband services segment

Cogeco Connexion started the fiscal year with a new President, Ken Smithard, following the retirement of former President and business unit CEO, Louise St-Pierre. With his over 15 years of experience in increasingly important positions at Cogeco, Ken has since brought to bear his extensive and broad experience, collaborative leadership style, and passion for technology, reinforcing Cogeco Connexion's position as a leading communications and technology company with strong customer relations built on amazing experiences, trust and reliability.

At the heart of Cogeco Connexion's product and service enhancements in fiscal 2017 was the launch of its UltraFibre 1 Gigabit service, allowing its customers in Oakville and Burlington, Ontario and Trois-Rivières, Québec to benefit from speeds of up to 1 gigabit per second. This network optimization is the culmination of a series of investments in infrastructure upgrades carried out over several months and will continue as Cogeco Connexion looks to offer this service and even faster speeds throughout its network.

Enhancements to existing products and services were also made throughout the year as Cogeco Connexion introduced TiVo 4K, launched new high definition ("HD") channels and expanded its fibre optic and telephone services in Québec, while also growing its Québec footprint through small regional acquisitions.

Cogeco Connexion followed through on its commitment to provide amazing employee experiences. During fiscal 2017, Cogeco Connexion was recognized as an Employer of Choices for its offices in Trois-Rivières and Montréal and received an Employment Equity Achievement Award ("EEAA") in the Outstanding Commitment category from Employment and Social Development Canada. Moreover, the Vice President, Human Resources and Communications, Liette Vigneault, made the prestigious list of the Top 25 HR Professionals in Canada for 2016.

Cogeco Connexion distinguished itself in four categories of the Voice of the Customer Excellence program, within the framework of the *Service Quality Measurement Group 2016 edition* of the *North American Contact Center Industry Awards,* whose winners receive the best evaluation in customer satisfaction surveys. This marks the eighth time in ten years that Cogeco Connexion has been rewarded by this recognition program.

### American broadband services segment

In early July, Cogeco Communications announced the acquisition of the entire MetroCast cable systems, including close to 236,000 homes and businesses in New Hampshire, Maine, Pennsylvania, Maryland and Virginia. With this acquisition, Atlantic Broadband and its best-in-class management team is in a unique position to increase its customer base in attractive markets adjacent to the ones it currently serves, with a view to growing revenue and profit.

Atlantic Broadband began fiscal 2017 with the launch of 1 Gigabit service in its Connecticut system. The fiscal year ended with another such announcement as Atlantic Broadband made its Gigabit residential and business Internet services widely available in Miami Beach and surrounding areas. This was the culmination of Atlantic Broadband's "FastForward Miami" initiative, bringing network infrastructure and service enhancements to residents and businesses in the area. This also included the addition of 58 standard definition ("SD") and/or HD channels and significantly more international channels to meet the needs of Miami's culturally diverse residents.

Atlantic Broadband's Carrier services segment completed its first full year during fiscal 2017 and contributed significantly to strong commercial services growth. The segment, which delivers reliability to carriers in the East Coast markets, executed over 25 partnerships with major providers.

### Business ICT services segment

During fiscal 2017, Cogeco Peer 1 expanded its product portfolio in Canada by bringing to market Microsoft Azure ExpressRoute™ enabling compliant, secure and high performance access to Microsoft's cloud for business. ExpressRoute™ enables customers to overcome the intrinsic security, reliability and performance risks associated with the Internet via secure, dedicated, low latency connectivity to the Microsoft cloud. This service leverages all the benefits of a public cloud without the risk associated with typical Internet connections. Moreover, Cogeco Peer 1 became the official provider of Microsoft cloud services in France and made this product available in Mexico.



**LOUIS AUDET**
President and
Chief Executive Officer

*"Fiscal 2017 has been an inspiring year for the Cogeco team. As we celebrate the 60th anniversary of the founding of Cogeco, we continue to grow the breadth of our products and services, expand our footprint, and intensify our efforts in developing our markets. All the while, we maintain our focus on ensuring we are constantly in tune with the ever-evolving needs of our customers and that we do so efficiently and with an unrelenting emphasis on sound cost management."*

During fiscal 2017, teams at Cogeco Peer 1 were hard at work forging important partnerships across its footprint. For example, in the United Kingdom, the team signed two notable partnerships with Jisc and DTP to help ensure that UK universities and higher education institutions remain at the forefront of global education. Also in the UK, Cogeco Peer 1 partnered with Brytlyt, which provides organizations with a graphics processing unit ("GPU") database and analytics platform, driving a joint commitment to innovation for companies looking to harvest business growth from GPU database and analytics software while simultaneously requiring a level of access and support which larger cloud providers do not offer.

Further strengthening its ties with partners, Cogeco Peer 1 launched the Partner Portal and three customized Partner Programs to improve client services and increase sales. Available in English, French, Spanish, and German, the Partner Portal is a centralized and secure place for partner management, deal registration, marketing and sales enablement, product and technical resources, and more.

In June 2017, Cogeco Peer 1 announced the expansion of its multi-protocol label switching ("MPLS") connectivity services to customers in the United States and Europe, providing more businesses around the globe with a holistic solution that can help reduce IT complexity and enable digital transformation.

## RADIO BROADCASTING

Cogeco Media's performance exceeded expectations with continued solid audience ratings backed by a commitment to providing listeners with compelling and relevant content, while maintaining tight cost management. Throughout fiscal 2017, Numeris' surveys in the Montréal region reported that Cogeco Media's talk radio station, *98.5 FM,* has remained the leader in the Greater Montréal market, while *Rythme FM* maintained its leadership position among the Montréal French-language music stations. Our English radio station, *The Beat,* has also maintained a leading position at the top of Montréal's English-language music stations. In our other Québec radio markets, both our talk and music format radio stations continued to perform well in a highly competitive environment.

## CORPORATE SOCIAL RESPONSIBILITY PROGRESS AND RECOGNITION

At Cogeco, our corporate social responsibility ("CSR") program is designed to ensure we are operating responsibly and sustainably, and being a good corporate citizen. Concretely, this means we seek to integrate practices which improve the environmental and social impact of our operations while ensuring the Corporation's continued growth.

During fiscal 2017, key initiatives of the CSR Program were rolled out in all of our subsidiaries, each of which made significant progress in its three-year action plan to integrate CSR principles into their activities and operations. Amongst many ongoing initiatives, we continued to measure and track our Greenhouse Gas Emissions ("GHG") reductions, which now include all of Cogeco's subsidiaries, as well as emissions from refrigerant gases. We implemented a Supplier Code of Conduct to address supply chain risks related to CSR. In fiscal 2017, Cogeco contributed over $3 million to donations and sponsorships, and offered air time for fundraising purposes. Cogeco also participated in the finalization of the Canadian Energy Efficiency Voluntary Agreement ("CEEVA"), effective as of January 2017. This agreement, developed by Canadian telecommunications companies together with Natural Resources Canada, intends to limit the energy consumption of set top-boxes provided to our customers.

For a fourth year in a row, Cogeco Communications was part of the *Jantzi Social Index,* consisting of 60 Canadian companies that passed a set of broadly based environmental, social, and governance rating criteria. According to Jantzi, Cogeco Communications has consistently ranked among the top performers for environmental social governance in the Consumer Discretionary sector.

In January 2018, we will publish our fourth CSR Report, covering our program for 2016 and 2017.

## 2018 OUTLOOK

Building on our fiscal 2017 results, we are well positioned for continued growth and success. For fiscal 2018, we expect growth in revenue of 3.3% to 4.6% and adjusted EBITDA of 1.8% to 4.2% while free cash flow should remain stable as a result of higher capital expenditures resulting from continued expansion in high growth segments in Florida.

## CONCLUDING REMARKS

We wish to thank all the members of our Board of Directors for their wise counsel and enduring support. We also wish to acknowledge the contribution of our more than 4,700 employees on two continents, who work tirelessly towards Cogeco's success on a daily basis, upholding our core values of commitment to customers, teamwork, innovation, respect and trust.



**JAN PEETERS** Chairman of the Board



**LOUIS AUDET** President and Chief Executive Officer

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

MD&A


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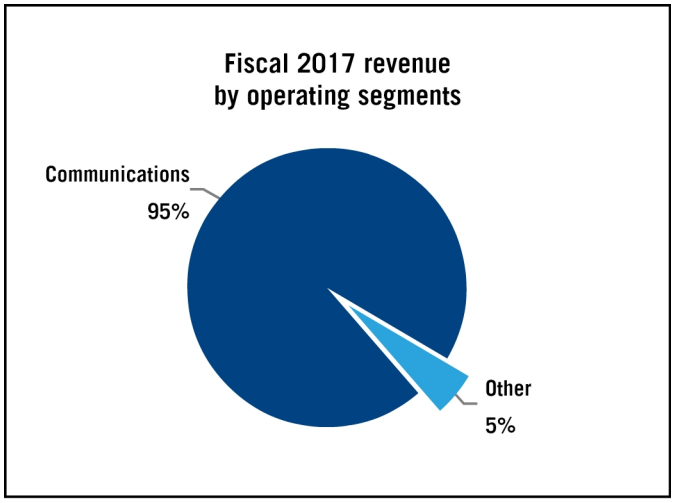
# 1. FORWARD-LOOKING STATEMENTS

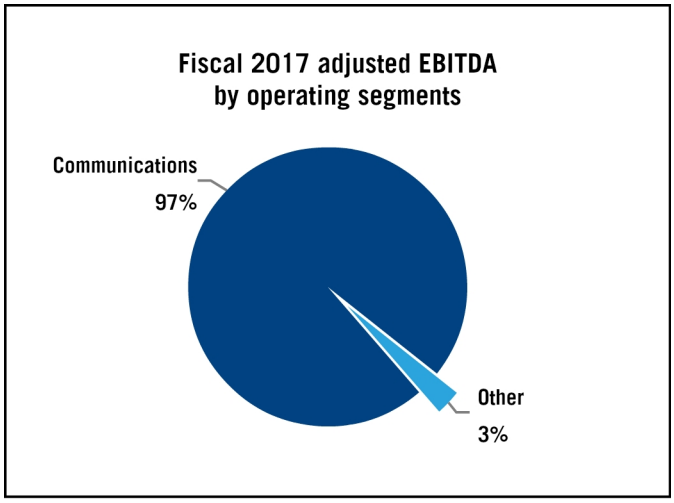
*Certain statements contained in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Cogeco Inc.'s ("Cogeco" or the "Corporation") future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding the Corporation's financial guidelines, future operating results and economic performance, objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which Cogeco believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" and "Fiscal 2018 Financial Guidelines" sections of the present MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While Management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco currently expects. These factors include risks such as competitive risks, business risks, regulatory risks, technology risks, financial risks, economic conditions, ownership risks, human-caused and natural threats to our network, infrastructure and systems and litigation risks, 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 present MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco and future events and results may vary significantly from what Management currently foresees. The reader should not place undue importance on forward-looking information contained in this MD&A which represent Cogeco's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. While Management may elect to do so, the Corporation is under no obligation (and expressly disclaims any such obligation) and does not undertake to update or alter this information at any particular time, whether as a result of new information, future events or otherwise, except as required by law.*

*All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's consolidated financial statements and the notes thereto prepared in accordance with the International Financial Reporting Standards ("IFRS") for the year ended August 31, 2017.*

# 2. OVERVIEW OF THE BUSINESS

Cogeco is a diversified holding corporation which operates in the communications and media sectors. In fiscal 2017, the Corporation reported its operating results in two operating segments: Communications and Other. The reporting structure reflects how the Corporation manages its business activities to make decisions about resources to be allocated to the segments and to assess their performance. For the year ended August 31, 2017, the proportion of each segment as a percentage of the Corporation's consolidated revenue and adjusted EBITDA[1] were as follows:




## 2.1 COMMUNICATIONS SEGMENT

Through its Cogeco Communications Inc. ("Cogeco Communications") subsidiary, Cogeco provides a wide range of Internet, video and telephony services through its two-way broadband fibre networks in Canada and the United States, primarily to residential customers, as well as to small and medium sized businesses across its coverage area. Cogeco Communications operates in Canada under the Cogeco Connexion name in Québec and Ontario, and in the United States under the Atlantic Broadband name in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through its subsidiary, Cogeco Peer 1, Cogeco Communications provides colocation, network connectivity, hosting, cloud and an extensive portfolio of managed services to small, medium and large businesses around the world, through 16 data centres, extensive FastFiber Network® and more than 50 points of presence in North America and Europe.

## 2.2 OTHER

Through its subsidiary, Cogeco Media Inc., Cogeco owns and operates 13 radio stations across most of Québec with complementary radio formats serving a wide range of audiences: *Rythme FM*, *CKOI FM*, *98.5 FM*, *92.5 The Beat* and *Radio Circulation 730 AM* in Montréal; *FM 93* and *102.9 FM* in Québec City; *104.7 FM* in Gatineau; *CIME FM* in Saint-Jérôme; *Rythme FM* and *107.7 FM* in Sherbrooke as well as *Rythme FM* and *106.9 FM* in Trois-Rivières. Cogeco Media also operates Cogeco News, its radio news agency, feeding more than 40 affiliated independent stations connected to the world.

## 2.3 COMMUNICATIONS SEGMENT NETWORKS AND INFRASTRUCTURE

### BROADBAND OPERATIONS

Cogeco Connexion and Atlantic Broadband provide residential Internet, video and telephony services and business services through advanced fibre optic and two-way broadband distribution networks. Cogeco Connexion and Atlantic Broadband deliver these services through long distance fibre optic systems, advanced hybrid fibre-coaxial ("HFC") broadband distribution networks, point-to-point fibre networks and fibre-to-the-home ("FTTH") network technologies.

Cogeco Connexion's distribution network extends over 39,000 kilometres while Atlantic Broadband's distribution network extends over 15,000 kilometres. The broad reach of Cogeco Connexion and Atlantic Broadband's core transport network is designed to easily interconnect, at very high speed, its many local distribution systems to video content providers, other public telephony networks, software application providers and to the world-wide Internet.

(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.

For residential services, Cogeco Connexion and Atlantic Broadband are deploying optical fibres to nodes serving clusters of typically 326 homes passed and 355 homes passed, respectively, with multiple fibres per node in most cases to rapidly extend the capacity of the system with smaller clusters when necessary. This just in time process, known as "node splitting", leads to further improvement in quality and reliability while increasing the capacity of two-way services such as Internet, video-on-demand ("VOD") and telephony and maximizing investments. The HFC distribution infrastructure is designed with radio frequency ("RF") capacity of up to 1 GHz of bandwidth capacity, depending on the market served and customer needs.

In each market, the signals are transferred from the optical network to the coaxial cable network at the node for delivery to our customers. Cogeco Communications believes that active use of fibre optic technology in combination with coaxial cable plays a major role in expanding channel capacity and improving the performance of the systems. Fibre optic strands are capable of carrying hundreds of video, data and voice channels over extended distances without signal amplification. Cogeco Communications will continue to deploy fibre optic cable as warranted to further reduce amplifier cascades, which improves system reliability and reduces system maintenance cost. This hybrid combination of fibre optic and coaxial cable is the most efficient choice when it comes to delivering high quality networks with judicious capital investments.

In order to increase distribution system capacity further, Cogeco Connexion undertook the following network enhancement programs:

(a) conversion of video services from analogue to digital. The deployment of digital to analogue ("DTA") converters to its customers having older analogue equipment was completed in all its systems in fiscal 2016. This significant capacity enhancement replaces each analogue channel by up to four high definition ("HD") channels or sixteen standard definition ("SD") channels; and

(b) conversion to switched digital video ("SDV") technology. This technology allows Cogeco Connexion to selectively broadcast the channels that are currently being viewed by customers, effectively allowing it to offer a greater selection of digital channels over the same network infrastructure. The conversion was completed in all Cogeco Connexion's systems in fiscal 2017.

In order to recover bandwidth necessary for Internet growth as well as additional HD channels, Atlantic Broadband is continuing with a multi-point strategy to enhance the network and increase overall network performance:

(a) in markets where overall bandwidth is below 750 MHz, Atlantic Broadband has completed the conversion of video services from analogue to digital with the deployment of DTA converters to its customers having older analogue equipment;

(b) in 750 MHz markets where Atlantic Broadband has a larger customer base, it has begun the conversion to all digital, which it anticipates will be completed in 2018.

Cogeco Connexion and Atlantic Broadband use the DOCSIS technology to deliver Internet and business services over HFC networks. DOCSIS has numerous advanced features to ensure a continuous transmission and high quality of service delivery. This technology provides a flexible and expandable platform to further increase IP transmission speeds and to provide other products such as symmetrical services, which are particularly well suited for commercial customer applications. Today, Cogeco Connexion and Atlantic Broadband offer top Internet speeds of 120 Mbps in most of their territories and in certain areas up to 1 Gbps. Cogeco Connexion and Atlantic Broadband intend to continue deploying 1 Gbps progressively in the coming years through several technologies depending on the location, with DOCSIS 3.1 being the most cost effective. Atlantic Broadband has started the deployment in fiscal 2017 of the DOCSIS 3.1 technology in some areas while Cogeco Connexion is planning to begin the roll out of this technology in fiscal 2018.

Finally, Cogeco Connexion and Atlantic Broadband are deploying FTTH technology in all new residential developments which meet specific criteria of size, proximity to the existing plant and service penetration rate. Cogeco Connexion and Atlantic Broadband use a FTTH technology called radio frequency over glass ("RFoG"). The primary benefit of RFoG is its compatibility backward and forward with existing cable modem termination system ("CMTS") investments and back-office systems.

The following table shows the percentage of homes passed in Canada and in the United States where digital Video, VOD, Internet and telephony services were available at August 31, 2017:

| | % of homes passed where service is available | |
|---|---|---|
| **Service** | **Canada** | **United States** |
| Digital video | 99% | 99% |
| VOD | 98% | 97% |
| Internet (DOCSIS 3.0) | 98% | 99% |
| Telephony | 97% | 99% |

## BUSINESS INFORMATION AND COMMUNICATIONS TECHNOLOGY ("BUSINESS ICT") SERVICES OPERATIONS

At August 31, 2017, Cogeco Peer 1 provided its services through 16 data centres in Canada, the United States and Europe, covering approximately 475,000 gross square feet and more than 50 points of presence, including in Germany, the Netherlands and Mexico.

Cogeco Peer 1's data centres include highly secure and redundant IT infrastructure, including 24/7/365 monitoring, regulated climate control, power redundancy, support, and biometric security access. In addition, Cogeco Peer 1's data centres are designed, built, and operated to data centre industry standards in order to meet both service and compliance requirements of its enterprise customers.

## 2.4 BUSINESS DEVELOPMENTS AND OTHER

Numeris' summer 2017 survey in the Montréal region, conducted with the Portable People Meter ("PPM"), reported that in the Montréal French market *98.5 FM* is the leading radio station amongst all listeners two years old and over ("2+"), *Rythme FM* has maintained its leadership position amongst the female 25-54 segment and *CKOI* is well positioned amongst all listeners in the 25-54 segment. *The Beat* is the leading music radio station in the Montréal English market amongst all listeners two years old and over ("2+"). Finally, most of our other regional radio stations in Québec registered good ratings.

On July 10, 2017, Cogeco Communications announced that its subsidiary, Atlantic Broadband, entered into an agreement with Harron Communications, L.P. to acquire substantially all of the assets of its cable systems operating under the MetroCast brand name ("MetroCast") which serves about 120,000 Internet, 76,000 video and 37,000 telephony customers. The transaction valued at US$1.4 billion includes the expected present value of future tax benefits of US$310 million and is subject to customary closing adjustments. This acquisition is expected to be financed through a combination of US$1.7 billion under a new Senior Secured Term Loan B, whereby US$585 million is expected to be used to refinance the existing First Lien Credit Facilities, and US$150 million under a new Senior Secured Revolving Credit facility combined with a US$315 million equity investment by Caisse de dépôt et placement du Québec ("CDPQ") in Atlantic Broadband's holding company, representing 21% of Atlantic Broadband. The transaction is subject to usual closing conditions, regulatory approvals and other customary conditions, which are proceeding as expected. The Corporation expects the transaction to close in early January 2018.

In October 2017, a US subsidiary of Cogeco Communications has entered into four forward starting interest rate swap agreements on a notional amount totalling US$500 million. These agreements will have the effect of converting the floating US LIBOR base rate at an average fixed rate of 2.07% starting on January 31, 2018, under the US$1.7 billion Senior Secured Term Loan B to be issued to finance the MetroCast acquisition and refinance the existing First Lien Credit Facilities. The MetroCast acquisition is expected to close in early January 2018.

## 2.5 CORPORATE OBJECTIVES AND STRATEGIES

Our mission is to create powerful connections for our customers and foster genuine connections with our customers. As our customers are at the core of everything we do, we continuously seek to innovate in our processes, operations, services and products while efficiently managing capital utilization to secure future growth. We are also dedicated to optimizing profitability and consequently increasing shareholder value.

We measure our performance with regard to these objectives by monitoring revenue, adjusted EBITDA[(1)] and free cash flow[(1)].

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

### COMMUNICATIONS SEGMENT

To achieve these objectives, Cogeco Communications has developed the following strategies:

| Canadian broadband services | American broadband services | Business ICT services |
|---|---|---|
| Delivering organic growth | Leveraging Internet superiority and bundle sales | Focusing on sustainable revenue growth |
| Optimizing the return on investments | Accelerating business services growth by moving upmarket | Optimizing the use of current assets in order to optimize cash flows |
| Investing in our people | Strategically extending the network to new service areas | Strengthening internal processes and systems to improve operational efficiency and optimize infrastructure |
| | Acquiring assets with identifiable growth opportunities | Promoting our brand supported by a people centric culture |

For further details please refer to the 2017 Annual Report of Cogeco Communications Inc. available on www.sedar.com or on the Corporation's website at corpo.cogeco.com.

### MEDIA ACTIVITIES

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

### ANTICIPATED RESULTS OF THE CORPORATION'S STRATEGIES

Results from the successful implementation of the above-described strategies should increase revenue and adjusted EBITDA thus leading to heightened profitability and reduced Indebtedness that will be measured based on the criteria described in greater details in the "Fiscal 2018 financial guidelines" section. Please refer to the "Key performance indicators and performance highlights" section for further details on the fiscal 2017 results and achievements.

(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.

## 2.6 KEY PERFORMANCE INDICATORS AND PERFORMANCE HIGHLIGHTS

The following key performance indicators are closely monitored to ensure that business strategies and objectives are closely aligned with shareholder value creation. The key performance indicators are not measurements in accordance with IFRS and should not be considered an alternative to other measures of performance in accordance with IFRS. The Corporation's method of calculating key performance indicators may differ from other companies and, accordingly, these key performance indicators may not be comparable to similar measures presented by other companies. The Corporation measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA[1] and free cash flow[1].

| *(in millions of dollars)* | Projections November 2, 2016 [1] Fiscal 2017 $ | Actual [1] Fiscal 2017 $ | Achievement of the projections Fiscal 2017 |
|---|---|---|---|
| **Financial guidelines** | | | |
| Revenue | 2,320 to 2,350 | **2,348** | **Achieved** |
| Adjusted EBITDA | 1,005 to 1,030 | **1,036** | **Surpassed** |
| Acquisitions of property, plant and equipment, intangible and other assets | 435 to 450 | **431** | **Surpassed** |
| Free cash flow | 355 to 385 | **390** | **Surpassed** |

(1) Fiscal 2017 projections were based on an USD/CDN exchange rate of 1.32 and a GBP/CDN exchange rate of 1.65 compared to actual exchange rates for fiscal 2017 of 1.32 and 1.67, respectively.

For fiscal 2017, Cogeco surpassed most its key performance indicators compared to its projections issued on November 2, 2016. For further details on the Corporation's operating results, please refer to the “Operating and financial results” and the "Cash flow analysis" sections.

### REVENUE

Fiscal 2017 revenue amounted to $2.35 billion, achieving the Corporation's projections mainly due to a new pricing strategy combined with bundle offers, partly offset by lower than expected primary service units[2] as a result of competitive offers in the industry and the continuing competitive pricing pressures on the hosting and network connectivity services in the Communications segment.

### ADJUSTED EBITDA

Fiscal 2017 adjusted EBITDA amounted to $1.04 billion, surpassing the Corporation's projections resulting from adjusted EBITDA in line with the projections in the Communications segment combined with cost reduction initiatives in the media activities.

### FREE CASH FLOW

Fiscal 2017 free cash flow amounted to $390 million, surpassing the Corporation's projections mostly as a result of lower than expected capital expenditures in the Communications segment combined with higher than expected adjusted EBITDA.

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

## 2.7 THREE-YEAR ANNUAL FINANCIAL HIGHLIGHTS

| Years ended August 31, | 2017 | 2016 | 2015 |
|---|---|---|---|
| *(in thousands of dollars, except per share data and number of shares)* | $ | $ | $ |
| **Operations** | | | |
| Revenue | 2,347,678 | 2,307,403 | 2,187,163 |
| Adjusted EBITDA | 1,035,545 | 1,018,762 | 954,591 |
| Integration, restructuring and acquisition costs | 3,191 | 8,802 | 13,950 |
| Claims and litigations | — | 10,791 | (27,431) |
| Impairment of goodwill and intangible assets | — | 450,000 | — |
| Gain on disposal of a subsidiary | — | (13,107) | — |
| Profit (loss) for the year | 313,367 | (158,705) | 265,215 |
| Profit (loss) for the year attributable to owners of the Corporation | 108,985 | (29,351) | 89,627 |
| **Cash Flow** | | | |
| Cash flow from operating activities | 977,081 | 759,030 | 694,300 |
| Acquisitions of property, plant and equipment, intangible and other assets | 431,307 | 470,357 | 442,675 |
| Free cash flow | 390,274 | 298,072 | 290,724 |
| **Financial condition**[1] | | | |
| Cash and cash equivalents | 212,283 | 68,344 | 164,189 |
| Short-term investments | 54,000 | — | — |
| Total assets | 5,499,376 | 5,495,520 | 6,201,702 |
| Indebtedness | 2,633,159 | 2,974,119 | 3,361,948 |
| Equity attributable to owners of the Corporation | 578,556 | 503,344 | 558,813 |
| **Per Share Data**[2] | | | |
| Earnings (loss) per share | | | |
| Basic | 6.56 | (1.75) | 5.35 |
| Diluted | 6.52 | (1.75) | 5.32 |
| Dividends | 1.36 | 1.18 | 1.02 |
| **Weighted average number of multiple and subordinate voting shares outstanding** | 16,618,229 | 16,728,185 | 16,737,173 |

(1) At August 31, 2016 and August 31, 2015, total assets and equity attributable to owners of the Corporation were restated as reported in note 3 of the Consolidated Financial Statements.

(2) Per multiple and subordinate voting shares.

# 3. OPERATING AND FINANCIAL RESULTS

## 3.1 OPERATING RESULTS

| Years ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(in thousands of dollars, except percentages)* | $ | $ | % |
| Revenue | 2,347,678 | 2,307,403 | 1.7 |
| Operating expenses | 1,312,133 | 1,288,641 | 1.8 |
| Adjusted EBITDA | 1,035,545 | 1,018,762 | 1.6 |

### REVENUE

Fiscal 2017 revenue amounted to $2.35 billion, an increase of $40.3 million, or 1.7%, compared to the prior year driven by growth of 2.3% in the Communications segment, partly offset by a decrease of 7.9% in the Other segment mainly attributable to the sale of Métromédia CMR Plus Inc. ("Métromédia") on January 5, 2016.

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

### OPERATING EXPENSES

Fiscal 2017 operating expenses amounted to $1.31 billion, an increase of $23.5 million, or 1.8%, compared to the prior year. The increase is mainly attributable to the Communications segment, partly offset by lower operating expenses in the Other segment mainly due to the sale of Métromédia during the second quarter of fiscal 2016.

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

### ADJUSTED EBITDA

Fiscal 2017 adjusted EBITDA increased by $16.8 million, or 1.6%, to reach $1.04 billion mainly due to the improvement in the Communications segment, partly offset by a lower adjusted EBITDA in the other segment as a result of the sale of Métromédia during the second quarter of fiscal 2016.

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

## 3.2 FIXED CHARGES

| Years ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(in thousands of dollars, except percentages)* | $ | $ | % |
| Depreciation and amortization | 478,451 | 502,170 | (4.7) |
| Financial expense | 136,779 | 142,482 | (4.0) |

Fiscal 2017 depreciation and amortization expense decreased by $23.7 million, or 4.7%, to reach $478.5 million compared to the the prior year mainly due to lower acquisitions of property, plant and equipment, the depreciation of the British Pound dollar against the Canadian dollar, certain assets being fully amortized and the impairment of intangible assets recognized in the third quarter of fiscal 2016.

Fiscal 2017 financial expense decreased by $5.7 million, or 4.0%, to reach $136.8 million compared to the prior year mainly due to a lower level of Indebtedness as a result of generated free cash flow, partly offset by a higher average cost of Indebtedness due to short-term US LIBOR rate increases and a make-whole premium related to the early repayment of the $50 million Senior Unsecured Notes.

## 3.3 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

As part of a process initiated in fiscal 2015, Cogeco Communications performed a thorough review of its Business ICT services segment operations, organizational structure and portfolio of products and services. The review resulted in several initiatives primarily focused on profitable sales generation, the streamlining of the product offering, the simplification of operational processes and the announcement, on May 5, 2015, of the combination of its two business units Cogeco Data Services and Peer 1 Hosting to form Cogeco Peer 1 with a structure and capacity in place to serve its various customers across its cloud and 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 did not achieve expected growth in the United States, Europe and Canada.

Although management was confident that it had in place the management team and the operating structure to succeed, the situation was expected to persist past fiscal 2016. Consequently, management had 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, at May 31, 2016, Cogeco Communications tested goodwill and all long-lived assets of Cogeco Peer 1 for impairment.

Based on lower expectations for future revenue, profitability and cash flow growth, Cogeco Communications recorded a non-cash impairment loss of $428.5 million on goodwill and $21.5 million on intangible assets during the third quarter of fiscal 2016.

The impairment of goodwill and intangible assets that affected Cogeco Communications' financial results for the year ended August 31, 2016 were as follows :

| *(in thousands of dollars)* | $ |
|---|---|
| Impairment of goodwill | 428,500 |
| Impairment of intangible assets | 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 |

## 3.4 CLAIMS AND LITIGATIONS

During fiscal 2016, Cogeco Communications' subsidiary, Cogeco Peer 1, recognized an amount of $10.8 million related to the settlement of claims and litigation costs.

## 3.5 GAIN ON DISPOSAL OF A SUBSIDIARY

On January 5, 2016, the Corporation's subsidiary, Cogeco Media Inc., completed the sale of its subsidiary, Métromédia, an out-of-home advertising company, for a cash consideration of $47.7 million including a post-closing net working capital adjustment and resulting in a pre-tax gain on disposal of $13.1 million. For further details on the gain on disposal of a subsidiary, please refer to the "Cash flow analysis" section.

## 3.6 INCOME TAXES

Fiscal 2017 income taxes increased by $27.4 million, or 35.9%, to reach $103.8 million compared to fiscal 2016. The increase is mainly attributable to a profit before income taxes compared to a loss before income taxes in the prior year resulting from the recognition of a non-cash pre-tax impairment of goodwill and intangible assets of $450 million in the third quarter of fiscal 2016, of which a portion was non-deductible. In addition, the increase is also attributable to a higher effective tax rate related to investments in foreign operations combined with a revaluation of deferred tax assets in the third quarter of fiscal 2016, partly offset by the impact on deferred income taxes as a result of changes in substantively enacted tax rates.

On March 26, 2015, in its 2015 budget, the Quebec government announced that the corporate tax rate would be gradually reduced by 0.1% per year from 11.9% in 2017 to 11.5% in 2020. These rate reductions were substantively enacted on November 15, 2016 and have reduced the deferred tax liabilities and the deferred income taxes by approximately $1.8 million for the year ended August 31, 2017. 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 substantively enacted on October 26, 2015 and have reduced the deferred tax assets and increased the deferred income taxes by $1.2 million for fiscal 2016.

## 3.7 PROFIT (LOSS) FOR THE YEAR

Fiscal 2017 profit for the year amounted to $313.4 million of which $109.0 million, or $6.56 per share, was attributable to owners of the Corporation compared to a loss for the year of $158.7 million of which $29.4 million, or $1.75 per share, was attributable to owners of the Corporation for the prior year. The increase resulted from last year's non-cash pre-tax impairment of goodwill and intangible assets of $450 million and from the claims and litigations of $10.8 million which both occurred in the Communications segment. The remaining variation is explained by the improvement of adjusted EBITDA combined with the decrease in depreciation and amortization, partly offset by an increase in income taxes and last's year gain on disposal of Métromédia.

The non-controlling interest represents a participation of approximately 68.3% in Cogeco Communications' results. The profit for the year attributable to non-controlling interest amounted to $204.4 million compared to a loss for the year of $129.4 million in fiscal 2016.

The Corporation obtained a postive return on equity[1] of 20.1% for the year ended August 31, 2017 compared to a negative return on equity of 10.2% for the prior year. The variation for fiscal 2017 is mainly due to the prior year's impairment of goodwill and intangible assets.

(1) Return on equity is defined as profit (loss) for the year divided by average shareholders' equity (computed on the basis of the beginning and ending balance for a given fiscal year).

# 4. RELATED PARTY TRANSACTIONS

Cogeco holds 31.7% of Cogeco Communications' equity shares, representing 82.3% of Cogeco Communications' voting shares.

Cogeco provides executive, administrative, financial and strategic planning services and other services to Cogeco Communications under a Management Services Agreement. Under the Agreement, management fees are payable on a monthly basis, representing 0.85% of the consolidated revenue of Cogeco Communications. In addition, Cogeco Communications reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to Cogeco Communications under the Agreement. Provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation should the level of management fees no longer align with the costs, time and resources committed by Cogeco. For fiscal 2017 management fees paid to Cogeco amounted to $18.9 million, compared to $18.5 million for fiscal 2016.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, during fiscal 2017, Cogeco Communications granted 81,350 (74,750 in 2016) stock options, did not grant any (nil in 2016) incentive share units ("ISUs") and granted 12,150 (11,950 in 2016) performance share units ("PSUs") to these executive officers as executive officers of Cogeco Communications. During fiscal 2017, Cogeco Communications charged Cogeco $652,000 ($616,000 in 2016), $39,000 ($330,000 in 2016) and $660,000 ($501,000 in 2016), respectively, with regards to the Corporation's stock options, ISUs and PSUs granted to these executive officers.

On August 2, 2016 an intercompany loan agreement was concluded between the Corporation and its subsidiary, Cogeco Communications, by which a revolving credit facility of $40 million was established in favour of Cogeco Communications. The intercompany loan was fully repaid by Cogeco Communications during the third quarter of fiscal 2017.

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

# 5. CASH FLOW ANALYSIS

| Years ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(in thousands of dollars, except percentages)* | $ | $ | % |
| Cash flow from operating activities | 977,081 | 759,030 | 28.7 |
| Cash flow from investing activities | (476,370) | (420,126) | 13.4 |
| Cash flow from financing activities | (355,267) | (434,675) | (18.3) |
| Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies | (1,505) | (74) | — |
| **Net change in cash and cash equivalents** | 143,939 | (95,845) | — |
| Cash and cash equivalents, beginning of the year | 68,344 | 164,189 | (58.4) |
| **Cash and cash equivalents, end of the year** | 212,283 | 68,344 | — |

## 5.1 OPERATING ACTIVITIES

Fiscal 2017 cash flow from operating activities reached $977.1 million, representing an increase of $218.1 million, or 28.7%, compared to fiscal 2016 mainly as a result of the following:

- the decrease of $117.1 million in income taxes paid mainly as a result of the timing of payments related to the deferral in the first quarter of fiscal 2018 of income tax installments pursuant to a corporate structure reorganization of certain Canadian subsidiaries of Cogeco Communications;
- the increase of $48.5 million in change in non-cash operating activities primarily due to changes in working capital;
- the improvement of $16.8 million in adjusted EBITDA;
- the decrease of $11.7 million in financial expense paid; and
- last year's claims and litigations of $10.8 million.

## 5.2 INVESTING ACTIVITIES

Fiscal 2017 investing activities increased by $56.2 million, or 13.4%, to reach $476.4 million compared to the prior year mainly by the $54.0 million acquisition of short-term investment instruments during the fourth quarter of fiscal 2017, partly offset by lower acquisitions of property, plant and equipment, intangible and other assets and the disposal in the second quarter of fiscal 2016 of a subsidiary for $47.4 million, net of cash and cash equivalents disposed.

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

Fiscal 2017 acquisitions of property, plant and equipment, intangible and other assets amounted to $431.3 million, representing a decrease of $39.1 million compared to fiscal 2016, mainly due to the Communications segment.

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

## BUSINESS COMBINATION IN FISCAL 2017

On September 1, 2016, Cogeco Connexion, a subsidiary of Cogeco Communications, completed the acquisition of all the shares of Briand et Moreau Câble Inc., a regional cable company based in Gaspésie (Québec), which served 808 Internet and 1,439 video customers at September 1, 2016.

## DISPOSAL OF A SUBSIDIARY IN FISCAL 2016

On January 5, 2016, the Corporation's subsidiary, Cogeco Media, completed the sale of its subsidiary Métromédia, an out-of-home advertising company, for a cash consideration of $47.7 million including a post-closing net working capital adjustment. The selling price was reduced by selling fees of approximately $0.5 million. The carrying value of the net assets disposed of was $34.1 million resulting in a pre-tax gain of $13.1 million recorded in the consolidated statements of profit or loss.

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

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

# 5.3 FREE CASH FLOW AND FINANCING ACTIVITIES

### FREE CASH FLOW

Fiscal 2017 free cash flow amounted to $390.3 million, an increase of $92.2 million, or 30.9%, compared to the prior year mainly as a result of the following:

- the decrease of $39.1 million in acquisitions of property, plant and equipment, intangible and other assets as a result of the timing of certain initiatives combined with a greater focus on capital expenditure optimization in the Communications segment;
- the improvement of $16.8 million in adjusted EBITDA;
- last year's claims and litigations of $10.8 million; and
- the decrease of $6.3 million in current income taxes.

**FINANCING ACTIVITIES**

For fiscal 2017, a lower Indebtedness level resulting from debt repayments led to a cash decrease of $261.5 million compared to $359.3 million for fiscal 2016. The variation is explained as follows:

| Years ended August 31, | 2017 | 2016 | Change | Explanations |
|---|---|---|---|---|
| *(in thousands of dollars)* | $ | $ | $ | |
| Increase (decrease) in bank indebtedness | (314) | 4,115 | (4,429) | Related to the timing of payments made to suppliers. |
| Net decreases under the revolving facilities | (187,286) | (122,725) | (64,561) | Repayments of the revolving facilities in fiscal 2017 as a result of generated free cash flow. |
| Repayments of long-term debt and settlement of derivative financial instruments | (73,099) | (240,657) | 167,558 | Repayments on the First Lien Credit Facilities and the $50 million Senior Unsecured Notes during fiscal 2017. Repayment of the US$190 million Senior Secured Notes series A maturing in October 2015 and settlement of the related derivative financial instruments. |
| Repayment of balance due on a business combination | (837) | — | (837) | Repayment of balance due on a business combination during the third quarter of fiscal 2017. |
| | (261,536) | (359,267) | 97,731 | |

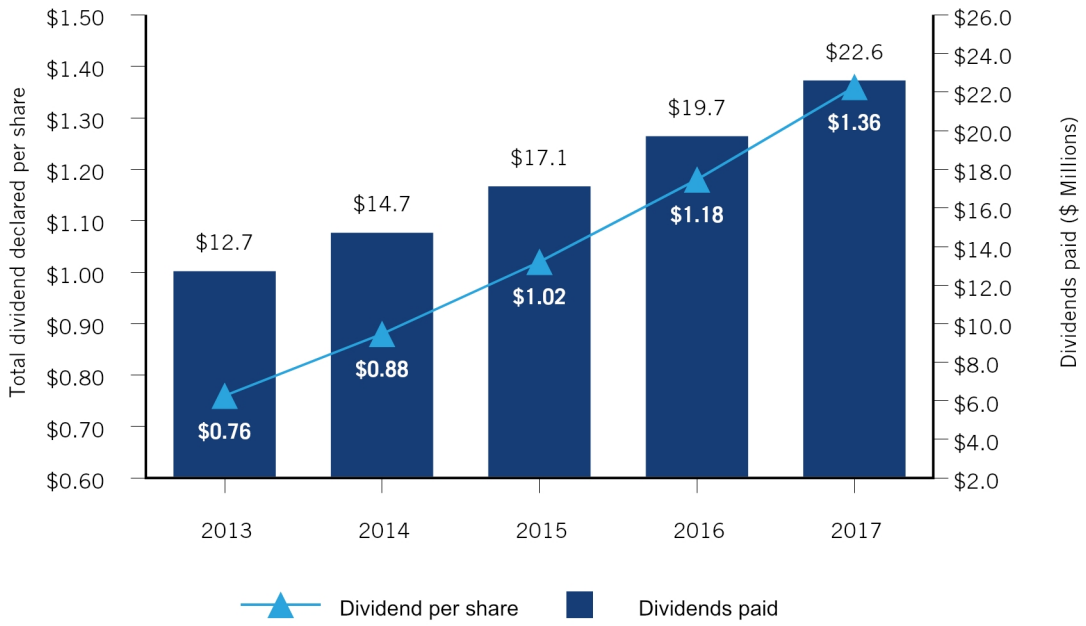
**DIVIDENDS**

The dividends declaration dates and payments for multiple and subordinate voting shares are as follows:

| Declaration date | Record date | Payment date | Dividend per share (in dollars) |
|---|---|---|---|
| November 2, 2016 | November 16, 2016 | November 30, 2016 | 0.34 |
| January 11, 2017 | January 25, 2017 | February 8, 2017 | 0.34 |
| April 6, 2017 | April 20, 2017 | May 4, 2017 | 0.34 |
| July 13, 2017 | July 27, 2017 | August 10, 2017 | 0.34 |
| October 28, 2015 | November 11, 2015 | November 25, 2015 | 0.295 |
| January 12, 2016 | January 26, 2016 | February 9, 2016 | 0.295 |
| April 13, 2016 | April 27, 2016 | May 11, 2016 | 0.295 |
| July 6, 2016 | July 20, 2016 | August 3, 2016 | 0.295 |

During fiscal 2017, quarterly eligible dividends of $0.34 per share, totaling $1.36 per share, were paid to the holders of multiple and subordinate voting shares, for a total of $22.6 million. In fiscal 2016, quarterly eligible dividends of $0.295 per share, totaling $1.18 per share were paid to the holders of multiple and subordinate voting shares, for a total of $19.7 million. In addition, dividends paid by a subsidiary to non-controlling interest during fiscal 2017 amounted to $57.7 million compared to $52.0 million for the prior year. During the last five years, total dividends per share increased by 15.7% on a compounded annual basis.

Total dividends and dividends per share over the last five years are as follow:




**NORMAL COURSE ISSUER BID**

On July 28, 2016, Cogeco announced through a normal course issuer bid its intention to acquire for cancellation up to 375,000 subordinate voting shares from August 2, 2016 to August 1, 2017. On July 31, 2017, the Corporation renewed its normal course issuer bid program from August 2, 2017 to August 1, 2018, enabling it to acquire for cancellation up to 550,000 subordinate voting shares.

During fiscal 2017, Cogeco purchased and cancelled 219,327 subordinate voting shares with average stated value of $1.8 million for consideration of $14.3 million. During fiscal 2016, Cogeco purchased and cancelled 19,766 subordinate voting shares with the average stated value of $0.2 million for consideration of $1.0 million.

The normal course issuer bid purchases were as follows:

| | | | | | 2017 |
|---|---|---|---|---|---|
| Quarters ended | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total |
| *(in thousands of dollars, except number of shares and average purchase price per share)* | $ | $ | $ | $ | $ |
| Subordinate voting shares purchased and cancelled | — | 92,611 | 69,354 | 57,362 | 219,327 |
| Average purchase price per share | — | 59.45 | 62.78 | 77.63 | 65.26 |
| Purchase costs | — | 5,506 | 4,354 | 4,453 | 14,313 |

| | | | | | 2016 |
|---|---|---|---|---|---|
| Quarters ended | Nov. 30 | Feb. 29 | May 31 | Aug. 31 | Total |
| *(in thousands of dollars, except average purchase price per share)* | $ | $ | $ | $ | $ |
| Subordinate voting shares purchased and cancelled | — | — | — | 19,766 | 19,766 |
| Average purchase price per share | — | — | — | 51.40 | 51.40 |
| Purchase costs | — | — | — | 1,016 | 1,016 |

# 6. COMMUNICATIONS SEGMENT

## 6.1 OPERATING RESULTS

| Years ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(in thousands of dollars, except percentages)* | $ | $ | % |
| Revenue | 2,226,851 | 2,176,149 | 2.3 |
| Operating expenses | 1,202,942 | 1,174,232 | 2.4 |
| Management fees – Cogeco Inc. | 18,939 | 18,468 | 2.6 |
| Adjusted EBITDA | 1,004,970 | 983,449 | 2.2 |
| Operating margin | 45.1% | 45.2% | — |
| Acquisitions of property, plant and equipment, intangible and other assets | 428,057 | 467,510 | (8.4) |

### REVENUE

Fiscal 2017 revenue amounted to $2.23 billion, an increase of $50.7 million, or 2.3%, compared to the prior year mainly explained as follows:

- rate increases in the Canadian and American broadband services operations;
- continued growth in the Internet services customers in the Canadian and American broadband services operations;
- the movement of customers to higher value packages; and
- colocation revenue growth in the Business ICT services operations; partly offset by
- competitive pricing pressures on the hosting and network connectivity services in the Business ICT services operations; and
- the depreciation of the US dollar and British Pound currency against the Canadian dollar compared to the prior year.

### OPERATING EXPENSES AND MANAGEMENT FEES

Fiscal 2017 operating expenses amounted to $1.20 billion, an increase of $28.7 million, or 2.4%, compared to the prior year mainly explained as follows:

- programming rate increases in the Canadian and American broadband services operations;
- costs to serve additional primary service units; and
- higher employee compensation costs as well as additional costs to support strategic investments in high growth segments in the American broadband services operations; partly offset by
- a shift in product mix to higher margin Internet services from traditional video services;
- lower fees paid to third parties as a result of a decline in revenue combined with lower employee compensation costs due to lower headcount in the Business ICT services operations; and
- the depreciation of the US dollar and British Pound currency against the Canadian dollar compared to the prior year.

Fiscal 2017 management fees paid to Cogeco Inc. amounted to $18.9 million compared to $18.5 million for fiscal 2016. For further details on the Communications segment's management fees, please refer to the “Related party transactions” section.

### ADJUSTED EBITDA AND OPERATING MARGIN

Fiscal 2017 adjusted EBITDA increased by $21.5 million, or 2.2%, to reach $1.0 billion mainly as a result of the improvement in the Canadian and American broadband services operations, partly offset by a decline in the Business ICT service operations.

Fiscal 2017 operating margin decreased slightly to 45.1% from 45.2% compared to fiscal 2016 as a result of a slightly lower margin in the American broadband services and lower margin in the Business ICT services operations, partly offset by a higher margin in the Canadian broadband services operations.

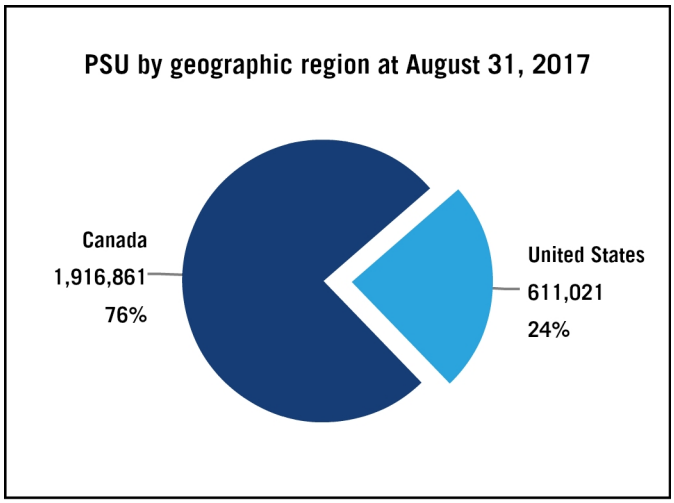
### ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND OTHER ASSETS

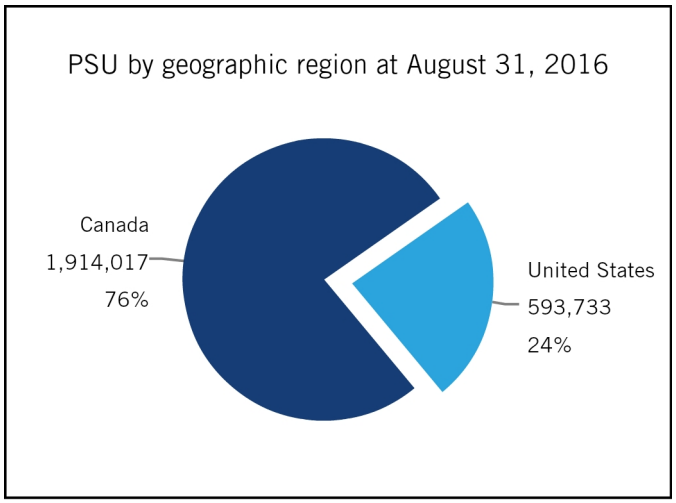
Fiscal 2017 acquisitions of property, plant and equipment, intangible and other assets amounted to $428.1 million, a decrease of $39.5 million, or 8.4%, compared to the prior year mainly explained as follows:

- a greater focus on capital expenditure optimization combined with last year's strategic investments at the Kirkland data centre facility; and

- lower purchases of customer premise equipment ("CPE") in Canada due to the timing of certain initiatives; partly offset by
- greater investments in network infrastructure as well as additional equipments to improve the capacity of the Internet platform in order to expand the Gigabit service in some of the areas we serve.

## 6.2 CUSTOMER STATISTICS




| | August 31, 2017 | | | Net additions (losses) Years ended August 31, | | % of penetration[3] August 31, | |
|---|---|---|---|---|---|---|---|
| | Consolidated | Canada | United States | 2017 [2] | 2016 | 2017 | 2016 |
| Primary service units[1] | 2,527,882 | 1,916,861 | 611,021 | 17,885 | 10,048 | | |
| Internet service customers | 1,042,996 | 769,869 | 273,127 | 54,823 | 52,895 | 44.9 | 43.0 |
| Video service customers | 956,775 | 720,636 | 236,139 | (27,619) | (31,706) | 41.2 | 42.8 |
| Telephony service customers | 528,111 | 426,356 | 101,755 | (9,319) | (11,141) | 22.7 | 23.4 |

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

(2) Excludes 2,247 primary service units (808 Internet and 1,439 video services) from a business combination completed by the Canadian broadband services operations in the first quarter of fiscal 2017.

(3) As a percentage of homes passed.

**INTERNET**

Fiscal 2017 Internet service customers net additions amounted to 54,823 compared to 52,895 for fiscal 2016. The net additions stemmed from the customers' ongoing interest in high speed offerings and in TiVo's digital advanced video services which requires an Internet subscription, the continued growth of Internet resellers' customers and from the business sector as well as sustained interest in bundled offers.

**VIDEO**

Fiscal 2017 video service customers net losses stood at 27,619 compared to 31,706 for fiscal 2016. The loss reduction for the year resulted mainly from the customers' interest in the video product offering of the Corporation, including TiVo's digital advanced video services both in Canada and in the United States, as well as in bundles with fast Internet offerings, partly offset by competitive offers in the industry, service category maturity in Canada and the changing video consumption environment.

**TELEPHONY**

Fiscal 2017 telephony service customers net losses stood at 9,319 compared to 11,141 for fiscal 2016. The loss reduction is mainly explained by the continued growth in the residential and business sectors in the United States, partly offset by the increasing mobile penetration and various unlimited offers in Canada launched by mobile operators causing customers to cancel their landline telephony services for mobile telephony services only.

# 7. FINANCIAL POSITION

## 7.1 WORKING CAPITAL

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

The variations are as follows:

| At August 31,<br>*(in thousands of dollars)* | 2017<br>$ | 2016<br>$ | Change<br>$ | Explanations |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | 212,283 | 68,344 | 143,939 | Please refer to the "Cash flow and analysis" section. |
| Short-term investments | 54,000 | — | 54,000 | Short-term investments of $54.0 million made in the fourth quarter of fiscal 2017. |
| Trade and other receivables | 112,092 | 142,542 | (30,450) | Receipt of the amount from the claims and litigations receivable recognized in fiscal 2015, a change in the billing cycle of a portion of Canadian customers in the Communications segment combined with the depreciation of the US dollar against the Canadian dollar, partly offset by revenue growth. |
| Income taxes receivable | 4,277 | 12,707 | (8,430) | Related to a corporate structure reorganization of certain Canadian subsidiaries in the Communications segment combined with a refund received. |
| Prepaid expenses and other | 21,737 | 17,125 | 4,612 | Non significant. |
| Derivative financial instrument | 98 | 1,040 | (942) | Non significant. |
| | 404,487 | 241,758 | 162,729 | |
| **Current liabilities** | | | | |
| Bank indebtedness | 3,801 | 4,115 | (314) | Non significant. |
| Trade and other payables | 337,667 | 312,914 | 24,753 | Timing of payments made to suppliers. |
| Provisions | 23,260 | 31,078 | (7,818) | Mostly related to the settlement of claims and litigations recognized in fiscal 2016 in the Communications segment during the third quarter of fiscal 2017. |
| Income tax liabilities | 103,650 | 28,910 | 74,740 | Timing of payments of income taxes related to the deferral in the first quarter of fiscal 2018 of income tax installments pursuant to a corporate structure reorganization of certain Canadian subsidiaries of Cogeco Communications. |
| Deferred and prepaid revenue | 85,302 | 61,707 | 23,595 | Mostly related to an advance payment for a large colocation contract combined with a change in the billing cycle of a portion of Canadian customers in the Communications segment. |
| Balance due on a business combination | 118 | — | 118 | Non significant. |
| Derivative financial instruments | 192 | — | 192 | Non significant. |
| Current portion of long-term debt | 131,935 | 22,527 | 109,408 | Mostly related to the $100 million Senior Unsecured Debenture in the Communications segment maturing in March 2018. |
| | 685,925 | 461,251 | 224,674 | |
| **Working capital deficiency** | (281,438) | (219,493) | (61,945) | |

## 7.2 OTHER SIGNIFICANT CHANGES

| At August 31, | 2017 | 2016 | Change | Explanations |
|---|---|---|---|---|
| *(in thousands of dollars)* | $ | $ | $ | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 1,961,743 | 2,004,247 | (42,504) | Depreciation expense exceeding capital expenditures combined with the depreciation of the US dollar and the British Pound against the Canadian dollar. |
| Intangible assets | 2,058,220 | 2,139,466 | (81,246) | Amortization expense exceeding acquisitions of intangible assets combined with the depreciation of the US dollar and the British Pound against the Canadian dollar. |
| Goodwill | 1,042,009 | 1,079,365 | (37,356) | Depreciation of the US dollar and the British Pound against the Canadian dollar. |
| **Non-current liabilities** | | | | |
| Long-term debt | 2,479,421 | 2,922,078 | (442,657) | Repayments of the $50 million Senior Unsecured Notes and of Cogeco Communications' Term Revolving Facility and First Lien Credit Facilities, reclassification to current portion of Cogeco Communications' $100 million Unsecured Debenture maturing in March 2018 and the depreciation of the US dollar against the Canadian dollar. |

# 8. CAPITAL RESOURCES AND LIQUIDITY

## 8.1 CAPITAL STRUCTURE

The table below summarizes debt-related financial ratios over the last two fiscal years and the fiscal 2018 guidelines:

| Years ended August 31, | 2018 Guidelines [1] | 2017 | 2016 |
|---|---|---|---|
| Average cost of indebtedness[2] | 4.0% | 4.4% | 4.2% |
| Fixed rate indebtedness[3] | 100% | 79% | 73% |
| Average term: long-term debt (in years) | 2.9 | 4.0 | 4.9 |
| Net secured indebtedness[4] / Adjusted EBITDA | 1.7 | 1.7 | 2.2 |
| Net indebtedness[5] / Adjusted EBITDA | 2.1 | 2.3 | 2.9 |
| Adjusted EBITDA / financial expense | N/A [6] | 7.6 | 7.2 |

(1) Based on mid-range guidelines.

(2) Excludes amortization of financing fees and commitment fees but includes the impact of interest rate swaps. 2018 guidelines include the impact of forward starting interest rate swaps executed in October 2017 in the Communications segment.

(3) Taking into consideration the interest rate swaps in effect at the end of each fiscal year. 2018 guidelines include the impact of forward starting interest rate swaps executed in October 2017 in the Communications segment.

(4) Net secured indebtedness is defined as the aggregate of bank indebtedness, balance due on a business combination, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents, short-term investments and principal on Senior Unsecured Debenture, Senior Unsecured Notes and Unsecured Debentures.

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

(6) Specific guidance on interest coverage cannot be provided given that financial expense guidance is not provided.

In fiscal 2018, excluding the impact of the announced acquisition of MetroCast which is expected to close in early January 2018, the financial leverage ratio relating to net indebtedness over adjusted EBITDA should decline as a result of growing adjusted EBITDA and a projected reduction in Indebtedness from generated free cash flow. The net secured leverage is expected to remain the same.

## COMMUNICATIONS SEGMENT

The table below summarizes debt-related financial ratios over the last two fiscal years and the fiscal 2018 guidelines:

| Years ended August 31, | 2018 Guidelines [1] | 2017 | 2016 |
|---|---|---|---|
| Average cost of indebtedness[2] | 4.0% | 4.4% | 4.1% |
| Fixed rate indebtedness[3] | 100% | 78% | 73% |
| Average term: long-term debt (in years) | 2.8 | 4.0 | 4.8 |
| Net secured indebtedness[4] / adjusted EBITDA | 1.8 | 1.7 | 2.3 |
| Net indebtedness[5] / adjusted EBITDA | 2.1 | 2.3 | 2.9 |
| Adjusted EBITDA / financial expense | N/A [6] | 7.8 | 7.2 |

(1) Based on mid-range guidelines.

(2) Excludes amortization of financing fees and commitment fees but includes the impact of interest rate swaps. 2018 guidelines include the impact of forward starting interest rate swaps executed in October 2017.

(3) Taking into consideration the interest rate swaps in effect at the end of each fiscal year. 2018 guidelines include the impact of forward starting interest rate swaps executed in October 2017.

(4) Net secured indebtedness is defined as the aggregate of bank indebtedness, balance due on a business combination, intercompany note payable, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents, short-term investments and principal on Senior Unsecured Debenture and Senior Unsecured Notes.

(5) Net indebtedness is defined as the aggregate of bank indebtedness, intercompany note payable, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and short-term investments.

(6) Specific guidance on interest coverage cannot be provided given that financial expense guidance is not provided.

# 8.2 OUTSTANDING SHARE DATA

A description of Cogeco's share data at September 30, 2017 is presented in the table below. Additional details are provided in note 19 of the consolidated financial statements.

| *(in thousands of dollars, except number of shares)* | Number of shares | Amount $ |
|---|---|---|
| **Common shares** | | |
| Multiple voting shares | 1,842,860 | 12 |
| Subordinate voting shares | 14,712,053 | 119,720 |

# 8.3 FINANCING

On December 9, 2016, the Corporation's subsidiary, Cogeco Communications Inc., extended its Term Revolving Facility maturity date by an additional year until January 24, 2022. In addition, on December 5, 2016, the Corporation extended its Term Revolving Facility by an additional year until February 1, 2022.

At August 31, 2017, an amount of $0.4 million was used from the Corporation's Term Revolving Facility of $50 million and $6.1 million was used from Cogeco Communications' Term Revolving Facility of $800 million for remaining availabilities of $49.6 million and $793.9 million, respectively. In addition, two subsidiaries of Cogeco Communications also benefit from a Revolving Facility of $188.0 million (US$150 million), of which $38.6 million (US$30.8 million) was used at August 31, 2017 for a remaining availability of $149.4 million (US$119.2 million).

# 8.4 COGECO COMMUNICATIONS CREDIT RATINGS

The table below shows Cogeco Communications' and Atlantic Broadband's credit ratings:

| At August 31, 2017 | S&P | DBRS | Fitch | Moody's |
|---|---|---|---|---|
| **Cogeco Communications** | | | | |
| Senior Secured Notes and Debentures | BBB | BBB (low) | BBB- | NR |
| Senior Unsecured Notes | BB- | BB | BB+ | NR |
| **Atlantic Broadband** | | | | |
| First Liens Credit Facilities | BB | NR | NR | Ba3 |

**NR :** Not rated

Pursuant to the announcement of the MetroCast acquisition, all credit ratings for Cogeco Communications and Atlantic Broadband were confirmed. However, the credit rating on Atlantic Broadband's First Lien Credit Facilities to be issued at the closing of the MetroCast acquisition will be downgraded to B1 and BB- by Moody's and S&P, respectively, due to the additional financial leverage at Atlantic Broadband resulting from the acquisition.

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

## 8.5 FINANCIAL MANAGEMENT

### Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risks on floating interest rate instruments. Interest rates fluctuations will have an effect on the repayment of these instruments. At August 31, 2017, all of the Corporation's and Cogeco Communications' long-term debt was at fixed rate, except for the amounts drawn under Cogeco Communications' First Lien Credit Facilities.

To mitigate such risk, the Corporation's subsidiary, Cogeco Communications entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at August 31, 2017:

| 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 an increase of 1% in the interest rate applicable to the unhedged portion of these facilities is approximately $5.6 million based on the outstanding debt at August 31, 2017.

### Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximatively $7.1 million based on the outstanding debt at August 31, 2017.

Cogeco Communications faces exposure to foreign exchange risk related to forecasted purchase commitments of property, plant and equipment denominated in US dollars. In order to mitigate such risk, Cogeco Communications entered into foreign currency forward contracts and designated them as cash-flow hedges for accounting purposes. The following table shows the forward contracts outstanding at August 31, 2017:

| Type of hedge | Notional amount | Maturity | Exchange rate | Hedged item |
|---|---|---|---|---|
| Cash flow | US$9.9 million | October - November 2017 | 1.2653 - 1.2672 | Purchase commitments of property, plant and equipment |

Furthermore, Cogeco Communications' net 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 related to the US dollar is mitigated since the major part of the purchase prices for Atlantic Broadband and Cogeco Peer 1 were borrowed directly in US dollars.

The following table shows the net investments in foreign operations outstanding at August 31, 2017:

| Type of hedge | Notional amount of debt | Aggregate investments | Hedged item |
|---|---|---|---|
| Net investment | US$790 million | US$905.9 million | Net investments in foreign operations in US dollar |
| N/A | £— million | £27.4 million | N/A |

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollar for the consolidated statement of financial position accounts at August 31, 2017 was $1.2536 ($1.3116 in 2016) per US dollar and $1.6161 ($1.7223 in 2016) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease other comprehensive income by approximately $18.9 million.

For the year ended August 31, 2017, the average rates prevailing used to convert the operating results of the Communications segment were as follows:

| Years ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| | $ | $ | % |
| US dollar vs Canadian dollar | 1.3205 | 1.3273 | (0.5) |
| British Pound vs Canadian dollar | 1.6711 | 1.9146 | (12.7) |

The following highlights in Canadian dollars, the impact of a 10% increase in US dollar or British Pound against the Canadian dollar on the Communications segment's operating results for the year ended August 31, 2017:

| | Communications segment | |
|---|---|---|
| | As reported | Exchange rate impact |
| *(in thousands of dollars)* | $ | $ |
| Revenue | 2,226,851 | 79,353 |
| Operating expenses | 1,202,942 | 49,685 |
| Management fees - Cogeco Inc. | 18,939 | — |
| Adjusted EBITDA | 1,004,970 | 29,668 |
| Acquisitions of property, plant and equipment, intangible and other assets | 428,057 | 22,866 |
| Free cash flow | 373,735 | (523) |

## 8.6 COMMITMENTS AND GUARANTEES

Cogeco's contractual obligations at August 31, 2017 are shown in the table below:

| Years ended August 31, | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| *(in thousands of dollars)* | $ | $ | $ | $ | $ | $ | $ |
| Long-term debt[1] | 131,956 | 93,859 | 1,179,292 | 200,024 | 235,013 | 788,904 | 2,629,048 |
| Balance due on a business combination | 118 | — | — | — | — | — | 118 |
| Derivatives financial instruments | 192 | — | — | — | — | — | 192 |
| Operating lease agreements[2] | 33,165 | 30,790 | 29,932 | 26,979 | 23,079 | 32,239 | 176,184 |
| Other long-term contracts[3] | 36,066 | 15,404 | 12,466 | 7,543 | 5,632 | 30,192 | 107,303 |
| Acquisition of property, plant and equipment and intangible assets[4] | 10,615 | 16,989 | — | — | — | — | 27,604 |
| Pension plan liabilities and accrued employees benefits [5] | — | — | — | — | — | 7,709 | 7,709 |
| Total contractual obligations[6] | 212,112 | 157,042 | 1,221,690 | 234,546 | 263,724 | 859,044 | 2,948,158 |

(1) Includes principal.

(2) Include operating lease agreements for rent of premises and support structures.

(3) Include long-term commitments with suppliers to provide services including minimum spend commitments.

(4) Include minimum spend commitments under acquisitions of home terminal devices and software licenses.

(5) The nature of these obligations prevents the Corporation from estimating an annual breakdown.

(6) Annual breakdown excludes pension plan liabilities and accrued employees benefits.

In the normal course of business, the Corporation provides indemnification in conjunction with certain transactions. While many of the agreements specify a maximum potential exposure, some do not specify a maximum amount. The overall maximum amount of an indemnification obligation will depend on future events and conditions and therefore cannot be reasonably estimated. As a result, we cannot determine how they could affect our future liquidity, capital resources or credit risk profile. At August 31, 2017 and 2016, no liability has been recorded with respect to these indemnifications, except for those disclosed in Note 17 of the consolidated financial statements.

## BUSINESS COMBINATIONS AND ASSET DISPOSALS

In connection with the acquisition or sale of a business or assets, in addition to possible indemnifications relating to failure to perform covenants and breach of representations and warranties, the Corporation and its subsidiaries have agreed to indemnify the seller or the purchaser against claims related to events that occurred prior to the date of acquisition or sale.

## LONG-TERM DEBT

Under the terms of Cogeco Communications' Senior Secured Notes and Senior Unsecured Notes, the subsidiary has agreed to indemnify the lenders against changes in regulations relative to withholding taxes and costs incurred due to changes in laws.

## EMPLOYEES AND CONTRACTUALS INDEMNIFICATION AGREEMENTS

The Corporation's subsidiary, Cogeco Media, indemnifies certain of its on-air hosts against charges, costs and expenses as a result of any lawsuit, resulting from judicial or administrative proceedings in which they are named as defending party and arising from the performance of their services. The Corporation has purchased employees' and contractual's liability insurance with a deductible per loss.

## SALE OF SERVICES

As part of transactions involving the sale of services, the Corporation and its subsidiaries may be required to make payments to counterparties as a result of breaches of representations and warranties made into the service agreements.

## PURCHASE AND DEVELOPMENT OF ASSETS

As part of transactions involving the purchase and development of assets, the Corporation and its subsidiaries may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties contained in the purchase agreements.

# 9. QUARTERLY OPERATING RESULTS

## 9.1 QUARTERLY FINANCIAL HIGHLIGHTS

| | | | | Fiscal 2017 | | | | Fiscal 2016 |
|---|---|---|---|---|---|---|---|---|
| Quarters ended | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Nov. 30 | Feb. 29 | May 31 | Aug. 31 |
| *(in thousands of dollars, except percentages, per share data and number of shares)* | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenue | 583,088 | 586,417 | 599,654 | 578,519 | 582,903 | 578,450 | 574,005 | 572,045 |
| Adjusted EBITDA | 261,267 | 258,043 | 264,831 | 251,404 | 255,154 | 252,129 | 253,151 | 258,328 |
| Integration, restructuring and acquisition costs | — | — | — | 3,191 | 2,030 | 4,320 | 1,126 | 1,326 |
| Claims and litigations | — | — | — | — | — | — | 10,499 | 292 |
| Impairment of goodwill and intangible assets | — | — | — | — | — | — | 450,000 | — |
| Gain on disposal of a subsidiary | — | — | — | — | — | (12,940) | — | (167) |
| Profit (loss) for the period | 81,959 | 78,232 | 82,082 | 71,094 | 66,831 | 75,688 | (381,886) | 80,662 |
| Profit (loss) for the period attributable to owners of the Corporation | 30,765 | 25,865 | 30,043 | 22,312 | 25,197 | 33,330 | (117,670) | 29,792 |
| Cash flow from operating activities | 122,875 | 253,808 | 243,584 | 356,814 | 90,247 | 211,460 | 186,209 | 271,114 |
| Acquisitions of property, plant and equipment, intangible and other assets | 97,344 | 87,036 | 100,742 | 146,185 | 147,230 | 117,220 | 94,905 | 111,002 |
| Free cash flow | 109,333 | 119,461 | 109,639 | 51,841 | 40,938 | 77,172 | 91,934 | 88,028 |
| Earnings (loss) per share[1][2] | | | | | | | | |
| Basic | 1.84 | 1.55 | 1.81 | 1.35 | 1.51 | 1.99 | (7.03) | 1.78 |
| Diluted | 1.83 | 1.54 | 1.80 | 1.34 | 1.50 | 1.98 | (7.03) | 1.78 |
| Dividends per share | 0.34 | 0.34 | 0.34 | 0.34 | 0.295 | 0.295 | 0.295 | 0.295 |
| Weighted average number of multiple and subordinate voting shares outstanding | 16,720,990 | 16,660,147 | 16,566,422 | 16,527,385 | 16,732,126 | 16,727,075 | 16,727,192 | 16,726,378 |

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

## 9.2 SEASONAL VARIATIONS

Cogeco's operating results are not generally subject to material seasonal fluctuations except as follows. In the Communications segment, the number of Internet and video 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 Pennsylvania, and to a lesser extent in South Carolina, eastern Connecticut, Maryland and Delaware in the United States. In the United States, the Miami area is also subject to seasonal fluctuations due to the winter season residents returning home from late spring through the fall.

## 9.3 FOURTH-QUARTER OPERATIONAL AND FINANCIAL RESULTS

### CONSOLIDATED

#### OPERATING AND FINANCIAL RESULTS

| Quarters ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(in thousands of dollars, except percentages)* | $ | $ | % |
| Revenue | 578,519 | 572,045 | 1.1 |
| Operating expenses | 327,115 | 313,717 | 4.3 |
| Adjusted EBITDA | 251,404 | 258,328 | (2.7) |

Fiscal 2017 fourth-quarter revenue increased by $6.5 million, or 1.1%, to reach $578.5 million compared to the same period of the prior year mainly driven by a growth of 1.4% in the Communications segment, partly offset by a decrease of 4.3% in the Other segment mainly attributable to market pressure in the media activities.

Fiscal 2017 fourth-quarter operating expenses increased by $13.4 million, or 4.3%, to reach $327.1 million compared to fiscal 2016. The increase in operating expenses is attributable to the Communications segment and in the Other segment mainly as a result of last year's favorable impact of $3.3 million in non-recurring items in the media activities.

Fiscal 2017 fourth-quarter adjusted EBITDA decreased by $6.9 million, or 2.7%, to reach $251.4 million as a result of stable adjusted EBITDA in the Communications segment and a decrease in revenue combined with last year's favorable impact of $3.3 million in non-recurring items in the media activities.

### COMMUNICATIONS SEGMENT

#### OPERATING AND FINANCIAL RESULTS

| Quarters ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(in thousands of dollars, except percentages)* | $ | $ | % |
| Revenue | 551,728 | 544,056 | 1.4 |
| Operating expenses | 299,880 | 291,666 | 2.8 |
| Management fees – Cogeco Inc. | 4,653 | 4,580 | 1.6 |
| Adjusted EBITDA | 247,195 | 247,810 | (0.2) |
| Operating margin | 44.8% | 45.5% | — |

#### Revenue

Fiscal 2017 fourth-quarter revenue improved by $7.7 million, or 1.4%, to reach $551.7 million compared to the same period of the prior year mainly explained as follows:

- rate increases in the Canadian and American broadband services operations;
- continued growth in the Internet services customers in the Canadian and American broadband services operations; and
- the movement of customers to higher value packages; partly offset by
- competitive pricing pressures on the hosting and network connectivity services in the Business ICT services operations; and
- the depreciation of the US dollar against the Canadian dollar compared to the prior year.

## Operating expenses and management fees

For the fourth quarter ended August 31, 2017, operating expenses increased by $8.2 million, or 2.8%, to reach $299.9 million compared to the same period of the prior year mainly explained as follows:

- programming rate increases in the Canadian and American broadband services operations;
- additional costs related to the development of a new customer relations management system as well as from last year's $1.3 million gain on disposal of property, plant and equipment;
- costs to serve additional primary service units; and
- additional costs to support strategic investments in high growth segment in the American broadband services operations; partly offset by
- a shift in product mix to higher margin Internet services from traditional video services;
- lower fees paid to third parties as a result of a decline in revenue combined with lower employee compensation costs due to lower headcount in the Business ICT services operations; and
- the depreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

Fiscal 2017 fourth-quarter management fees paid to Cogeco remained essentially the same at $4.7 million compared to $4.6 million for the same period of the prior year. For further details on the Communications segment's management fees, please refer to the "Related party transactions" section.

## Adjusted EBITDA and operating margin

As a result of comparable revenue growth and comparable combined growth in operating expenses and management fees in the fourth quarter of fiscal 2017, adjusted EBITDA remained essentially the same at $247.2 million compared to the same period of the prior year. Operating margin decreased to 44.8% from 45.5% compared to the fourth quarter of fiscal 2016.

## CUSTOMER STATISTICS

| | | August 31, 2017 | | Net additions (losses) Quarters ended | |
|---|---|---|---|---|---|
| | Consolidated | Canada | United States | August 31, 2017 | August 31, 2016 |
| Primary service units | 2,527,882 | 1,916,861 | 611,021 | (7,043) | (4,049) |
| Internet service customers | 1,042,996 | 769,869 | 273,127 | 8,310 | 9,827 |
| Video service customers | 956,775 | 720,636 | 236,139 | (10,245) | (9,454) |
| Telephony service customers | 528,111 | 426,356 | 101,755 | (5,108) | (4,422) |

### INTERNET

Fiscal 2017 fourth-quarter Internet service customers net additions amounted to 8,310 compared to 9,827 in fiscal 2016. The net additions stemmed from the customers' ongoing interest in high speed offerings and in TiVo's digital advanced video services which requires an Internet subscription, the continued growth of Internet resellers' customers as well as sustained interest in bundled offers.

### VIDEO

Fiscal 2017 fourth-quarter video net losses stood at 10,245 compared to 9,454 in fiscal 2016. The loss for the quarter resulted mainly from competitive offers in the industry, service category maturity in Canada and the changing video consumption environment, partly offset by the customers' interest in the video product offering of Cogeco Communications, including TiVo's digital advanced video services both in Canada and in the United States.

### TELEPHONY

Fiscal 2017 fourth-quarter telephony net losses stood at 5,108 compared to 4,422 in fiscal 2016. The loss is mainly explained by the increasing mobile penetration and various unlimited offers in Canada launched by mobile operators causing customers to cancel their landline telephony services for mobile telephony services only, partly offset by the continued growth in the residential and business sectors in the United States.

## CASH FLOW ANALYSIS

| Quarters ended August 31, | 2017 | 2016 | Change |
|---|---|---|---|
| *(in thousands of dollars, except percentages)* | $ | $ | % |
| Cash flow from operating activities | 356,814 | 271,114 | 31.6 |
| Cash flow from investing activities | (198,994) | (108,749) | 83.0 |
| Cash flow from financing activities | (89,770) | (185,953) | (51.7) |
| Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies | (2,428) | (14) | — |
| **Net change in cash and cash equivalents** | 65,622 | (23,602) | — |
| Cash and cash equivalents, beginning of period | 146,661 | 91,946 | — |
| **Cash and cash equivalents, end of period** | 212,283 | 68,344 | — |

Fiscal 2017 fourth-quarter cash flow from operating activities reached $356.8 million, representing an increase of $85.7 million, or 31.6%, compared to the same period of the prior year mainly as a result of the following:

- the increase of $68.4 million in change in non-cash operating activities primarily due to changes in working capital; and
- the decrease of $20.7 million in income taxes paid mainly as a result of the timing of payments related to the deferral in the first quarter of fiscal 2018 of income tax installments pursuant to a corporate structure reorganization of certain Canadian subsidiaries of Cogeco Communications; partly offset by
- the decrease of $6.9 million in adjusted EBITDA.

### INVESTING ACTIVITIES

Fiscal 2017 fourth-quarter investing activities increased by $90.2 million, or 83.0%, to reach $199.0 million compared to the same period of the prior year mainly due to the $54.0 million acquisition of short-term investment instruments during the fourth quarter of fiscal 2017 combined with higher acquisitions of property, plant and equipment, intangible and other assets explained below.

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

Fiscal 2017 fourth-quarter acquisitions of property, plant and equipment, intangible and other assets amounted to $146.2 million, an increase of $35.2 million, or 31.7%, compared in fiscal 2016. The increase is mainly due to the following factors in the Communications segment:

- additional equipments to improve the capacity of the Internet platform in order to expand the Gigabit service in some of the areas we serve; and
- higher purchases of CPE due to the timing of certain initiatives.

### FREE CASH FLOW AND FINANCING ACTIVITIES

Fiscal 2017 fourth-quarter free cash flow amounted to $51.8 million, a decrease of $36.2 million, or 41.1%, compared to the same period of the prior year mainly as a result of the increase of $35.2 million in acquisitions of property, plant and equipment, intangible and other assets as explained above.

For the fourth quarter of fiscal 2017, a lower Indebtedness level resulting from debt repayments led to a cash decrease of $67.2 million compared to $167.0 million for the same period of the prior year. The variation is explained as follows:

| Quarters ended August 31, | 2017 | 2016 | Change | Explanations |
|---|---|---|---|---|
| *(in thousands of dollars)* | $ | $ | $ | |
| Increase (decrease) in bank indebtedness | 434 | (22,748) | 23,182 | Related to the timing of payments made to suppliers. |
| Net decreases under the revolving facilities | (13,963) | (144,214) | 130,251 | Repayments of the revolving facilities during the fourth quarter of fiscal 2017 and 2016 as a result of generated free cash flow. |
| Repayments of long-term debt and settlement of derivative financial instruments | (53,638) | (7) | (53,631) | Repayments on the First Lien Credit Facilities and the $50 million Senior Unsecured Notes during fiscal 2017. |
| | (67,167) | (166,969) | 99,802 | |

### DIVIDENDS

During the fourth quarter of fiscal 2017, a quarterly eligible dividend of $0.34 per share was paid to the holders of subordinate and multiple voting shares, totaling $5.6 million, compared to a dividend paid of $0.295 per share, or $4.9 million in the fourth quarter of fiscal 2016.

### NORMAL COURSE ISSUER BID

During the fourth quarter of fiscal 2017, Cogeco purchased and cancelled 57,362 subordinate voting shares with average stated value of $0.5 million for a $4.5 million consideration.

# 10. FISCAL 2018 FINANCIAL GUIDELINES

## 10.1 CONSOLIDATED

Cogeco maintains its fiscal 2018 preliminary financial guidelines as issued on July 13, 2017. Fiscal 2018 financial guidelines will be revised in the first quarter of fiscal 2018 to take into consideration the completion of the MetroCast acquisition which is expected in January 2018.

The following table outlines fiscal 2018 financial guidelines ranges on a consolidated basis:

| *(in millions of dollars)* | Projections Fiscal 2018 [1] $ | Actual Fiscal 2017 $ |
|---|---|---|
| **Financial guidelines** | | |
| Revenue | 2,425 to 2,455 | **2,348** |
| Adjusted EBITDA | 1,055 to 1,080 | **1,036** |
| Acquisitions of property, plant and equipment, intangible and other assets | 475 to 490 | **431** |
| Free cash flow | 365 to 395 | **390** |

(1) Fiscal 2018 financial guidelines are based on an estimated USD/CDN exchange rate of 1.33 and a GBP/CDN exchange rate of 1.65 compared to 1.32 and 1.67, respectively, for fiscal 2017. The assumed current income tax effective rate is approximately 23%.

## 10.2 COMMUNICATIONS SEGMENT

Cogeco Communications maintains its fiscal 2018 preliminary financial guidelines as issued on July 13, 2017. Fiscal 2018 financial guidelines will be revised in the first quarter of fiscal 2018 to take into consideration the completion of the MetroCast acquisition which is expected in January 2018.

Cogeco Communications expects fiscal 2018 revenue to reach between $2.30 billion and $2.33 billion. In the Canadian broadband services segment, revenue growth should stem primarily from the residential and business sectors as well as from the impact of rate increases in most services. Residential revenue should also increase from the ongoing interest in Internet services, partly offset by a decline in video and telephony services as a result of service category maturity, competitive offers in the industry and a changing video consumption environment. In addition, 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. Growth in the business sector should come from the increasing demand in Internet and telephony services as well as from Internet resellers' customers. In the American broadband services segment, revenue growth should stem primarily from primary service units growth in both the residential and business sectors combined with the impact of rate increases in most services. Revenue in the residential sector should continue to benefit from customers' ongoing interest in all its services, including TiVo's digital advanced video services as well as from the continued expansion in Florida. In addition, revenue growth in the business sector should be driven by new offerings in both the Internet and telephony services. In the Business ICT services segment, revenue growth should stem primarily from cloud services due to new partnership programs and additional services offered, partly offset by a decline in network connectivity services as a result of competitive pricing pressures.

Adjusted EBITDA should increase to reach between $1,025 million and $1,050 million resulting from revenue growth exceeding operating expenses as a result of cost reduction initiatives from improved systems and processes, partly offset by marketing initiatives, additional costs to support the revenue growth and annual increases in programming costs. Operating margin should remain essentially the same compared to fiscal 2017.

Free cash flow should reach between $345 million and $375 million as a result of the improvement of the adjusted EBITDA, partly offset by increases in capital expenditures and in current income taxes. As a result, 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 increase compared to fiscal 2017 mainly as a result of significantly higher capital expenditures for the American broadband services segment as a result of a continued expansion in high growth segments in Florida.

The following table outlines fiscal 2018 financial guidelines ranges on a consolidated basis:

| *(in millions of dollars)* | Projections Fiscal 2018 [1] $ | Actuals Fiscal 2017 $ |
|---|---|---|
| **Financial guidelines** | | |
| Revenue | 2,300 to 2,330 | 2,227 |
| Adjusted EBITDA | 1,025 to 1,050 | 1,005 |
| Operating margin | 44.6% to 45.1% | 45.1% |
| Acquisitions of property, plant and equipment, intangible and other assets | 470 to 485 | 428 |
| Free cash flow | 345 to 375 | 374 |
| Capital intensity | 20.5% to 21.0% | 19.2% |

(1) Fiscal 2018 financial guidelines are based on an estimated USD/CDN exchange rate of 1.33 and a GBP/CDN exchange rate of 1.65 compared to 1.32 and 1.67, respectively, for fiscal 2017. The assumed current income tax effective rate is approximately 23%.

The USD/CDN foreign exchange rate has been volatile over the past months. The volatility could persist during fiscal 2018, which makes the exchange rate difficult to predict. The impact of a 10% increase in the US dollar and British Pound against the Canadian dollar on Cogeco Communications' consolidated revenue and adjusted EBITDA was $79 million and $30 million, respectively, in fiscal 2017 - refer to "Capital resources and liquidity" section. We expect foreign exchange variations to have relatively similar effects on fiscal 2018 results. Consequently, a USD/CDN exchange rate of 1.28 as opposed to the 1.33 exchange rate used in the fiscal 2018 financial guidelines, would reduce fiscal 2018 revenue and adjusted EBITDA by approximately $30 million and $12 million, respectively, excluding the MetroCast acquisition which is expected to be completed in January 2018. However, variations in foreign exchange rates have a negligible effect on consolidated free cash flows since variations in the value of Indebtedness and related interest costs serve as a natural hedge to variations in the other elements contained in free cash flows. At August 31, 2017, 67% of Indebtedness was denominated in US dollar.

# 11. UNCERTAINTIES AND MAIN RISK FACTORS

This section outlines the principal risks and uncertainties which Cogeco and its subsidiaries currently believe to be material. It does not purport to cover all contingencies, or to describe all possible factors that might have an influence on the Corporation or its activities at any point in time. Furthermore, the risks and uncertainties outlined in this section may or may not materialize in the end, may evolve differently than expected or may have different consequences than those that are currently anticipated. If any of the following risks, or any other risks and uncertainties that the Corporation and its subsidiaries have not yet identified or that they currently consider not to be material, actually occur or become material risks, the Corporation and its subsidiaries' businesses, guidance, prospects, financial condition, results of operations and cash flows and consequently the price of the subordinate voting shares could be materially and adversely affected.

## ENTERPRISE RISK MANAGEMENT

Cogeco implemented a formal enterprise-wide risk management ("ERM") program in fiscal 2015 which incorporates all business units of the Cogeco group of companies. The ERM program is structured and governed based on the widely adopted Committee of Sponsoring Organisations of the Treadway Commission ("COSO") ERM integrated framework. As part of this program, Management identifies on an annual basis the principal business risks facing the Corporation in the context of its global business and affairs that are liable to have a material adverse impact on the Corporation's financial situation, revenue or activities. Management also identifies appropriate risk mitigation measures to proactively manage these risks as may be reasonable and appropriate in the circumstances. Such risks and mitigation measures are presented to the Board and fully considered in the annual strategic planning process. They are also monitored by the Audit Committee which oversees the implementation by Management of appropriate risk mitigation measures.

## 11.1 COMPETITIVE RISKS

The industries in which we operate are very competitive, and we expect competition to increase and intensify from a number of sources in the future. Some of our competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater brand recognition and a larger base of customers. These competitors may be able to adapt more quickly to new or emerging technologies, changes in customer requirements, and may also be able to develop services comparable or superior to those offered by us at more competitive prices. Aggressive pricing and market offers of these competitors could result in pricing pressures and increased customer acquisition and retention costs and could put pressure and adversely affect our businesses and results of operations. Our ability to compete successfully within one or more of our market segments may thus decline in the future due to increased competition from current competitors or from new entrants taking bold actions to establish, sustain or increase their position in the market. Our businesses and results of operations could be materially adversely affected to the extent that we are unable to retain our existing customers and grow our customer base while maintaining our operating margins and desired capital intensity.

***We face intense competition in the Canadian broadband services segment of Cogeco Communications from several large integrated electronic communications service providers.***

In Canada, there are several terrestrial and satellite transmission technologies available to deliver a wide range of electronic communications services to residential homes and to commercial establishments with varying degrees of flexibility and efficiencies, which compete with our Internet, video and telephony services. BCE Inc. (“Bell”), our largest competitor, offers through its various operating entities a full range of competitive voice, Internet and video services to residential as well as to business customers in the provinces of Québec and Ontario through a combination of wireline, mobile wireless and satellite platforms throughout our network footprint. TELUS Communications Company (“Telus”) offers through its various operating entities a full range of competitive voice, Internet and video services to residential as well as to business customers in Eastern Québec and through its mobile telecommunications throughout our network footprint.

Bell and Telus are pursuing the construction of fibre-to-the-home ("FTTH") networks to deploy IP television services in their service areas. The fibre optic technologies they are using are capable of carrying two-way video, Internet with substantial bandwidth and telephony services, each of which is comparable to the services Cogeco Connexion offers.

We also compete within our network footprint in Canada with several other telecommunications service providers. Shaw Direct, the direct-to-home satellite service of Shaw Communications Inc. (“Shaw”) competes for video customers throughout our footprint. Bell, Telus, Rogers, Vidéotron and Shaw are actively marketing their mobile telecommunications services within our network footprint. Furthermore, the deployment of 5G mobile network technology may lead in the future to more competition for Internet and video services in our territories.

Cogeco Communication's subsidiary, Cogeco Connexion, also faces competition from several independent Internet service providers ("ISP") who have subscribed to the wholesale third party Internet access ("TPIA") service mandated by the Canadian Radio-Television and Telecommunications Commission's ("CRTC") in order to provide Internet, telephony and to a lesser extent, video services to their customers. Satellite-based access Internet services have also improved the performance and speed of their services.

Certain Canadian municipalities also plan to build and operate their own broadband networks through public/private partnership arrangements in competition with the Corporation in some of its serving areas.

***Some of the large integrated electronic communications service providers we compete with in Canada also own broadcast content assets.***

Some of the large integrated electronic communications service providers we compete with in Canada such as Bell, also own broadcast content assets. This vertical integration could result in content being withheld from us or being made available to us at inflated prices or unattractive terms. The CRTC adopted in September 2015 a new Wholesale Code to address potential anti-competitive practices in dealings between programming content owners and distributors. The Wholesale Code is currently being appealed by Bell before the Federal Court of Appeal. In the absence of negotiation safeguards, such as the ones contained in the Wholesale Code or other appropriate safeguards, there is a risk that vertically integrated competitors may abuse their market power and impose anticompetitive terms for the distribution of their programming services or attempt to withhold content from us. Please refer to the “Regulatory Risks” section below for more details.

***Competition in the American Broadband services segment of Cogeco Communications has intensified in the last fiscal year.***

Our principal competitors in the United States for video services are direct broadcast satellite (“DBS”) providers, DirecTV, Inc. (owned by AT&T) and Dish Network. We also face increasing competition for our video services from phone companies with fibre networks, such as AT&T U-verse, Verizon FiOs and Frontier Communications Corporation, as well as other cable companies, such as Comcast. As a condition to the Federal Communications Commission ("FCC") approval of the AT&T/DirectTV acquisition, AT&T is required to deploy FTTH to 12.5 million customer locations by mid-2019. AT&T is also seeking regulatory approval to acquire Time Warner, Inc. If approved, AT&T will have access to various programming and studio assets that could enhance its video service offering. It is also uncertain whether any such regulatory approval would include conditions preventing AT&T from restricting access to such programming.

The proliferation of other subscription video on demand services, such as Netflix, Amazon Prime and Hulu Plus, has also gained traction with consumers. Additionally, some providers, such as Google and YouTube, offer advertising-supported free video programming, some of which we incur costs to acquire. The increase in alternative video service solutions could negatively impact the growth of our video business.

Our competitors for Internet services primarily offer direct subscriber line (“DSL”), and, to a lower extent FTTH. We also face competition from wireless Internet service providers offering 3G, 4G and eventually 5G wireless broadband services and Wi-Fi networks. Wireless carriers, such as T-Mobile, have also started promoting unlimited Internet data plans which could appeal to lower intensity Internet users. AT&T is also aggressively promoting its DirecTV service with its wireless products.

Our telephony services face competition from the incumbent local exchange carriers (“ILEC”), as well as other providers such as cellular and VoIP providers. We also face competition from other forms of communication, such as text messaging and social media. Our business services face competition from a variety of service providers, in addition to cloud, hosting and various applications.

***We face competition in both the Canadian and American Broadband services segments of Cogeco Communications from over-the-top (“OTT”) content providers.***

The market for video services in Canada and in the United States has changed significantly over recent years. Although TV remains the leading platform by which most people view video, more customers are switching from cable services to programming content available on OTT platforms over the Internet. The OTT trend is expected to continue and we could be materially adversely impacted if, as a result, our video customers disconnect their services or reduce their video spending and we may not be able to make up for the loss of revenue associated with this migration.

Some of our main video competitors, such as Bell in Canada or AT&T/DirecTV and Dish Network in the United States, have entered the OTT sphere with their own OTT services. Additionally, several programming networks distributed by the Corporation offer direct-to-consumer products, such as Sportsnet in Canada or HBO Now, CBS All Access and Showtime Anytime in the United States. The Corporation enables the delivery of certain OTT services on its set top boxes, but does not own any OTT platform.

***An increased number of consumers are switching from landline telephony to wireless and IP based phone services.***

An increased number of fixed phone customers are moving away from fixed lines to wireless and IP based phone services. This trend is largely the result of the increasing mobile penetration rate in North America and the various unlimited offers launched by mobile operators. We do not currently offer mobile services and, therefore, further erosion of fixed phone customers moving away from fixed lines mobile towards mobile phones could have a material adverse effect on our business, financial condition, prospects and results of operations.

***We do not offer "quadruple-play" service bundles that include mobile communications, since we do not offer mobile services.***

Although we provide "double-play" and "triple-play" service bundles in Canada and the United States, with various combinations of Internet, video and landline telephony services being offered at bundled prices, we do not offer "quadruple-play" service bundles which include mobile communications, since we do not offer mobile telephony or mobile Internet services.

As markets evolve and mobility becomes a more cost-effective substitute to wireline communications, we may need to add mobility components to our service offerings, through suitable mobile virtual network ("MVNO") arrangements with existing or future mobile operators, or otherwise through facilities-based alternatives. We may not be able to secure on a timely basis the appropriate arrangements that may be required for competitive reasons in the future. Also, the capital and operating expenses eventually required to offer quadruple-play service bundles and mobile services may not be offset by the incremental revenue that such new bundles or mobile services would generate, thus resulting in downward pressure on operating margins.

***The markets in which the Business ICT services segment of Cogeco Communications operates are highly competitive, constantly changing and fragmented.***

Competition in the Business ICT services segment of Cogeco Communications includes local and regional, in addition to national and international competitors. We face competition in relation to colocation, network connectivity, hosting, cloud and managed services from Canadian network service providers (e.g. Bell, Telus, Rogers), international managed services providers (e.g. Rackspace**,** Softlayer), large cloud services providers (e.g. Amazon and Microsoft**),** small regional and local specialized firms (e.g. Beanfield, Cogent) and in some cases from large system integrators (e.g. IBM, CGI).

Competition in the Business ICT services segment of Cogeco Communications is intense, particularly among providers of cloud services, and we may not be successful in meeting demand or differentiating ourselves from our competitors in this market segment. Large-scale cloud providers benefit from highly efficient operations and increased purchasing power, allowing them to offer low prices. Increased supply for these services in excess of demand could also exert downward pressure on prices which could harm our operating margins.

# 11.2 BUSINESS RISKS

## STRATEGIC PLAN AND BUSINESS STRATEGIES

Our ability to successfully implement our business strategies described above in section "Corporate objectives and strategies" of this report in a timely and coordinated manner and to realize their anticipated benefits could be adversely affected by a number of factors beyond our control, including operating difficulties, increased ongoing operating expenses, regulatory developments, general economic conditions, increased competition, technological changes and the other factors described in this "Uncertainties and Main Risk Factors" section. Failure to successfully implement and execute our strategic plan and business strategies in a timely and coordinated manner could have a material adverse effect on our reputation, business, financial condition, prospects and results of operations and on our ability to meet our obligations, including our ability to service our Indebtedness.

## PROGRAMMING COSTS

The financial performance of our businesses depends in large part on our ability to sustain operating margins by tightly controlling operating expenses. The largest driver of such operating expenses is the programming license fees we pay to television programming service suppliers. The programming license fees of certain television programming services have increased significantly in Canada and in the United States in recent years, particularly sports programming license fees. Future increases in programming license fees could have a material adverse effect on our business and results of operations.

In Canada, the market for video content services is characterized by high levels of supplier concentration and vertical integration. Our largest programming supplier is Bell, with 37% of our overall programming costs. Bell is vertically integrated and is also our largest competitor. While we have generally been able to obtain satisfactory distribution agreements with programming service suppliers in Canada to date, we may not be able to maintain our current arrangements, or conclude new arrangements that are economically favorable to us, and programming license fees may thus increase by larger increments in future years.

Certain affiliation agreements with some of our major programming suppliers have expired and the terms and conditions for their renewal have not yet been concluded. We may be subject in upcoming Canadian programming services renewals to regulatory dispute resolution proceedings which could either help us obtain reasonable affiliation terms or compel us to pay increased programming license fees or otherwise subject us to adverse competitive conditions.

In the United States, the cable industry has also experienced a rapid escalation in the cost of programming in recent years, particularly sports programming and the retransmission of local broadcast programming. Most of our programming agreements require us to meet certain penetration thresholds, which limit our ability to offer smaller tiers and packages. Also, in order to obtain the most popular programming services, programmers require us to carry a number of the programmers' less popular services, further increasing our costs.

We are also subject in the United States to increasing financial and other demands by broadcasters to obtain the required consent for the transmission of local broadcast programming to our customers. We obtain most local broadcast programming through retransmission consent agreements. Most

agreements require payment of a flat fee per customer for retransmission of the broadcaster's primary signal. In most cases these agreements also involve the exchange of other types of considerations, such as limited grants of advertising time and carriage of multicast signals.

The inability to acquire and provide content to our customers that meets their requirements in terms of quality, format, variety of programming choices, packages and platforms at competitive rates which customers can afford to pay, could have a material adverse effect on our businesses as well as on our operating margins should we fail to pass on the incremental increase in costs of programming to our customers.

## CUSTOMER LOYALTY AND RETENTION

The loyalty of our customers and their retention depend on our ability to provide a service experience that meets or exceeds their expectations. We strive to provide an industry leading customer experience and are proud for having been recognized again in Canada in 2016 with four "highest customer satisfaction" awards of excellence for field services, retail/contact centre, first call resolution and telecommunications/TV by Service Quality Measurement Group ("SQM"). The failure to sustain and expand customer relationships through quality customer service could have a material adverse effect on our businesses, financial condition and results of operations.

## MEETING CUSTOMER DEMANDS

Failure to anticipate and respond in a timely manner to emerging customer demands, changes in consumer behavior, technology trends and new market conditions may result in an outdated product/services portfolio, thus impairing our ability to retain current customers and attract new ones. The inability to adapt and evolve our services offerings to respond to changing customer expectations in an increasingly digitized world, new market conditions or disruptive technologies could have a material adverse effect on our businesses, financial condition and results of operations.

## MARKETING AND SALES

The failure to achieve sales growth targets in our Broadband or Business ICT segments as a result of inadequate marketing and/or sales strategies or a deficient execution of said strategies could have a materially adverse effect on our business, financial condition and results of operations.

## RELIANCE ON THIRD PARTIES

***We depend on certain third-party suppliers for the provision of our broadband services.***

We depend on long-term agreements with Telus and IDT, respectively in Canada and the United States, for the provision of our telephony services to our residential and business customers.

We offer video services to our customers in our Canadian and American footprint through a combination of equipment from TiVo, Arris, Cisco and other suppliers. Other advanced products exist on the market.

All these suppliers may experience business difficulties, restructure their operations, consolidate with other suppliers, discontinue products or sell their operations to other suppliers, which could affect the future development of our products and services. The inability to meet product or service delivery objectives or having to incur increased costs as a result of a failure in supply from third-party suppliers or change in suppliers could have a materially adverse effect on our business, financial condition and results of operations.

***We depend on third-party power utilities and third party Internet providers for certain of our Business ICT services.***

We depend on power utility suppliers in the geographical areas in which our data centres are located. Prolonged power outages could prevent us from delivering some of our services until our power utility suppliers have resolved the failure, which may result in significant customer dissatisfaction, loss of revenue and potential litigation.

Cogeco Peer 1 depends on third-party Internet providers with regards to the purchase of bandwidth throughout its network. There can be no assurance that these service providers will continue to provide service to Cogeco Peer 1 on competitive terms, if at all, or that Cogeco Peer 1 will be able to acquire additional network capacity to adequately meet future customer demand. A failure by the Internet providers in their ability to provide the service or the inability from Cogeco Peer 1 to acquire additional network capacity and maintain direct connections to multiple IP backbone networks in order to meet future customer demand, could materially adversely affect our financial condition and operating results.

***We lease facilities from third parties.***

Most of the data centres operated by Cogeco Peer 1 are located in leased premises. The failure to comply with lease terms and conditions resulting in the termination of a lease agreement or failure to renew said leases at commercially reasonable terms could have a material adverse effect on our ability to conduct our business and results of operations.

## MERGERS/ACQUISITIONS, DIVESTITURES AND REORGANIZATIONS

Cogeco Communications has grown through acquisitions and will continue to seek attractive acquisition opportunities in the future. Achieving the expected benefits of acquisitions depends in part on successfully consolidating functions, integrating operations, procedures and personnel in a timely and efficient manner and realizing revenue, synergies and other growth opportunities from combining acquired businesses with those of Cogeco Communications. There is no assurance that the integration of acquisitions will be successful and will deliver the anticipated benefits and results. The integration process after an acquisition may lead to greater than expected operating expenses, financial leverage, capital costs, customer losses, business disruption of our other businesses and management's diversion of time and resources. We may also be required to make capital expenditures or other investments, which may affect our ability to implement our business strategies to the extent we are unable to secure additional

financing on acceptable terms or generate sufficient funds internally to cover these requirements. In addition, an acquired business could have liabilities that we fail or are unable to uncover or were unable to quantify and for which the Corporation may be responsible. Depending on the circumstances, pursuing acquisition may also require that we raise additional capital, through debt or equity, and establish relationships with new financing partners, or use cash that would otherwise have been available to support our existing business operations. Any failure by Cogeco Communications to successfully integrate or address the risks associated with acquisitions or to take advantage of future strategic opportunities could materially adversely affect our financial position, financial performance, cash flows, business or reputation.

### ECONOMIC DEPENDENCE

The economic dependence of our Business ICT service operations on a few large customers has the potential to materially affect the financial results of this segment should the relationship terminate, if we are unable to replace such lost revenues.

### FOREIGN OPERATIONS

Our American Broadband services activities are carried out by Atlantic Broadband in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut while part of our Business ICT services activities are conducted by Cogeco Peer 1 in the United States (California, Texas, Virginia, Florida and Georgia) and Europe (United Kingdom and France). The revenue of the Corporation in the United States and in Europe represents respectively 31.1% and 1.3% of the consolidated revenue of the Corporation. There are significant complexities and risks involved with carrying foreign operations, such as differences in political, legal, regulatory and taxation regimes or fluctuations in relative currency values against the Canadian dollar, all of which could have a material adverse impact on our operating and financial results.

### TALENT MANAGEMENT AND SUCCESSION PLANNING

Our success is substantially dependent upon the retention and the continued performance of our executive officers. Many of these executive officers are uniquely qualified in their areas of expertise, making it difficult to replace their services. The loss of the services of any key executives and/or employees in critical roles or inadequate processes designed to attract, develop, motivate and retain productive and engaged employees could impact our ability to deliver on organizational goals and have a material adverse effect on our growth, business and profitability.

### LABOUR RELATIONS

As of August 31, 2017, approximately 23% of our employees were represented by several unions under collective bargaining agreements. The Corporation has been successful to date in negotiating satisfactory collective agreements with unions without significant labour disruption. While the Corporation's labour relations have been satisfactory in the past, we can neither predict the outcome of current or future negotiations relating to labour disputes, union representation or renewal of collective bargaining agreements, nor be able to avoid future work stoppages, strikes or other forms of labour protests pending the outcome of any current or future negotiations. A prolonged work stoppage, strike or other form of labour protest could have a material adverse effect on our businesses, operations and reputation. Even if we do not experience strikes or other forms of labour protests, the outcome of labour negotiations could adversely affect our businesses and results of operations. In addition, our ability to make short-term adjustments to control compensation and benefits costs is limited by the terms of our collective bargaining agreements.

## 11.3 REGULATORY RISKS

### REGULATORY RISKS - CANADIAN AND AMERICAN BROADBAND SERVICES SEGMENT OF COGECO COMMUNICATIONS

Our Canadian and American Broadband operations are subject to extensive and evolving laws, regulations and policies. Changes to these laws, regulations and policies could have negative financial, operational or competitive consequences on our business. Recent regulatory proceedings and decisions in Canada and the United States described below may also affect us and have an adverse impact on our business.

***Our Canadian and American broadband operations are subject to extensive regulation and policies.***

Canadian laws and regulations govern the issuance, amendment, renewal, transfer, suspension, revocation and ownership of broadcasting programming and broadcasting distribution licences. With respect to broadcasting distribution, regulations govern, among other things, the distribution of Canadian and non-Canadian programming services, the composition of the basic cable service, access to distribution, the resolution of disputes on the terms of carriage for Canadian programming services and mandatory financial contributions for the funding of Canadian programming. There are significant restrictions on the ability of non-Canadians to own or control broadcasting licences and telecommunications common carriers in Canada.

Cogeco Connexion, our broadcasting distribution and telecommunications business in Canada is primarily regulated respectively under the *Broadcasting Act* and the *Telecommunications Act* and regulations thereunder. The CRTC, which oversees the implementation of the *Broadcasting Act* and the *Telecommunications Act*, has the power to grant, amend, suspend, revoke and renew broadcasting licenses, approve certain changes in corporate ownership and control, and make regulations and policies in accordance with the *Broadcasting Act* and the *Telecommunications Act*, subject to certain directions from the federal cabinet. In addition, we are subject to other Canadian laws relating to communications, intellectual property, data protection, privacy of personal information, spam, e-commerce, direct marketing and digital advertising which have become more prevalent in recent years.

Cogeco Connexion cable systems operated in Canada are subject to periodic licence renewals by the CRTC. The maximum licence term is seven years. While CRTC licences are usually renewed in the normal course upon application by the licensee, except in case of substantial and repeated breach of conditions or regulations by the licensee, there can be no assurance that the maximum renewal term will be granted or that new or modified conditions of licence or expectations will not apply to the renewal term. Cable service areas in Canada are non-exclusive. Competition

from additional programming distributors through cable or distribution platforms in our Canadian service area could materially adversely affect our growth, financial condition and results of operations.

In the Budget Plan dated March 23, 2017, the Federal Government proposed to review and modernize the *Broadcasting Act* and the *Telecommunications Act*. In this review, the Government indicated that it will examine issues such as telecommunications and content creation in the digital age, net neutrality and cultural diversity and how to strengthen the future of Canadian media and Canadian content creation. The timeline and details of this review will be announced at a later date. Changes to the Canadian regulatory framework, specifically the laws, regulations and policies governing our lines of business or operations, foreign ownership restrictions, terms of licence, the issuance of new licences, the distribution and packaging of programming services, wholesale or retail service terms, terms for the licensing of programming services for distribution in Canada on various distribution platforms, complaint or dispute resolution processes, industry codes of conduct, or the tax status or treatment of competitive suppliers or their respective services, could have a material adverse effect on our business (including who we compete with and how we provide products and services), financial condition, prospects and results of operations. In addition, we may incur increased costs necessary to comply with existing and newly adopted laws and regulations or penalties for any failure to comply. It is difficult to predict in what form Canadian laws, regulations, policies and rulings will be adopted over time, when they will be implemented or how they will be construed by the relevant courts, or the extent to which any changes might adversely affect us.

In the United States, federal, state and local governments extensively regulate our video, high-speed Internet and voice services. Certain of these laws require Atlantic Broadband to maintain licenses and authorizations for the operation of our business and restrict or impose conditions on the way in which we operate. These restrictions and conditions could inhibit our ability to expand our business and introduce new products and services.

Over the past few years, the FCC and certain states have been more active in proposing legislation and rulemakings concerning our industry. Congress has also proposed legislation, and will likely propose new legislation in the future, that could impact our business, such as rewriting the *Communications Act of 1934* ("Communications Act") to address changes in technology and the marketplace and funding new broadband infrastructure. Changes to existing laws and regulations, as well as the adoption of new laws and regulations, could have an adverse effect on our business by increasing our costs, limiting our revenues and/or imposing additional restrictions on our operations.

In addition, we could be materially disadvantaged if we remain subject to legal and regulatory constraints that do not apply equally to our competitors. The FCC has adopted rules to ensure that the state and local governmental regulations do not unreasonably interfere with competitive entry and several states have enacted legislation to ease the regulatory burden on new entrants. Further, DBS providers are not required to comply with several of the regulatory requirements that apply to cable operators. Atlantic Broadband could be materially disadvantaged if the rules continue to set different, less burdensome requirements for some of its competitors than for the company.

***Recent regulatory proceedings and decisions in Canada and the United States may also affect us and have an adverse impact on our business.***

Several recent proceedings and decisions of the CRTC in Canada and the FCC in the United States could have a material adverse impact on our business and results of operations.

Following a regulatory policy proceeding launched in April 2014 regarding Canadian television broadcasting and distribution (the "*Let's Talk TV Proceeding*"), the CRTC has issued a series of regulatory policy statements that provide for a number of major changes to the regulatory framework for television broadcasting and distribution in Canada. On March 1, 2016, Cogeco Connexion started offering a small entry-level package comprised of local and regional over-the-air Canadian stations, mandatory distribution channels as well as community and educational channels, at a retail regulated price of $25 with no inflation mechanism, exclusive of equipment. Cogeco Connexion also started offering smaller optional packages of 10, 20, 30 or 40 additional channels in Ontario and of 10, 15, 20 and 30 channels in Québec. Close to 110 discretionary services in Ontario and 60 in Québec are also available on a pick and pay basis. All discretionary services were made available *à la carte*, starting December 2016. Revenue of broadcasting distribution undertakings ("BDUs") are under pressure as customers can reduce their television spending by choosing to subscribe to the small entry-level package or by subscribing to smaller television packages or fewer television services.

As part of these policy changes, the CRTC issued on September 24, 2015, a Wholesale Code to govern the commercial arrangements between BDUs and programming services. The Wholesale Code imposes a number of negotiation parameters with respect to affiliation agreements between programming services and cable and satellite distributors in Canada, including dealing with dispute resolution. 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 cannot abuse their market power and impose anticompetitive terms for the distribution of their programming services. On October 23, 2015, Bell filed a motion to the Federal Court of Appeal, seeking leave to appeal the Wholesale Code on the basis that it would be conflicting with the *Copyright Act* and not authorized by the *Broadcasting Act*. Bell argues 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*. On December 22, 2015, the Federal Court of Appeal granted Bell leave to appeal the Wholesale Code. Cogeco Communications is challenging Bell's appeal. The Wholesale Code came into force on January 22, 2016 and is applicable to all licensed programming and distribution undertakings.

On April 9, 2015, the CRTC initiated a public consultation aiming to review the basic telecommunications services that should be available and affordable to all Canadians. In this proceeding, the CRTC specifically considered whether the broadband Internet access service should be included in the current definition of the basic telecommunications services and examined whether the existing subsidy regime for local telephone service should be changed to fund the expansion of the Internet access service in rural and remote areas. On December 21, 2016, the CRTC issued its decision and determined that broadband internet access is now considered a basic telecommunications service for all Canadians. It is creating a new fund to support projects aiming to build or upgrade infrastructure for fixed and mobile broadband internet access services in order to meet specific targets. The fund will make available up to $750 million over the first five years. The Commission's existing subsidy regime for local telephone service will gradually be phased out and transitioned to the new funding mechanism. Furthermore, the current funding will be expanded to include both retail Internet access and texting services revenues. This change to the calculation of the revenue-percent charge will take effect in the first year of implementation of the new fund and it is expected, according to the Commission, that the revenue-percent charge will be approximately the same as the current revenue-percent charge of 0.63%. Two follow-up proceedings were initiated in April 2017 to examine all matters related to the new funding mechanism and how the existing local subsidy regime should be phased out.

On July 22, 2015, the CRTC decided that the mandatory wholesale TPIA service should now be available through the implementation of regional based access points of interconnection ("POIs"), starting with the provinces of Ontario and Québec, and ordered to this end the major ISPs operating in these provinces, including Cogeco Connexion, to file proposed network interconnection configurations and thereafter proposed capacity and access rates. The regional POIs are intended to replace the current centralized POIs over a three year period. Under the regional network configuration, TPIA customers wishing to offer download speeds in excess of 100 Mbps will have to be interconnected at regional access POIs. On August 29, 2017, the CRTC approved capacity and access rates for regional TPIA services on an interim basis. It is expected that the CRTC will release in early 2018 the final rates for both regional and centralized wholesale TPIA services. These final rates could adversely impact our financial position and results of operations.

Innovation, Science and Economic Development Canada ("ISED") is currently reviewing the allocation rules of the 600 MHZ spectrum and of the millimeter wave spectrum to support 5G services. ISED has initiated a consultation on its overall approach and planning activities related to the release of spectrum over the next five years.

Government spectrum allocation policies in Canada and the United States may change in the future and adversely impact our competitive position.

In 2017, the FCC, under new leadership, has taken more of a hands-off approach to regulatory requirements. Such a hands-off approach, however, could negatively impact the Corporation in certain areas, such as carriage rights for broadcast stations and programming networks. Additionally, the recent increase in the consolidation of broadcast station ownership, as well as the consolidation of vertically-integrated electronic communications service providers with distribution and programming ownership interests could negatively impact our ability to obtain carriage rights on reasonable, non-discriminatory terms and conditions.

As a result of the FCC's net neutrality order, which was upheld by the U.S. Court of Appeals on June 14, 2016, Internet services are now subject to regulation at the federal level, and certain states and local governments are attempting to regulate Internet services. The FCC is currently reconsidering the classification of broadband service as a telecommunications service, which is subject to regulation under Title II of the *Communications Act*. The outcome of any such reclassification, could impact our network management practices. Additionally, such regulations could impact our broadband service rates, terms and conditions. Such regulations also impose significant monetary penalties for non-compliance.

***We must obtain access to support structures and municipal right of ways for our broadband operations.***

We require access to the support structures of provincial and municipal electric utilities and telephone companies and to municipal rights of way to deploy our broadband network. Where access to municipal rights of ways in our Canadian footprint cannot be secured, we may apply to the CRTC to obtain a right of access under the *Telecommunications Act*. Access to the support structures of telephone companies is provided on a tariff basis approved by the CRTC. In the case of provincial and municipal electric utilities, access to those support structures is subject to provincial and municipal requirements, and the terms for access to these structures may need to be obtained through provincial and municipal authorities. We have entered into comprehensive support structure access agreements with all of the major electric companies and all of the major telecommunications companies in our network footprint.

In the United States, the *Communications Act* requires telephone companies and other utilities (other than those owned by municipalities or cooperatives) to provide cable systems with non-discriminatory access to any pole or right-of-way controlled by the utility. The rates that utilities may charge, together with certain terms and conditions for such access are regulated by the FCC, or, alternatively, by states that certify to the FCC that they regulate pole attachments. Three states in which Atlantic Broadband has cable systems have certified that they regulate pole attachments. There is always the possibility that the FCC or a State could permit the increase of pole attachment rates paid by cable operators.

If we have to support increasing costs in securing access to support structures needed for our broadband network or are unable to secure such agreements, we may not be able to implement our business strategies and our businesses, financial condition, results of operations, reputation and prospects could be materially adversely affected.

### REGULATORY RISKS - BUSINESS ICT SERVICES SEGMENT OF COGECO COMMUNICATIONS

The activities in our Business ICT services operations are less regulated than our Canadian and American broadband services operations. Cogeco Peer 1 is nevertheless subject to various laws and regulations in the course of its business activities in the jurisdictions where it operates, including applicable laws and regulations dealing with international trade and foreign policies that restrict private trade with certain countries or individuals, environmental compliance, telecommunications, and privacy and data security.

A growing compliance burden (e.g. ISO 27001, OSFI Cybersecurity, Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), etc.) is also placed on data center businesses who want to attract customers in the financial health care, payments cards and government sectors.

## 11.4 TECHNOLOGY RISKS

### NETWORK FAILURE

In Canada, Cogeco Connexion provides Internet, digital video and telephony services through a network of four major headends and several minor headends in its broadband network. Although we have a backup system for retransmission through another headend or a mobile headend if one of our headends fail, there may be a delay in transferring to another headend, which could potentially have a material adverse impact on our service performance, brand, reputation, customer relationship and results of operations.

In the United States, Atlantic Broadband provides Internet, digital video and telephony services through seven major headends and several minor ones. Despite available emergency backup or replacement sites, including several interconnects with adjacent cable operators to be able to use their signals as a backup, a failure in our headends could prevent us from delivering some of our services through a portion of our network until we have implemented backup solutions or resolved the failure.

A failure of our broadband network could result in significant customer dissatisfaction, loss of revenue and potential litigation, depending on the severity of the outage condition.

### MAINTENANCE OF OUR NETWORK, INFRASTRUCTURE AND IT SYSTEMS

We continuously maintain, upgrade or replace our network, infrastructure or IT systems in order to optimize our networks and systems, increase the speed of our Internet service, improve and provide new or enhanced services that meet the needs and expectations of our customers. If we are unable to do so because of capital or other constraints, this may materially adversely affect our ability to compete and negatively impact business and financial performance.

### DEPENDENCE ON TECHNOLOGY SYSTEMS

The daily operation of our businesses is highly dependent on information technology systems, including those provided by certain third party suppliers. Our business is dependent on our payroll, transaction, financial, accounting and other data processing systems. We rely on these systems to process, on a daily basis, a large number of transactions. An inability to maintain and enhance our existing information technology systems or obtain new systems to accommodate additional customer growth or to support new products and services could also have a material adverse impact on our ability to acquire new customers, retain existing customers, produce accurate and timely billing, generate revenue growth and manage operating expenses, or comply with regulatory requirements, all of which could materially adversely impact our financial results and position. During the next fiscal year, Cogeco Connexion will replace its legacy ordering and billing software platforms in Ontario and Québec for both its residential and its business customers. Implementation or transitioning issues, delays or cost overruns could have a material adverse effect on our operations, compliance with regulatory requirements, financial performance and future business prospects. There can be no certainty that this replacement will be implemented successfully and in accordance with anticipated timelines.

### CYBER THREATS

Cybersecurity breaches have grown in frequency and complexity over recent years in the public and private sectors. Security measures are in place to safeguard against cybersecurity breaches such as firewalls, site monitoring and intrusion detection software. We have deployed over the recent year numerous efforts to improve the overall governance over information security, the security awareness of our employees through continuous training, the security of our IT systems, the controls within our IT systems and our business processes. These efforts and initiatives may not however successfully prevent cyberattacks against our network infrastructure and supporting information systems and could result in service disruptions, loss of customers, litigation, remediation costs and reputational damage.

Despite the fact that we are protecting critical data and infrastructure from cyberattacks, theft, unauthorized usage and disclosure, viruses, sabotage and other cyber threats, there can be no certainty that we will not be the subject of such attacks which could have an adverse effect on our brand and reputation as well as entail significant legal and financial exposure.

### DATA PROTECTION

We collect, use and manage in the course of our business various data about our customers, including sensitive personal information. Policies, procedures, guidelines, business rules and safeguards have been put in place to ensure that the personal information of our customers is protected and treated appropriately under applicable privacy laws. Existing and proposed privacy legislation and regulations, including changes in the manner in which such legislation and regulations are interpreted by courts in Canada, the United States and other jurisdictions may impose limits on our collection and use of certain kinds of information.

Many countries around the world are deploying stricter data protection regulations, such as the legislation approved by the European Union in 2016 (the General Data Protection Regulation or GDPR) which will become effective in early 2018. Data protection is also a focus of concern for Business ICT customers who are seeking maximum contractual indemnification in their contracts in regards to potential data security breaches. We have limited insurance coverage against the losses resulting from such breaches.

Any malfunction of our systems and equipment or security breaches resulting in unauthorized access to, loss or use of, customer and employee personal information or the personal information that our customers process using the Business ICT services of Cogeco Communications could result in the potential loss of business, damage to our market reputation, litigation, regulatory investigation and penalties.

## 11.5 FINANCIAL RISKS

### CAPITAL COMMITMENTS, LIQUIDITY AND DEBT

Cogeco Communications relies on its free cash flow generated by operations to fund its capital expenditures program and on capital markets to refinance its indebtedness and further grow its business through acquisitions. Capital markets are volatile and Cogeco Communications may not be able to access them at reasonable conditions if its credit profile and general economic conditions deteriorate. Such conditions could lead to higher cost of funding, deteriorating financial position and liquidity, and more restrictions on the Corporation's operations.

We may be unable to generate sufficient cash flow and maintain an adequate liquidity position to ensure and preserve the company's financial stability/solvency and fund strategic imperatives as well as operational and financial obligations of the business.

### CURRENCY AND INTEREST RATES

Our financial results are reported in Canadian dollars and a significant portion of our revenue, operating expenses and capital expenditures are realized in currencies other than Canadian dollars, most often US dollars and British Pounds. For the purposes of financial reporting, any change in the value of the Canadian dollar against the US dollar or the British Pound during a given financial reporting period would result in variations on our operating results and financial condition. Although a significant portion of our indebtedness, which is denominated in US dollars, serves as a cash flow hedge to foreign operations, our revenue, adjusted EBITDA and indebtedness could fluctuate materially as a result of foreign exchange rate fluctuations.

Interest rate volatility can also impact variable interest rate debt and have a material adverse impact on our financial performance.

### CREDIT RATINGS

Credit ratings issued by rating agencies can affect the availability and terms of the Corporation's financings. A reduction in the Corporation's credit ratings, particularly a downgrade below investment grade of secured debt currently rated as investment grade, could materially adversely affect our cost of capital and access to capital.

### TAXATION MATTERS

Our business operations are subject to various tax laws and regulations. These tax laws and regulations are subject to frequent changes and evolving interpretation. While we believe we have adequately provided for all taxes based on the information available to us, the calculation of taxes requires significant judgment in interpreting laws and regulations. A failure to accurately assess and record taxes could result in material changes to tax amounts recorded and an assessment of interest and penalties having a material adverse impact on financial results.

Changes to Canadian and foreign tax policies in the tax jurisdictions where we are present may also have a material adverse impact on our current financial structure and the level of our future tax costs and liabilities.

## 11.6 ECONOMIC CONDITIONS

We are affected by general economic conditions, consumer confidence and spending, and the demand for our products and services. Adverse general economic conditions, such as economic downturns or recessions leading to a declining level of retail and commercial activity could have a negative impact on the demand for our products and services. More specifically, adverse general economic conditions could result in customers delaying or reducing purchases of our products and services or discontinuing using them, and a decline in the creditworthiness of our customers, which could increase our bad debt expense.

## 11.7 OWNERSHIP RISKS

We are controlled by Gestion Audem Inc., a company controlled by the members of the family of the late Henri Audet (the "Audet Family"), through its ownership of Cogeco's multiple voting and subordinate voting shares. Both Cogeco Communications and Cogeco are reporting issuers in Canada with subordinate voting shares listed on the Toronto Stock Exchange. Pursuant to the Conflicts Agreement in effect between Cogeco Communications and Cogeco, all cable television undertakings must be owned or controlled by Cogeco Communications. Cogeco is otherwise free to own and operate any other business or to invest as it deems appropriate. It is possible that situations could arise where the respective interests of the Audet Family and shareholders or other stakeholders of Cogeco and of the shareholders or other stakeholders of Cogeco Communications could differ and that the interests of these shareholders or stakeholders be adversely impacted.

## 11.8 HUMAN-CAUSED AND NATURAL THREATS TO OUR NETWORK, INFRASTRUCTURE AND SYSTEMS

In the event of natural disasters, terrorist acts or other catastrophic occurrence, either natural or man-made, our ability to protect our network, infrastructure, including customer data, and to maintain ongoing operations could be significantly impaired. Global climate change may increase the severity and frequency of natural threats on our business, such as weather-related events. Although we have business continuity and disaster recovery plans and strategies, they may not be successful in mitigating the effects of a natural disaster, terrorist act or catastrophic occurrence which could have a material adverse effect on our business, prospects, financial condition and results of operations. Moreover, we have limited insurance coverage against the losses resulting from natural disasters affecting our networks.

## 11.9 LITIGATION RISKS

We are involved in various litigation matters arising in the course of our business. The outcome of these claims or litigations is uncertain and may impact our reputation, results of operation, liquidity or financial condition. Based on information currently known to us, we do not expect any of these claims and proceedings, individually or in total, to the extent not provided for through insurance or otherwise, to have a material adverse effect on our business, results of operation or financial condition.

# 12. CORPORATE SOCIAL RESPONSIBILITY PROGRAM

## 12.1 OVERVIEW

The Cogeco group of companies has designed a corporate social responsibility ("CSR") program aimed at operating responsibly and sustainably and being a good corporate citizen. Concretely, this means we seek to integrate practices which improve the environmental and social impacts of our operations while ensuring the Corporation's continued growth. The Corporation's Corporate Social Responsibility Policy, the Code of Ethics and the Supplier Code of Conduct together form the framework of our CSR Program. The CSR Program is under the responsibility of the Vice-President, Internal Audit and Risk Management.

The CSR program integrates our corporate social responsibility objectives articulated around six pillars:




Supported by a corporate management structure, overseen by a CSR Steering Committee composed of executives from all business units, and a sound corporate governance framework, we strive to improve our performance in line with the expectations of our stakeholders, our corporate values and our business objectives. To achieve its CSR goals of reducing its environmental footprint and having a positive impact on society, we have developed key performance indicators for social, economic and environmental objectives. These objectives are tracked and reported on a biannual basis to the Corporate Governance Committee.

## 12.2 FISCAL 2017 ACTIVITIES AND ACHIEVEMENTS

During fiscal 2017, the key initiatives of the CSR Program were rolled-out to our business units in the Communications and Media segments, namely Atlantic Broadband, Cogeco Connexion, Cogeco Peer 1 and Cogeco Media.

Here below are some examples of the CSR initiatives that were conducted in fiscal 2017:

- we celebrated our 60th Anniversary as a Corporation dedicated to excellence in customer service with an internal contest in which over 1,500 employees from all our business units across two continents participated;
- each business unit made significant progress on their three-year action plan created to integrate the CSR principles into their activities and operations;
- we continued to measure and track our Greenhouse Gas Emissions ("GHG") reductions and now integrate all Cogeco business units into the calculations, as well as emissions from refrigerant gases;
- we published our sixth Carbon Disclosure Project ("CDP") report and completed the Information and Communications Technology additional module;
- we implemented a Supplier Code of Conduct to address supply chain risks related to CSR, and progressed towards our objective of getting our most critical suppliers to acknowledge it. The Code is available in the CSR section of our Corporate website;
- we published Cogeco's Statement against Slavery, Forced Labor and Human Trafficking, in line with the UK Modern Slavery Act;
- approximately 20% of Cogeco's facilities underwent environmental assessments conducted by a third party. No significant adverse impact on the environment was identified during that exercise;
- Cogeco Connexion voluntarily purchased carbon offsets to cover the GHG from its business travel from fiscal 2017 (301 tons of $CO_2e$). The offsets purchased are Gold Standard and Gold Standard Transition, and will fund emissions reduction projects located in Québec and in China;
- we contributed over $3 million to donations and sponsorships and offered air time for fund raising purposes. Our principal focus areas are the health, culture and education sectors;
- we participated in the finalization of the Canadian Energy Efficiency Voluntary Agreement ("CEEVA"), effective since January 2017. This agreement, developed by Canadian telecommunications companies together with Natural Resources Canada, intends to limit the energy consumption of set top-boxes provided to our customers. With this agreement in place, it is expected that the total annual energy consumption in Canada, with the telecommunications companies' contribution, including Cogeco Connexion, will be reduced and annual carbon dioxide emissions will be cut by over 100,000 tonnes. This is equivalent to the emissions of over 44,000 sub-compact new vehicles driving 15,000 km/year;

- we assessed our current situation with aboriginal employment, contracting and community involvement, in order to identify areas for improvement;
- we assessed our current situation in terms of supplier diversity, in order to identify areas for improvement.

For more information on our initiatives and our performance, please refer to the latest CSR Report, which was published in January 2016. Our 2016-2017 CSR Report will be published in January 2018.

### RECOGNITIONS

Cogeco's CSR program and related initiatives were recognized during fiscal 2017:

- For a fourth year in a row, Cogeco Communications was part of the *Jantzi Social Index*, consisting of 60 Canadian companies that passed a set of broadly based environmental, social, and governance rating criteria.

## 12.3 FISCAL 2018 CORPORATE SOCIAL RESPONSIBILITY FOCUS

In fiscal 2018, we will continue with the implementation of the main initiatives of the CSR program, such as the reduction of our GHG emissions, the implementation of our Supplier Code of Conduct and the monitoring of our key performance indicators. As we are progressing towards the attainment of our CSR commitments, we will work on the second generation of action plans to further improve our performance. One key area of focus will be the development of a supplier monitoring program, following a risk-based approach.

# 13. CONTROLS AND PROCEDURES

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

The CEO and CFO, supported by Management, evaluated the design and effectiveness of the Corporation's DC&P and ICFR at August 31, 2017, and concluded that they were effective. Furthermore, no significant changes to the internal controls over financial reporting occurred during the year ended August 31, 2017.

# 14. ACCOUNTING POLICIES

## 14.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires management to adopt accounting policies and to make estimates and assumptions that affect the reported assets and liabilities amounts, contingent assets and liabilities and revenue and expenses during the reporting year. A summary of the Corporation's significant accounting policies is presented in Note 2 of the consolidated financial statements. The following accounting policies were identified as critical to Cogeco's business operations.

### REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts. The Corporation recognizes revenue from the sale of products or the rendering of services when the following conditions are met:

- The amount of revenue and related costs can be measured reliably;
- The significant risks and rewards of ownership have been transferred to customers and there is no continuing management involvement to the degree usually associated with the ownership nor effective control over the goods;
- The recovery of the consideration is probable.

More specifically, the Corporation's principal sources of revenue are recognized as follows:

- Monthly subscription revenue for Internet, video, and telephony services and rental of equipment are recognized as the services are provided;
- Revenue from data services, long-distance and other pay-per-use services are recognized as the services are provided;
- Revenue from colocation, network connectivity, hosting, cloud and managed services are recognized as the services are provided;
- Revenue generated from the sale of home terminal devices or other equipment are recognized when the customer accepts the delivery of the equipment; and
- Revenue generated from the sale of advertising airtime and advertising display are recognized when the advertisement has been aired or displayed.

## ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts is established based on specific credit risk of the Corporation's customers by examining such factors as the number of overdue days of the customer's balance outstanding as well as the customer's collection history. As a result, conditions causing fluctuations in the aging of customer accounts will directly impact the reported amount of bad debt expenses.

## BUSINESS COMBINATIONS

Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to the property, plant and equipment and intangible assets acquired and liabilities assumed on acquisition. Among other things, the determination of these fair values involves the use of discounted cash flow analyses, estimated future margins and estimated future customer counts.

## CAPITALIZATION OF PROPERTY, PLANT AND EQUIPMENT

During construction of new assets, direct costs plus overhead costs directly attributable to the asset are capitalized. Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which require a substantial amount of time to get ready for their intended use or sale, are capitalized until such time the assets are substantially ready for their intended use or sale. All other borrowing costs are recorded as financial expense in the period in which they are incurred.

The cost of replacing a part of property, plant and equipment that is ready for its intended use is added to the carrying amount of the property, plant and equipment or recognized as a separate component if applicable, only if it is probable that the economic benefits associated with the cost will flow to the Corporation and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other day-to-day maintenance costs are recognized in profit or loss in the period in which they are incurred.

## CAPITALIZATION OF INTANGIBLE ASSETS

Reconnect and additional service activation costs are capitalized up to a maximum amount not exceeding the revenue generated by the reconnect activity. Direct and incremental costs associated with the acquisition of customers are capitalized.

## DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT AND AMORTIZATION OF INTANGIBLE ASSETS

Measurement of property, plant and equipment and intangible assets with finite useful lives requires estimates for determining the asset expected useful lives and residual values. Management's judgment is also required to determine the components and the depreciation method used.

## PROVISIONS

Management's judgment is used to determine the timing, likelihood and the amount of expected cash outflows as well as the discount rate.

## CONTINGENCIES

Contingencies such as lawsuits, taxes and commitments under contractual and other commercial obligations are estimated based on applying significant judgement in determining if a loss is probable and in determining the estimated outflow of economic resources. Such contingencies are estimated based on the information available to the Corporation.

## FAIR VALUE MEASUREMENT OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is estimated using valuation techniques based on several market data such as interest rates, foreign exchange rates and the Corporation's or counterparties' credit risks.

## HEDGE ACCOUNTING

Management uses significant judgment in determining whether the Corporation's financial instruments qualify for hedge accounting, including the assumptions for effectiveness and also in estimating the probability that a transaction will occur, in the case of cash flow hedges of forecasted transaction.

## MEASUREMENT OF DEFINED BENEFIT OBLIGATION

The net defined benefit obligation is determined using actuarial calculations that are based on several assumptions. The actuarial valuation uses the Corporation's assumptions for the discount rate, the expected rate of compensation increase and the mortality table. If the actuarial assumptions are found to be significantly different from the actual data subsequently observed, it could impact the reported amount of defined benefit pension cost recognized in profit or loss, the remeasurement of the net defined benefit asset or liability recognized directly in other comprehensive income and the net assets or net liabilities related to these obligations presented in the consolidated statement of financial position.

### SHARE-BASED PAYMENT

Management estimates the fair value of stock-options granted using the Black-Scholes option pricing model. The estimates used by management include expected dividend yields, volatility of the Corporation's share price, the expected life of the option, the risk-free interest rate and the number of options expected to vest. Estimates are also used in the determination of the number of ISUs and PSUs that are expected to vest, which influences their fair value. The fair value of the PSUs is also estimated based on the level of Economic Value increase;

### MEASUREMENT OF NON-FINANCIAL ASSETS

The measurement of non-financial assets requires the use of management judgment to identify the existence of impairment indicators and the determination of cash-generating units ("CGUs"). Furthermore, when determining the recoverable amount of a CGU or an asset, the Corporation uses significant estimates such as the estimation of future cash flows and discount rates applicable. Any significant modification of market conditions could translate into an inability to recover the carrying amounts of non-financial assets.

### DEFERRED TAXES

Deferred tax assets and liabilities require estimates about the nature and timing of future permanent and temporary differences, the expected timing of reversals of those temporary differences and the future tax rates that will apply to those differences. Judgment is also required in determining the tax basis of indefinite life intangible assets and the resulting tax rate used to measure deferred taxes.

## 14.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

During 2016, the *IFRS Interpretations Committee* ("IFRIC") received a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax. Through the process of considering this question, the IFRIC clarified that an entity should use the tax rate associated with the expected manner of recovery to measure deferred taxes. Further, the fact that an indefinite life intangible asset is not being amortized is not in and of itself evidence that the manner of recovery will be through sale. In response to this clarification, the Corporation retrospectively changed its accounting policy as of September 1, 2016 and has restated the prior period for this change as further explained below.

IAS 12, *Income Taxes*, states that measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of the assets and liabilities. The carrying value is recovered in the form of economic benefits that flow to the entity in future periods, thereby the assets are recovered through sale or recovered through use.

In applying the new interpretation, the Corporation has now determined that the benefit of its Cable Distribution Licenses and Broadcasting Licenses will flow to the Corporation on an annual basis, and thereby the carrying amount will be recovered through use, and as a result, will be subject to a higher tax rate.

Consequently, the Corporation changed its accounting policy with respect to the tax rate used in determining the deferred tax assets and liabilities at the reporting date. The Corporation believes this change in accounting policy will better reflect how the assets will be recovered by the Corporation. The change in accounting policy was applied retrospectively and resulted in the following changes to the Corporation's consolidated financial statements:

| | As previously reported | Effect of change in accounting policy | As currently reported |
|---|---|---|---|
| | $ | $ | $ |
| **Balance at August 31, 2015** | | | |
| Deferred tax assets | 25,601 | (4,093) | 21,508 |
| Deferred tax liabilities | 528,211 | 120,002 | 648,213 |
| Retained earnings | 453,119 | (44,785) | 408,334 |
| Equity attributable to non-controlling interest | 1,197,120 | (79,310) | 1,117,810 |
| **Balance at August 31, 2016** | | | |
| Deferred tax assets | 26,497 | (4,093) | 22,404 |
| Deferred tax liabilities | 500,818 | 120,002 | 620,820 |
| Retained earnings | 397,182 | (44,785) | 352,397 |
| Equity attributable to non-controlling interest | 1,020,140 | (79,310) | 940,830 |

## 14.3 FUTURE ACCOUNTING DEVELOPMENT IN CANADA

A number of new standards, interpretations and amendments to existing standards were issued by the *International Accounting Standard Board* ("IASB") that are mandatory but not yet effective for the year ended August 31, 2017, and have not been applied in preparing these consolidated financial statements. The following standards may have a material impact on future consolidated financial statements of the Corporation:

| | Effective for annual periods starting on or after | |
|---|---|---|
| IFRS 9 *Financial Instruments* | January 1, 2018 | Early adoption permitted |
| IFRS 15 *Revenue from Contracts with Customers* | January 1, 2018 | Early adoption permitted |
| IFRS 16 Leases | January 1, 2019 | Early adoption permitted |

### IFRS 9

IFRS 9 replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. IFRS 9 does not replace the requirement for portfolio fair value hedge accounting for interest risk since this phase of the project was separated from the IFRS 9 project due to the longer term nature of the macro hedging project which is currently at the discussion paper phase of the due process. Consequently, the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply. The Corporation is in the process of determining the extent of the impact of this change on its consolidated financial statements.

### IFRS 15

IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single, five-step model for an entity to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. In addition, IFRS 15 requires additional disclosure in the consolidated financial statements regarding the Corporation's revenue.

The Corporation expects that the adoption of IFRS 15 should have an impact on the consolidated financial statements with regards to the capitalization of costs to obtain or fulfill a contract. IFRS 15 requires costs to obtain a contract (such as direct and incremental costs associated with the acquisition of customers) and costs to fulfill a contract (such as reconnect and additional service activation costs), to be recognized as an asset and recognized in operating expenses over the period of time the customer is expected to remain a customer of the Corporation. Direct and incremental costs associated with the acquisition of customers are currently being capitalized as intangible assets, for contracts lasting greater than 1 year, and amortized over the term of the revenue arrangement. For contracts with durations of less than 1 year, these costs are currently being recognized in operating expenses as incurred. Reconnect and additional service activation costs are currently being capitalized as intangible assets up to a maximum amount not exceeding the revenue generated by these related reconnect activities, and amortized over the average life of the customer's subscription. Under IFRS 15, these costs will no longer be limited to the related reconnect revenue.

The adoption of IFRS 15 should not have a significant impact on the timing of the recognition of revenue and on the total revenue recognized over the term of the revenue arrangement. Thus, all performance obligations within the contract should remain essentially the same. The Corporation expects that the presentation of expenses between amortization and operating expenses may change under IFRS 15, however the impact of the new standard should be low on its profit for the period and its free cash flow.

IFRS 15 supersedes the following standards: IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue-Barter Transactions Involving Advertising Services*.

Application of the standard is mandatory for all IFRS reporters, and is expected to be applied retrospectively by the Corporation. It applies to almost all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. The Corporation is continuing to assess the impact of this change on its consolidated financial statements.

### IFRS 16

IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a corresponding lease liability, representing its obligation to make the lease payments. IFRS 16 supersedes the current standard IAS 17 *Leases.* The accounting treatment for lessors will remain largely the same as under IAS 17. Early adoption is permitted, but only if the entity is also applying IFRS 15. The Corporation is in the process of determining the extent of the impact of this change on its consolidated financial statements.

# 15. NON-IFRS FINANCIAL MEASURES

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

| Non-IFRS measure | Application | Calculation | Most comparable IFRS measure |
|---|---|---|---|
| Free cash flow | Management and investors use free cash flow to measure Cogeco's ability to repay debt, distribute capital to its shareholders and finance its growth. | Free cash flow:<br>- Cash flow from operating activities<br>add:<br>- Amortization of deferred transaction costs and discounts on long-term debt;<br>- Changes in non-cash operating activities;<br>- Income taxes paid; and<br>- Financial expense paid<br>deduct:<br>- Current income taxes;<br>- Financial expense;<br>- Acquisition of property, plant and equipment; and<br>- Acquisition of intangible and other assets. | Cash flow from operating activities |
| Adjusted EBITDA | Adjusted EBITDA is a key measure commonly reported and used in the telecommunications industry, as it allows comparisons between companies that have different capital structures and is a more current measure since it excludes the impact of historical investments in assets. Adjusted EBITDA is one of the key metrics employed by the financial community to value a business and its financial strength.<br><br>Adjusted EBITDA for the Cogeco's business units is equal to the segment profit reported in note 5 of the Consolidated Financial Statements. | Adjusted EBITDA:<br>- Profit (loss) for the year<br>add:<br>- Income taxes;<br>- Gain on disposal of a subsidiary;<br>- Financial expense;<br>- Depreciation and amortization;<br>- Impairment of goodwill and intangible assets;<br>- Claims and litigations; and<br>- Integration, restructuring and acquisition costs. | Profit (loss) for the year |

## 15.1 FREE CASH FLOW RECONCILIATION

| | Quarters ended | | Years ended | |
|---|---|---|---|---|
| | August 31, 2017 | August 31, 2016 | August 31, 2017 | August 31, 2016 |
| *(in thousands of dollars)* | $ | $ | $ | $ |
| **Cash flow from operating activities** | **356,814** | 271,114 | **977,081** | 759,030 |
| Amortization of deferred transaction costs and discounts on long-term debt | **2,859** | 2,179 | **9,709** | 9,283 |
| Changes in non-cash operating activities | **(121,460)** | (53,047) | **(73,038)** | (24,534) |
| Income taxes paid | **(1,223)** | 19,519 | **11,440** | 128,574 |
| Current income taxes | **(21,874)** | (25,753) | **(94,346)** | (100,680) |
| Financial expense paid | **19,410** | 20,827 | **127,514** | 139,238 |
| Financial expense | **(36,500)** | (35,809) | **(136,779)** | (142,482) |
| Acquisition of property, plant and equipment | **(139,335)** | (104,094) | **(410,114)** | (447,158) |
| Acquisition of intangible and other assets | **(6,850)** | (6,908) | **(21,193)** | (23,199) |
| **Free cash flow** | **51,841** | 88,028 | **390,274** | 298,072 |

## 15.2 ADJUSTED EBITDA RECONCILIATION

| | Quarters ended | | Years ended | |
|---|---|---|---|---|
| | **August 31, 2017** | August 31, 2016 | **August 31, 2017** | August 31, 2016 |
| *(in thousands of dollars)* | **$** | $ | **$** | $ |
| **Profit (loss) for the period** | **71,094** | 80,662 | **313,367** | (158,705) |
| Income taxes | **22,616** | 20,303 | **103,757** | 76,329 |
| Gain on disposal of a subsidiary | **—** | (167) | **—** | (13,107) |
| Financial expense | **36,500** | 35,809 | **136,779** | 142,482 |
| Impairment of goodwill and intangible assets | **—** | — | **—** | 450,000 |
| Depreciation and amortization | **118,003** | 120,103 | **478,451** | 502,170 |
| Claims and litigations | **—** | 292 | **—** | 10,791 |
| Integration, restructuring and acquisition costs | **3,191** | 1,326 | **3,191** | 8,802 |
| **Adjusted EBITDA** | **251,404** | 258,328 | **1,035,545** | 1,018,762 |

# 16. ADDITIONAL INFORMATION

This MD&A was prepared on November 2, 2017. 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.

# CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements


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# MANAGEMENT'S RESPONSIBILITY

## RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Cogeco Inc. (the "Corporation") and the financial information contained in this annual report are the responsibility of management. The consolidated financial statements include amounts determined by management based on estimates, which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that of the consolidated financial statements.

In fulfilling its responsibilities, management of Cogeco Inc. and its subsidiaries has developed, and continues to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and maintains internal accounting controls to ensure that financial records are reliable for preparing the financial statements. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Corporation and recommends their approval to the Board of Directors. The Committee periodically meets with management and the external auditor to discuss the results of the external and internal examinations and matters having an impact on financial information.

The independent auditor appointed by the shareholders, Deloitte LLP, Chartered Professional Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with Canadian auditing standards and to issue an opinion on the statements. The independent auditor have free access to the Audit Committee, with or without the presence of management. Their report follows.



Louis Audet
President and Chief Executive Officer



Patrice Ouimet
Senior Vice President and Chief Financial Officer

Montréal, November 2, 2017

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cogeco Inc.

We have audited the accompanying consolidated financial statements of Cogeco Inc., which comprise the consolidated statements of financial position as at August 31, 2017 and August 31, 2016, and the consolidated statements of profit or loss, consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended August 31, 2017 and August 31, 2016, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cogeco Inc. as at August 31, 2017 and August 31, 2016, and its financial performance and its cash flows for the years ended August 31, 2017 and August 31, 2016 in accordance with International Financial Reporting Standards.



November 2, 2017
Montréal, Québec

[1] CPA auditor, CA, public accountancy permit No. A124341

# CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

| Years ended August 31, | Notes | 2017 | 2016 |
|---|---|---|---|
| *(In thousands of Canadian dollars, except per share data)* | | $ | $ |
| **Revenue** | *5* | **2,347,678** | 2,307,403 |
| Operating expenses | *8* | **1,312,133** | 1,288,641 |
| Integration, restructuring and acquisition costs | *5* | **3,191** | 8,802 |
| Claims and litigations | *5* | **—** | 10,791 |
| Depreciation and amortization | *9* | **478,451** | 502,170 |
| Impairment of goodwill and intangible assets | *16 C)* | **—** | 450,000 |
| Financial expense | *10* | **136,779** | 142,482 |
| Gain on disposal of a subsidiary | *7* | **—** | (13,107) |
| Income taxes | *11* | **103,757** | 76,329 |
| **Profit (loss) for the year** | | **313,367** | (158,705) |
| **Profit (loss) for the year attributable to:** | | | |
| Owners of the Corporation | | **108,985** | (29,351) |
| Non-controlling interest | | **204,382** | (129,354) |
| | | **313,367** | (158,705) |
| **Earnings (loss) per share** | | | |
| Basic | *12* | **6.56** | (1.75) |
| Diluted | *12* | **6.52** | (1.75) |

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| Years ended August 31, | Note | 2017 | 2016 |
|---|---|---|---|
| *(In thousands of Canadian dollars)* | | $ | $ |
| **Profit (loss) for the year** | | **313,367** | (158,705) |
| **Other comprehensive income (loss)** | | | |
| Items to be subsequently reclassified to profit or loss | | | |
| *Cash flow hedging adjustments* | | | |
| Net change in fair value of hedging derivative financial instruments | | **830** | (49,999) |
| Net change in fair value of hedging derivative financial instruments reclassified to financial expense | | **—** | 48,108 |
| Related income taxes | | **(271)** | 440 |
| | | **559** | (1,451) |
| *Foreign currency translation adjustments* | | | |
| Net foreign currency translation differences on net investments in foreign operations | | **(36,301)** | 957 |
| Net changes on translation of long-term debt designated as hedges of net investments in foreign operations | | **28,022** | 2,664 |
| Related income taxes | | **(272)** | (1,363) |
| | | **(8,551)** | 2,258 |
| | | **(7,992)** | 807 |
| Items not to be subsequently reclassified to profit or loss | | | |
| *Defined benefit plans actuarial adjustments* | | | |
| Remeasurement of net defined benefit liability | *22* | **11,011** | (11,484) |
| Related income taxes | | **(2,918)** | 3,090 |
| | | **8,093** | (8,394) |
| Other comprehensive income (loss) for the year | | **101** | (7,587) |
| **Comprehensive income (loss) for the year** | | **313,468** | (166,292) |
| **Comprehensive income (loss) for the year attributable to:** | | | |
| Owners of the Corporation | | **111,781** | (34,473) |
| Non-controlling interest | | **201,687** | (131,819) |
| | | **313,468** | (166,292) |

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| Years ended August 31, 2017 and 2016 | Equity attributable to the owners of the Corporation | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share-based payment reserve | Accumulated other comprehensive income | Retained earnings | Equity attributable to non-controlling interest | Total shareholders' equity |
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ |
| | *(Note 19)* | | *(Note 20)* | *(restated, Note 3)* | *(restated, Note 3)* | |
| Balance at August 31, 2015 | 117,172 | 6,468 | 26,839 | 408,334 | 1,117,810 | 1,676,623 |
| Loss for the year | — | — | — | (29,351) | (129,354) | (158,705) |
| Other comprehensive income (loss) for the year | — | — | 270 | (5,392) | (2,465) | (7,587) |
| Comprehensive income (loss) for the year | — | — | 270 | (34,743) | (131,819) | (166,292) |
| Share-based payment | — | 3,805 | — | — | 4,219 | 8,024 |
| Issuance of subordinate voting shares by a subsidiary to non-controlling interest | — | (401) | — | — | 5,683 | 5,282 |
| Dividends on multiple voting shares (Note 19 C)) | — | — | — | (2,175) | — | (2,175) |
| Dividends on subordinate voting shares (Note 19 C)) | — | — | — | (17,568) | (52,020) | (69,588) |
| Effect of changes in ownership of a subsidiary on non-controlling interest | — | — | — | 21 | (21) | — |
| Purchase and cancellation of subordinate voting shares | (161) | — | — | (855) | — | (1,016) |
| Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | (2,109) | — | — | — | — | (2,109) |
| Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | 1,587 | (1,210) | — | (377) | — | — |
| Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | — | — | — | — | (4,575) | (4,575) |
| Distribution by a subsidiary to non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | — | (1,313) | — | (240) | 1,553 | — |
| Total contributions by (distributions to) shareholders | (683) | 881 | — | (21,194) | (45,161) | (66,157) |
| Balance at August 31, 2016 | 116,489 | 7,349 | 27,109 | 352,397 | 940,830 | 1,444,174 |
| Profit for the year | — | — | — | 108,985 | 204,382 | 313,367 |
| Other comprehensive income (loss) for the year | — | — | (2,534) | 5,330 | (2,695) | 101 |
| Comprehensive income (loss) for the year | — | — | (2,534) | 114,315 | 201,687 | 313,468 |
| Share-based payment | — | 3,519 | — | — | 3,521 | 7,040 |
| Issuance of subordinate voting shares by a subsidiary to non-controlling interest | — | (487) | — | — | 7,498 | 7,011 |
| Dividends on multiple voting shares (Note 19 C)) | — | — | — | (2,506) | — | (2,506) |
| Dividends on subordinate voting shares (Note 19 C)) | — | — | — | (20,097) | (57,671) | (77,768) |
| Effect of changes in ownership of a subsidiary on non-controlling interest | — | — | — | 849 | (849) | — |
| Purchase and cancellation of subordinate voting shares | (1,784) | — | — | (12,529) | — | (14,313) |
| Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | (2,247) | — | — | — | — | (2,247) |
| Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | 1,563 | (1,513) | — | (50) | — | — |
| Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | — | — | — | — | (3,436) | (3,436) |
| Distribution by a subsidiary to non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | — | (1,224) | — | (63) | 1,287 | — |
| Total contributions by (distributions to) shareholders | (2,468) | 295 | — | (34,396) | (49,650) | (86,219) |
| **Balance at August 31, 2017** | **114,021** | **7,644** | **24,575** | **432,316** | **1,092,867** | **1,671,423** |

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| At August 31, | Notes | 2017 | 2016 |
|---|---|---|---|
| *(In thousands of Canadian dollars)* | | $ | $ |
| | | | *(restated, Note 3)* |
| **Assets** | | | |
| Current | | | |
| Cash and cash equivalents | *21 B)* | 212,283 | 68,344 |
| Short-term investments | *13* | 54,000 | — |
| Trade and other receivables | *23 A)* | 112,092 | 142,542 |
| Income taxes receivable | | 4,277 | 12,707 |
| Prepaid expenses and other | | 21,737 | 17,125 |
| Derivative financial instrument | | 98 | 1,040 |
| | | 404,487 | 241,758 |
| Non-current | | | |
| Other assets | *14* | 7,396 | 8,280 |
| Property, plant and equipment | *15* | 1,961,743 | 2,004,247 |
| Intangible assets | *16 A)* | 2,058,220 | 2,139,466 |
| Goodwill | *16 B)* | 1,042,009 | 1,079,365 |
| Derivative financial instrument | | 759 | — |
| Deferred tax assets | *11* | 24,762 | 22,404 |
| | | 5,499,376 | 5,495,520 |
| **Liabilities and Shareholders' equity** | | | |
| **Liabilities** | | | |
| Current | | | |
| Bank indebtedness | *18 a) d)* | 3,801 | 4,115 |
| Trade and other payables | | 337,667 | 312,914 |
| Provisions | *17* | 23,260 | 31,078 |
| Income tax liabilities | | 103,650 | 28,910 |
| Deferred and prepaid revenue | | 85,302 | 61,707 |
| Balance due on a business combination | | 118 | — |
| Derivative financial instruments | | 192 | — |
| Current portion of long-term debt | *18* | 131,935 | 22,527 |
| | | 685,925 | 461,251 |
| Non-current | | | |
| Long-term debt | *18* | 2,479,421 | 2,922,078 |
| Derivative financial instruments | | — | 165 |
| Deferred and prepaid revenue and other liabilities | | 31,462 | 30,120 |
| Pension plan liabilities and accrued employee benefits | *22* | 7,709 | 16,912 |
| Deferred tax liabilities | *11* | 623,436 | 620,820 |
| | | 3,827,953 | 4,051,346 |
| **Shareholders' equity** | | | |
| Equity attributable to the owners of the Corporation | | | |
| Share capital | *19 B)* | 114,021 | 116,489 |
| Share-based payment reserve | | 7,644 | 7,349 |
| Accumulated other comprehensive income | *20* | 24,575 | 27,109 |
| Retained earnings | | 432,316 | 352,397 |
| | | 578,556 | 503,344 |
| Equity attributable to non-controlling interest | | 1,092,867 | 940,830 |
| | | 1,671,423 | 1,444,174 |
| | | 5,499,376 | 5,495,520 |

Commitments, contingencies and guarantees (Note 25)

On behalf of the Board of Directors,



**Jan Peeters**
Director



**James C. Cherry**
Director

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years ended August 31, | Notes | 2017 | 2016 |
|---|---|---|---|
| *(In thousands of Canadian dollars)* | | $ | $ |
| **Cash flow from operating activities** | | | |
| Profit (loss) for the year | | 313,367 | (158,705) |
| Adjustments for: | | | |
| Depreciation and amortization | *9* | 478,451 | 502,170 |
| Impairment of goodwill and intangible assets | *16 C)* | — | 450,000 |
| Financial expense | *10* | 136,779 | 142,482 |
| Income taxes | *11* | 103,757 | 76,329 |
| Share-based payment | *19 D)* | 10,250 | 8,589 |
| Loss on disposals and write-offs of property, plant and equipment | | 2,132 | 954 |
| Gain on disposal of a subsidiary | *7* | — | (13,107) |
| Defined benefit plans contributions, net of expense | | (1,739) | (6,404) |
| | | 1,042,997 | 1,002,308 |
| Changes in non-cash operating activities | *21 A)* | 73,038 | 24,534 |
| Financial expense paid | | (127,514) | (139,238) |
| Income taxes paid | | (11,440) | (128,574) |
| | | 977,081 | 759,030 |
| **Cash flow from investing activities** | | | |
| Acquisition of property, plant and equipment | *15* | (410,114) | (447,158) |
| Acquisition of intangible and other assets | | (21,193) | (23,199) |
| Acquisition of short-term investment instruments | *13* | (54,000) | — |
| Business combination, net of cash and cash equivalents acquired | *6* | (804) | — |
| Disposal of a subsidiary, net of cash and cash equivalents disposed | *7* | — | 47,431 |
| Proceeds on disposals of property, plant and equipment | | 9,741 | 2,644 |
| Other | | — | 156 |
| | | (476,370) | (420,126) |
| **Cash flow from financing activities** | | | |
| Increase (decrease) in bank indebtedness | | (314) | 4,115 |
| Net decrease under the revolving facilities | | (187,286) | (122,725) |
| Repayments of long-term debt and settlement of derivative financial instruments | | (73,099) | (240,657) |
| Transaction costs on long-term debt conversion and increase in deferred transaction costs | | (472) | (1,227) |
| Repayment of balance due on a business combination | | (837) | — |
| Purchase and cancellation of subordinate voting shares | *19 B)* | (14,313) | (1,016) |
| Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | *19 B)* | (2,247) | (2,109) |
| Dividends paid on multiple voting shares | *19 C)* | (2,506) | (2,175) |
| Dividends paid on subordinate voting shares | *19 C)* | (20,097) | (17,568) |
| Issuance of subordinate voting shares by a subsidiary to non-controlling interest | | 7,011 | 5,282 |
| Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans | | (3,436) | (4,575) |
| Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest | | (57,671) | (52,020) |
| | | (355,267) | (434,675) |
| **Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies** | | (1,505) | (74) |
| **Net change in cash and cash equivalents** | | 143,939 | (95,845) |
| Cash and cash equivalents, beginning of the year | | 68,344 | 164,189 |
| **Cash and cash equivalents, end of the year** | | 212,283 | 68,344 |

# NATURE OF OPERATIONS

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

Through its Cogeco Communications Inc. ("Cogeco Communications") subsidiary, the Corporation provides its residential and business customers with Internet, video and telephony services through its two-way broadband fibre networks. Cogeco Communications operates in Canada under the Cogeco Connexion name in Québec and Ontario, and in the United States under the Atlantic Broadband name in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through its subsidiary, Cogeco Peer 1, Cogeco Communications provides its business customers with a suite of information technology services (colocation, network connectivity, hosting, cloud services and managed services), through its 16 data centres, extensive FastFiber Network® and more than 50 points of presence in North America and Europe.

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

During 2017, Cogeco Communications' subsidiary, Atlantic Broadband, announced it has entered into a definitive agreement with Harron Communications, L.P. to purchase all of its cable systems operating under the MetroCast brand name (“MetroCast”) (see Note 25 A)). The transaction is expected to be completed in January 2018 and is subject to regulatory approvals along with other closing conditions customary to transactions of this nature.

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

# 1. BASIS OF PRESENTATION

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a going concern basis using historical cost, except for financial instruments and derivative financial instruments (see Note 2 N)), cash-settled share-based payment arrangements (see Note 2 K)) and pension plan assets (see Note 2 L)), which are measured at fair value, and for the defined benefit obligation (see Note 2 L)) and provisions (see Note 2 J)), which are measured at present value.

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

The consolidated financial statements were approved by the Board of Directors of Cogeco at its meeting held on November 2, 2017.

# 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise indicated.

## A) BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Corporation and its subsidiaries.

Subsidiaries are entities controlled by the Corporation. Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries' financial statements are included in the consolidated financial statements from the date that control commences until the date that control ceases. Subsidiaries' year-end and accounting policies are aligned with those adopted by the Corporation. Operating segments and percentage of interest in the principal subsidiaries at August 31, 2017 are as follows:

| Operating segment | Principal subsidiaries | Percentage of equity interest | Voting rights |
|---|---|---|---|
| | | % | % |
| Communications | Cogeco Communications | 31.7 | 82.3 |
| Other | Cogeco Media | 100 | 100 |

The consolidated financial statements also include the accounts of Métromédia CMR Plus Inc., which was owned by the Corporation until it was sold on January 5, 2016. These accounts are presented in the Other operating segment.

The Corporation and its subsidiary, Cogeco Communications, have each established special purpose entities ("SPEs") with the objective of mitigating the impact of stock price fluctuations in connection with their Incentive and Performance Share Unit Plans. SPEs are consolidated if, based on an evaluation of the substance of their relationship with the Corporation and the SPEs' risks and rewards, the Corporation concludes that it controls the SPEs. SPEs controlled by the Corporation and Cogeco Communications were established under terms that impose strict limitations on the decision-making powers of the SPEs' management, resulting in the Corporation receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

All intercompany transactions and balances and any unrealized revenue and expense are eliminated in preparing the consolidated financial statements.

## B) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date.

The consideration transferred is measured as the sum of the fair values of assets transferred, liabilities assumed, and equity instruments issued by the Corporation at the acquisition date, including any asset or liability resulting from a contingent consideration arrangement, in exchange for control of the acquiree.

A right to receive or an obligation to pay contingent consideration is classified as an asset or a liability or as equity. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or a liability is measured either as a financial instrument or as a provision. Changes in fair values that qualify as measurement period adjustments of preliminary purchase price allocations are adjusted in the current period and such changes are applied on a retroactive basis.

Acquisition costs, other than those associated with the issuance of debt or equity securities, and integration and restructuring costs that the Corporation incurs in connection with a business combination are recognized in profit or loss as incurred.

## C) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts. The Corporation recognizes revenue from the sale of products or the rendering of services when the following conditions are met:

- The amount of revenue and related costs can be measured reliably;
- The significant risks and rewards of ownership have been transferred to customers and there is no continuing management involvement to the degree usually associated with the ownership nor effective control over the goods; and
- The recovery of the consideration is probable.

More specifically, the Corporation's principal sources of revenue are recognized as follows:

- Monthly subscription revenue for Internet, video, and telephony services and rental of equipment are recognized as the services are provided;
- Revenue from data services, long-distance and other pay-per-use services are recognized as the services are provided;
- Revenue from colocation, network connectivity, hosting, cloud and managed services are recognized as the services are provided;
- Revenue generated from the sale of home terminal devices or other equipment are recognized when the customer accepts the delivery of the equipment; and
- Revenue generated from the sale of advertising airtime and advertising display are recognized when the advertisement has been aired or displayed.

### Multiple-element arrangements

The Corporation offers certain products and services as part of multiple deliverable arrangements. The Corporation evaluates each deliverable arrangement to determine if it would represent a separate component. Components are accounted separately when:

- The delivered elements have stand-alone value to the customer; and
- There is an objective and a reliable evidence of fair value of any undelivered elements.

Consideration is measured and allocated between the components based upon their relative fair values while applying the relevant revenue recognition policy.

The Corporation considers that installation and activation fees are not separate components because they have no stand-alone value. Accordingly, they are deferred and amortized as revenue at the same pace as the revenue from the related services are earned, which is the average life of a customer's subscription for residential customers or the term of the agreement for Business ICT service customers.

Unearned revenue, such as payments for goods and services received in advance of delivery, are recorded as deferred and prepaid revenue until the service is provided or the product is delivered to the customer.

## D) BARTER TRANSACTIONS

In the normal course of its business, the Corporation enters into barter transactions under which goods, advertising and other services are acquired in exchange for advertising services. Such revenue and expenses are recorded at the estimated fair value of goods and services received when goods and other services are received and at the estimated fair value of advertising provided when advertising services are received.

## E) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

During construction of new assets, direct costs plus overhead costs directly attributable to the asset are capitalized. Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which require a substantial amount of time to get ready for their intended use or sale, are capitalized until such time the assets are substantially ready for their intended use or sale. All other borrowing costs are recorded as financial expense in the period in which they are incurred.

The cost of replacing a part of property, plant and equipment that is ready for its intended use is added to the carrying amount of the property, plant and equipment or recognized as a separate component if applicable, only if it is probable that the economic benefits associated with the cost will flow to the Corporation and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other day-to-day maintenance costs are recognized in profit or loss in the period in which they are incurred.

Depreciation is recognized from the date the asset is ready for its intended use so as to write-off the cost of assets, other than freehold land and properties under construction, less their residual values over their useful lives, using the straight-line method. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Depreciation periods are as follows:

| | |
|---|---|
| Building and leasehold improvements [(1)] | 10 to 40 years |
| Networks and infrastructure [(2)] | 5 to 20 years |
| Home terminal devices | 3 to 5 years |
| Data centre equipment [(3)] | 3 to 7 years |
| Rolling stock and equipment [(4)] | 3 to 10 years |

(1) Leasehold improvements are amortized over the shorter of the term of the lease or economic life.

(2) Networks and infrastructure include cable towers, headends, transmitters, fibre and coaxial networks, customer drops, and network equipment.

(3) Data centre equipment includes general infrastructure, mechanical and electrical equipment, security and access control. Servers that are included as part of the hosting product line are amortized on a straight-line basis over their expected useful life, which is three years.

(4) Rolling stock and equipment includes rolling stock, programming equipment, furniture and fixtures, computer and software and other equipments.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The estimated useful lives, residual values and depreciation method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or write-off of an item of property, plant and equipment is determined as the difference between the sale proceeds, if any, and the carrying amount of the asset and is recognized as profit or loss.

The Corporation does not record decommissioning obligations in connection with its fibre and coaxial networks. The Corporation expects to renew all of its agreements with utility companies to access their support structures in the future, thus the resulting present value of the obligation is not significant.

## F) INTANGIBLE ASSETS

### Intangible assets acquired separately

Intangible assets acquired separately are measured at cost less accumulated amortization and impairment losses, if they are amortizable, otherwise, only net of accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

### Identifiable intangible assets acquired in a business combination

Identifiable intangible assets acquired in a business combination are recognized separately from goodwill if they meet the definition of intangible asset and if their fair value can be measured reliably. The cost of these intangible assets equals their acquisition-date fair value. Subsequent to initial recognition, identifiable intangible assets acquired in a business combination are recorded at cost less accumulated amortization and impairment losses, if they are amortizable, otherwise only net of accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

### Intangible assets with finite useful lives

Intangible assets with finite useful lives are amortized over their useful life. The estimated useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with finite useful lives are amortized as follows:

- Customer relationships are amortized on a straight-line basis over the estimated useful life, defined as the average life of a customer's subscription, not exceeding eight years;
- Favorable leases are amortized on a straight-line basis over the remaining non-cancelable term of the lease agreement;
- Reconnect and additional service activation costs are capitalized up to a maximum amount not exceeding the revenue generated by the reconnect activity and are amortized over the average life of a customer's subscription, not exceeding eight years; and
- Direct and incremental costs associated with the acquisition of customers are capitalized and amortized over the term of the revenue arrangement, for customers whereby the expected term of the arrangement is greater than one year.

### Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are those for which there is no foreseeable limit to their useful economic life as they arise from contractual or other legal rights that can be renewed without significant cost. They are comprised of Cable Distribution Undertaking Broadcasting Licenses and Franchises ("Cable Distribution Licenses") , Broadcasting Licenses and Trade name. Cable Distribution Licenses are comprised of broadcast authorities licenses and exemptions from licensing that allow access to homes and customers in a specific area. Broadcasting Licenses are broadcast authorities licenses that allow access to a radio frequency in a specific market. The Corporation has concluded that the Cable Distribution Licenses and Broadcasting Licenses have indefinite useful lives since there are no legal, regulatory, contractual, economic or other factors that would prevent their renewals or limit the period over which they will contribute to the Corporation's cash flows. The Trade name is considered to have an indefinite economic life because of the institutional nature of the corporate trade name, its ability to maintain market recognition and profitable operations over long periods of time and the Corporation's commitment to develop and enhance its value. The Corporation reviews at the end of each reporting period whether events and circumstances continue to support indefinite useful life assessment for these Cable Distribution Licenses, Broadcasting Licenses, and the Trade name. Intangible assets with indefinite useful lives are not amortized, but tested for impairment at least annually or more frequently if there is any indication of impairment.

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. It is not amortized but tested for impairment at least annually or more frequently if there is an indication of impairment.

## G) IMPAIRMENT OF NON FINANCIAL ASSETS

At the end of each reporting period, the Corporation reviews the carrying value of its property, plant and equipment and intangible assets with finite useful lives to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually or more frequently if there is an indication of impairment.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For the purpose of impairment testing, assets that cannot be tested on an individual basis are grouped together into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets ("cash-generating unit" or "CGU"). When a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to an individual CGU, otherwise they are allocated to the smallest group of CGU for which a reasonable and a consistent basis of allocation can be identified.

The most recent detailed calculation made in a preceding period of the recoverable amount of a CGU to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:

- The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
- The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
- Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

An impairment loss is recognized when the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any allocated goodwill and then to reduce the carrying amount of other assets on a pro-rata basis. The impairment loss is recognized immediately in profit or loss in the period in which the loss occurs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have

been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

For the purpose of impairment testing, goodwill is allocated to each of the Corporation's CGUs that are expected to benefit from the synergies of the related business combination. An impairment loss recognized for goodwill cannot be reversed.

## H) LEASES

### Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between financial expense and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial expense and depreciation of the assets are recognized in profit or loss in the period they occur.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

### Lessor

The Corporation leases certain equipment, primarily home terminal devices, to its customers. These leases are classified as operating leases and rental revenue is recognized over the term of the relevant lease.

## I) INCOME TAXES

Income tax expense represents the sum of the taxes currently payable and deferred. Current and deferred taxes are recognized in profit or loss, except when they relate to a business combination or to items that are recognized in other comprehensive income or directly in equity.

### Current tax

The tax currently payable is based on taxable profit for the year. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

### Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or assets or liabilities in a transaction that is not a business combination and that affects neither the taxable profit nor the accounting profit or is related to investments in subsidiaries to the extent that the Corporation is able to control the reversal and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are generally recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which, those unused tax losses and deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but the Corporation intends to settle its current tax assets and liabilities on a net basis.

## J) PROVISIONS

Provisions represent liabilities of the Corporation for which the amount or timing is uncertain. A provision is recorded when the Corporation has a legal or constructive present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized represents

management's best estimate required to settle the obligation at the end of the reporting period, taking into account the obligation's risks and uncertainties. When the effect of the time value of money is material, the amount of the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as financial expense.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## K) SHARE-BASED PAYMENT

### Equity-settled awards

The Corporation measures stock options granted to employees that vest rateably over the service period based on the fair value of each tranche on grant date by using the Black-Scholes pricing model and a compensation expense is recognized on a straight-line basis over the vesting period applicable to the tranche, with a corresponding increase in share-based payment reserve. Granted options vest equally over a period of five years beginning one year after the day such options are granted. When the stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in share-based payment reserve.

The Corporation measures Incentive Share Units ("ISUs") and Performance Share Units ("PSUs") granted to employees based on the fair value of the Corporation's subordinate voting shares at the date of grant and a compensation expense is recognized over the vesting period, with a corresponding increase in share-based payment reserve. The total vesting period of each grant is three years less one day.

### Cash-settled awards

The fair value of the amount payable to the members of the Board of Directors in respect of share appreciation rights under the Deferred Share Unit ("DSU") Plan of the Corporation, which are settled in cash or shares, is recognized as a compensation expense with a corresponding increase in pension plan liabilities and accrued employee benefits as of the date units are issued to the members of the Board of Directors. The accrued liability is remeasured at the end of each reporting period, until settlement, using the average closing price of the subordinate voting shares on the TSX for the twenty consecutive trading days immediately preceding by one day the closing date of the reporting period. Any changes in the fair value of the liability are recognized in profit or loss.

## L) EMPLOYEE BENEFITS

### Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. They are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an expense in the periods during which services are rendered by employees.

### Defined benefit plans

A defined benefit plan is a post-employment benefit plan whereby the amount of pension benefit that a plan participant will receive during retirement is defined and dependent on factors such as age, years of service and compensation. On each annual reporting date, independent actuaries extrapolate the data of the most recent full actuarial valuation to measure, for accounting purposes, the present value of the defined benefit obligation. The Corporation's net defined benefit liability in respect of defined benefit plans is calculated separately for each plan.

The present values of the defined benefit obligation, the current service cost and, if applicable, the past service cost are actuarially determined using the projected unit credit method (sometimes known as the accrued benefit method pro-rated on service) based on management's best-estimate assumptions on the discount rate, the expected rate of compensation increase and the mortality table.

Management determines the discount rate based on a review of the current market interest rates on investment-grade fixed-rate corporate bonds, which are rates adjusted to reflect the duration of the expected future cash outflows of retirement benefit payments.

The net defined benefit liability or asset recognized in the consolidated statement of financial position corresponds to the fair value of plan assets net of the present value of the defined benefit obligation. Any asset resulting from this calculation is limited to the present value of the economic benefits available in the form of refunds from the plans or in the form of reductions in future contributions to the plans.

The net defined benefit cost components of the defined benefit plans are recognized as follows:

- Service cost is recognized in profit or loss;
- Net interest on the net defined benefit liability or asset is recognized in profit or loss;
- Remeasurements of the net defined benefit liability or asset are recognized in other comprehensive income.

The service cost recognized in profit or loss comprises:

- Current service cost provided in exchange for employees services rendered during the period;
- Past service cost recognized in profit or loss in the period in which the plan is amended; and
- Gains or losses resulting from a settlement recognized in profit or loss in the period in which the plan settlement occurs.

Net interest on the net defined benefit liability or asset is calculated by multiplying the net defined benefit liability or asset by the discount rate.

Remeasurements of the net defined benefit liability or asset are recognized immediately in retained earnings and they are not reclassified to profit or loss in a subsequent period. Remeasurements of the net defined benefit liability or asset comprise:

- Actuarial gains and losses arising from experience adjustments, changes in financial assumptions and changes in demographic assumptions;
- The return on plan assets, except amounts included in interest income; and
- Any change in the effect of the asset ceiling, except amounts included in net interest on the net defined benefit liability or asset.

## M) FOREIGN CURRENCY TRANSLATION

For the purpose of the consolidated financial statements, the profit or loss and financial position of each group entity are expressed in Canadian dollars, which is the functional and presentation currency of the Corporation.

### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Corporation's entities at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognized as financial expense in profit or loss, except for those arising on the translation of financial instruments designated as a hedge of a net investment in foreign operations, and financial instruments designated as hedging instruments in a cash flow hedge, which are recognized in other comprehensive income until the hedged items are settled or recognized in profit or loss.

### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustment arising on acquisition, are translated to Canadian dollars using exchange rates prevailing at the end of the reporting period.

Revenue and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly or significant transactions occurred during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising from the translation process of net investment in foreign operations are recognized as foreign currency translation adjustments in other comprehensive income and accumulated in equity.

The Corporation applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Corporation's functional currency. Foreign currency differences arising on the translation of long-term debt designated as hedges of a net investment in foreign operations are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the foreign currency translation balance. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged portion of a net investment is disposed of, the relevant amount in the cumulative amount of foreign currency translation adjustments is transferred to profit or loss as part of the profit or loss on disposal.

## N) FINANCIAL INSTRUMENTS

### Classification and measurement

All financial instruments, including derivatives, are included in the statement of financial position initially at fair value when the Corporation becomes a party to the contractual obligations of the instrument.

Subsequent to initial recognition, non-derivative financial instruments are measured in accordance with their classification as described below:

- Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an open market. Cash and cash equivalents (other than bankers' acceptances), short-term investments and trade and other receivables are classified as loans and receivables. They are measured at amortized cost using the effective interest method, less any impairment loss;
- Bankers' acceptances (included in cash equivalents), are classified as held-to-maturity and measured at amortized cost;
- Transaction costs that are directly attributable to the acquisition or related to the issuance of financial assets or liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as required, upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in profit or loss; and
- Bank indebtedness, trade and other payables and long-term debt are classified as other liabilities. They are measured at amortized cost using the effective interest method. Directly attributable transaction costs are added to the initial fair value of financial instruments except for those incurred with respect to the revolving facilities which are recorded as other assets and amortized over the term of the related financing on a straight-line basis.

Financial assets are derecognized only when the Corporation no longer holds the contractual rights to the cash flows of the asset or when the Corporation transfers substantially all the risks and rewards of ownership of the financial asset to another entity. Financial liabilities are derecognized only when the Corporation's obligations are discharged, canceled or expired.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### Derivative financial instruments, including hedge accounting

The Corporation uses foreign currency forward contracts as derivative financial instruments to manage foreign exchange risk related to its foreign denominated forecasted purchase commitments of property, plant and equipment. In addition, the Corporation uses interest rate swaps as derivative financial instruments to manage interest rate risk related to its floating rate long-term debt. The Corporation does not hold or use any derivative financial instruments for speculative trading purposes.

Derivative financial instruments are recognized initially at fair value and related transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are accounted for as described below. Net receipts or payments arising from derivative financial instruments are recognized as financial expense.

On initial designation of the hedge, the Corporation formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedging transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship and measure the ineffectiveness. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated and whether the actual results of each hedging relationship are within a range of 80-125 percent. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

*Cash flow hedge accounting*

When a derivative financial instrument is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative financial instrument is recognized in accumulated other comprehensive income and presented in the cash flow hedge reserve in equity. The amount recognized in accumulated other comprehensive income is removed and included in profit or loss in the same period as the hedged items affects profit or loss and in the same line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative financial instrument is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in accumulated other comprehensive income and presented in cash flow hedge reserve in equity, remains there until the forecasted hedged item affects profit or loss. If the forecasted hedged items is no longer expected to occur, then the balance in accumulated other comprehensive income is recognized immediately in profit or loss.

In other cases, the amount recognized in accumulated other comprehensive income is transferred to profit or loss in the same period in which, the hedged item affects profit or loss.

### Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and if the combined instrument is not measured at fair value through profit or loss.

### Impairment of financial assets

Trade and other receivables ("receivables") are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that receivables are impaired can include default or delinquency by a debtor or indications that a debtor will enter into bankruptcy.

The Corporation considers evidence of impairment for receivables at both the specific asset level and on an aggregate basis. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are assessed on an aggregate basis for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of receivables is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. Losses are recognized in profit or loss and reflected in an allowance account presented in reduction of receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## O) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and highly liquid investments that have an original maturity of three months or less.

## P) SHORT-TERM INVESTMENTS

Short-term investments consist of highly liquid certificates of deposit and have original maturities over three months, but not more than one year.

## Q) EARNINGS PER SHARE

The Corporation presents basic and diluted earnings per share data for its multiple and subordinate voting shares. Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders of the Corporation by the weighted average number of multiple and subordinate voting shares outstanding during the period, adjusted for subordinate voting shares held in trust under the ISU and PSU Plans. Diluted earnings per share is determined by further adjusting the weighted average number of multiple and subordinate voting shares outstanding for the effects of all potential dilutive subordinate voting shares, which comprise stock options, ISUs and PSUs granted to executive officers and designated employees.

## R) SEGMENT REPORTING

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Corporation's other components. All segments' operating results are reviewed regularly by the Corporation's chief operating decision maker (“CODM”) to decide about resources to be allocated to the operating segment and to assess its performance, and for which discrete financial information is available. Segment operating results that are directly reported to the CODM include items directly attributable to an operating segment as well as those that can be allocated on a reasonable basis.

## S) ACCOUNTING JUDGMENTS AND USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses.

Significant areas requiring the use of management's judgments and estimates relate to the following items:

- **Allowance for doubtful accounts**

  Allowance for doubtful accounts is established based on specific credit risk of the Corporation's customers by examining such factors as the number of overdue days of the customer's balance outstanding as well as the customer's collection history. As a result, conditions causing fluctuations in the aging of customer accounts will directly impact the reported amount of bad debt expenses (see Note 23 A));

- **Business combinations**

  Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to the property, plant and equipment and intangible assets acquired and liabilities assumed on acquisition. Among other things, the determination of these fair values involves the use of discounted cash flow analyses, estimated future margins and estimated future customer counts (see Note 6 );

- **Depreciation of property, plant and equipment and amortization of intangible assets**

  Measurement of property, plant and equipment and intangible assets with finite useful lives requires estimates for determining the asset expected useful lives and residual values. Management's judgment is also required to determine the components and the depreciation method used (see Note 9);

- **Provisions**

  Management's judgment is used to determine the timing, likelihood and the amount of expected cash outflows as well as the discount rate (see Note 17);

- **Contingencies**

  Contingencies such as lawsuits, taxes and commitments under contractual and other commercial obligations are estimated based on applying significant judgement in determining if a loss is probable and in determining the estimated outflow of economic resources. Such contingencies are estimated based on the information available to the Corporation;

- **Fair value measurement of derivative financial instruments**

  The fair value of derivative financial instruments is estimated using valuation techniques based on several market data such as interest rates, foreign exchange rates and the Corporation's or counterparties' credit risks;

- **Hedge accounting**

  Management uses significant judgment in determining whether the Corporation's financial instruments qualify for hedge accounting, including the assumptions for effectiveness and also in estimating the probability that a transaction will occur, in the case of cash flow hedges of forecasted transaction;

- **Measurement of defined benefit obligation**

  The net defined benefit obligation is determined using actuarial calculations that are based on several assumptions. The actuarial valuation uses the Corporation's assumptions for the discount rate, the expected rate of compensation increase and the mortality table. If the actuarial assumptions are found to be significantly different from the actual data subsequently observed, it could impact the reported amount of defined benefit pension cost recognized in profit or loss, the remeasurement of the net defined benefit asset or liability recognized directly in other comprehensive income and the net assets or net liabilities related to these obligations presented in the consolidated statement of financial position (see Note 22);

- **Share-based payments**

  Management estimates the fair value of stock-options granted using the Black-Scholes option pricing model. The estimates used by management include expected dividend yields, volatility of the Corporation's share price, the expected life of the option, the risk-free interest rate and the number of options expected to vest. Estimates are also used in the determination of the number of ISUs and PSUs that are expected to vest, which influences their fair value. The fair value of the PSUs is also estimated based on the level of Economic Value increase;

- **Measurement of non-financial assets**

  The measurement of non-financial assets requires the use of management judgment to identify the existence of impairment indicators and the determination of CGUs. Furthermore, when determining the recoverable amount of a CGU or an asset, the Corporation uses

significant estimates such as the estimation of future cash flows and discount rates applicable. Any significant modification of market conditions could translate into an inability to recover the carrying amounts of non-financial assets (see Note 16); and

- **Deferred taxes**

  Deferred tax assets and liabilities require estimates about the nature and timing of future permanent and temporary differences, the expected timing of reversals of those temporary differences and the future tax rates that will apply to those differences. Judgment is also required in determining the tax basis of indefinite life intangible assets and the resulting tax rate used to measure deferred taxes (see Note 11).

Such judgments and estimates are based on the facts and information available to the management of the Corporation. Changes in facts and circumstances may require the revision of previous estimates, and actual results could differ from these estimates.

# 3. CHANGE IN ACCOUNTING POLICY

During 2016, the *IFRS Interpretations Committee* ("IFRIC") received a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax. Through the process of considering this question, the IFRIC clarified that an entity should use the tax rate associated with the expected manner of recovery to measure deferred taxes. Further, the fact that an indefinite life intangible asset is not being amortized is not in and of itself evidence that the manner of recovery will be through sale. In response to this clarification, the Corporation retrospectively changed its accounting policy as of September 1, 2016 and has restated the prior period for this change as further explained below.

IAS 12, *Income Taxes*, states that measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of the assets and liabilities. The carrying value is recovered in the form of economic benefits that flow to the entity in future periods, thereby the assets are recovered through sale or recovered through use.

In applying the new interpretation, the Corporation has now determined that the benefit of its Cable Distribution Licenses and Broadcasting Licenses will flow to the Corporation on an annual basis, and thereby the carrying amount will be recovered through use, and as a result, will be subject to a higher tax rate.

Consequently, the Corporation changed its accounting policy with respect to the tax rate used in determining the deferred tax assets and liabilities at the reporting date. The Corporation believes this change in accounting policy will better reflect how the assets will be recovered by the Corporation. The change in accounting policy was applied retrospectively and resulted in the following changes to the Corporation's consolidated financial statements:

| | As previously reported | Effect of change in accounting policy | As currently reported |
|---|---|---|---|
| | $ | $ | $ |
| **Balance at August 31, 2015** | | | |
| Deferred tax assets | 25,601 | (4,093) | 21,508 |
| Deferred tax liabilities | 528,211 | 120,002 | 648,213 |
| Retained earnings | 453,119 | (44,785) | 408,334 |
| Equity attributable to non-controlling interest | 1,197,120 | (79,310) | 1,117,810 |
| **Balance at August 31, 2016** | | | |
| Deferred tax assets | 26,497 | (4,093) | 22,404 |
| Deferred tax liabilities | 500,818 | 120,002 | 620,820 |
| Retained earnings | 397,182 | (44,785) | 352,397 |
| Equity attributable to non-controlling interest | 1,020,140 | (79,310) | 940,830 |

# 4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory but not yet effective for the year ended August 31, 2017, and have not been applied in preparing these consolidated financial statements. The following standards may have a material impact on future consolidated financial statements of the Corporation:

| | Effective for annual periods starting on or after | |
|---|---|---|
| IFRS 9 *Financial Instruments* | January 1, 2018 | Early adoption permitted |
| IFRS 15 *Revenue from Contracts with Customers* | January 1, 2018 | Early adoption permitted |
| IFRS 16 *Leases* | January 1, 2019 | Early adoption permitted |

### IFRS 9

IFRS 9 replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. IFRS 9 does not replace the requirement for portfolio fair value hedge accounting for interest risk since this phase of the project was separated from the IFRS 9 project due to the longer term nature of the macro hedging project which is currently at the discussion paper phase of the due process. Consequently, the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply. The Corporation is in the process of determining the extent of the impact of this change on its consolidated financial statements.

### IFRS 15

IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single, five-step model for an entity to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. In addition, IFRS 15 requires additional disclosure in the consolidated financial statements regarding the Corporation's revenue.

The Corporation expects that the adoption of IFRS 15 should have an impact on the consolidated financial statements with regards to the capitalization of costs to obtain or fulfill a contract. IFRS 15 requires costs to obtain a contract (such as direct and incremental costs associated with the acquisition of customers) and costs to fulfill a contract (such as reconnect and additional service activation costs), to be recognized as an asset and recognized in operating expenses over the period of time the customer is expected to remain a customer of the Corporation. Direct and incremental costs associated with the acquisition of customers are currently being capitalized as intangible assets, for contracts lasting greater than 1 year, and amortized over the term of the revenue arrangement. For contracts with durations of less than 1 year, these costs are currently being recognized in operating expenses as incurred. Reconnect and additional service activation costs are currently being capitalized as intangible assets up to a maximum amount not exceeding the revenue generated by these related reconnect activities, and amortized over the average life of the customer's subscription. Under IFRS 15, these costs will no longer be limited to the related reconnect revenue.

The adoption of IFRS 15 should not have a significant impact on the timing of the recognition of revenue and on the total revenue recognized over the term of the revenue arrangement. Thus, all performance obligations within the contract should remain essentially the same. The Corporation expects that the presentation of expenses between amortization and operating expenses may change under IFRS 15, however the impact of the new standard should be low on its profit for the period.

IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services.

Application of the standard is mandatory for all IFRS reporters, and is expected to be applied retrospectively by the Corporation. It applies to almost all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. The Corporation is continuing to assess the impact of this change on its consolidated financial statements.

### IFRS 16

IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a corresponding lease liability, representing its obligation to make the lease payments. IFRS 16 supersedes the current standard IAS 17 *Leases*. The accounting treatment for lessors will remain largely the same as under IAS 17. Early adoption is permitted, but only if the entity is also applying IFRS 15. The Corporation is in the process of determining the extent of the impact of this change on its consolidated financial statements.

# 5. OPERATING SEGMENTS

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

The Communications segment provides through its Cogeco Communications subsidiary, its residential and business customers with Internet, video and telephony services through its two-way broadband fibre networks. Cogeco Communications operates in Canada under the Cogeco Connexion name in Québec and Ontario, and in the United States under the Atlantic Broadband name in western Pennsylvania, south Florida, Maryland/Delaware, South Carolina and eastern Connecticut. Through its subsidiary, Cogeco Peer 1, Cogeco Communications provides its business customers with a suite of information technology services (colocation, network connectivity, hosting, cloud and a rich portfolio of managed services), through 16 data centres in Canada, the United States and Europe, extensive FastFiber Network® and more than 50 points of presence, including in Germany, the Netherlands and Mexico.

The Other segment is comprised of radio, out of home advertising, head office activities as well as inter-segment eliminations.Through its subsidiary, Cogeco Media, the Corporation owns and operates radio stations across most of Québec with complementary radio formats serving a wide range of audiences. Cogeco Media also operates Cogeco News, one of Québec's largest news agencies, feeding affiliates, independent and community radio stations. Through its subsidiary, Métromédia, Cogeco operated an out-of-home advertising company specialized in the public transit sector, until it was sold on January 5, 2016.

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

| | Communications | | Other | | Consolidated | |
|---|---|---|---|---|---|---|
| Years ended August 31, | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| *(in thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ |
| **Revenue** | 2,226,851 | 2,176,149 | 120,827 | 131,254 | 2,347,678 | 2,307,403 |
| Operating expenses | 1,202,942 | 1,174,232 | 109,191 | 114,409 | 1,312,133 | 1,288,641 |
| Management fees – Cogeco Inc. | 18,939 | 18,468 | (18,939) | (18,468) | — | — |
| **Segment profit** | 1,004,970 | 983,449 | 30,575 | 35,313 | 1,035,545 | 1,018,762 |
| Integration, restructuring and acquisition costs [1] | 3,191 | 8,802 | — | — | 3,191 | 8,802 |
| Claims and litigations [2] | — | 10,791 | — | — | — | 10,791 |
| Depreciation and amortization | 475,068 | 497,963 | 3,383 | 4,207 | 478,451 | 502,170 |
| Impairment of goodwill and intangible assets *(Note 16 C)* | — | 450,000 | — | — | — | 450,000 |
| Financial expense | 129,424 | 136,378 | 7,355 | 6,104 | 136,779 | 142,482 |
| Gain on disposal of a subsidiary *(Note 7)* | — | — | — | (13,107) | — | (13,107) |
| Income taxes | 98,062 | 69,143 | 5,695 | 7,186 | 103,757 | 76,329 |
| **Profit (loss) for the year** | 299,225 | (189,628) | 14,142 | 30,923 | 313,367 | (158,705) |
| Total assets | 5,348,380 | 5,333,249 | 150,996 | 162,271 | 5,499,376 | 5,495,520 |
| Property, plant and equipment | 1,947,239 | 1,989,720 | 14,504 | 14,527 | 1,961,743 | 2,004,247 |
| Intangible assets | 1,978,302 | 2,059,548 | 79,918 | 79,918 | 2,058,220 | 2,139,466 |
| Goodwill | 1,023,424 | 1,060,780 | 18,585 | 18,585 | 1,042,009 | 1,079,365 |
| Acquisition of property, plant and equipment | 406,864 | 444,741 | 3,250 | 2,417 | 410,114 | 447,158 |
| Acquisition of intangible and other assets | 21,193 | 22,769 | — | 430 | 21,193 | 23,199 |

(1) In fiscal 2017, comprised of due diligence and transaction costs in connection with a business combination expected to close in early January 2018 (see Note 25 A)), while in fiscal 2016, comprised of acquisition and integration costs related to a business combination at Atlantic Broadband and restructuring costs at Cogeco Connexion and Cogeco Peer 1.

(2) Comprised of costs related to the settlement of claims and costs related to litigations at Cogeco Peer 1.

The following tables set out certain geographic market information:

| Year ended August 31, 2017 | Canada | United States | Europe | Total |
|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ | $ | $ |
| Revenue | 1,587,775 | 729,201 | 30,702 | 2,347,678 |
| Property, plant and equipment | 1,440,593 | 490,820 | 30,330 | 1,961,743 |
| Intangible assets | 1,124,909 | 929,565 | 3,746 | 2,058,220 |
| Goodwill | 240,452 | 787,633 | 13,924 | 1,042,009 |

| Year ended August 31, 2016 | Canada | United States | Europe | Total |
|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ | $ | $ |
| Revenue | 1,560,117 | 708,680 | 38,606 | 2,307,403 |
| Property, plant and equipment | 1,464,877 | 502,357 | 37,013 | 2,004,247 |
| Intangible assets | 1,131,110 | 1,002,134 | 6,222 | 2,139,466 |
| Goodwill | 240,452 | 824,074 | 14,839 | 1,079,365 |

# 6. BUSINESS COMBINATION

On September 1, 2016, Cogeco Connexion completed the acquisition of all the shares of Briand et Moreau Câble Inc., a regional cable company operating in Gaspésie (Québec), which served 808 Internet service and 1,439 video service customers at September 1, 2016.

The acquisition was accounted for using the purchase method and was subject to post closing adjustments, which were completed in the second quarter of 2017. The final allocation of the purchase price of this acquisition is as follows:

| | Preliminary | Final |
|---|---|---|
| | November 30, 2016 | February 28, 2017 |
| | $ | $ |
| **Purchase price** | | |
| Consideration paid | 880 | 880 |
| Balance due on a business combination | 896 | 955 |
| | 1,776 | 1,835 |
| **Net assets acquired** | | |
| Cash and cash equivalents | 76 | 76 |
| Trade and other receivables | 70 | 57 |
| Prepaid expenses and other | 9 | 9 |
| Property, plant and equipment | 204 | 204 |
| Intangible assets | 2,296 | 2,358 |
| Trade and other payables assumed | (102) | (92) |
| Income tax liabilities | (13) | (13) |
| Deferred and prepaid revenue | (10) | (10) |
| Deferred tax liabilities | (549) | (549) |
| Long-term debt assumed | (205) | (205) |
| | 1,776 | 1,835 |

# 7. DISPOSAL OF A SUBSIDIARY IN FISCAL 2016

On January 5, 2016, the Corporation's subsidiary, Cogeco Media, completed the sale of its subsidiary Métromédia, an out-of-home advertising company, for a cash consideration of $47.5 million, which was subject to a post-closing net working capital adjustment. The post-closing net working capital adjustment was concluded during the year and amounted to $0.2 million, bringing the final cash consideration to $47.7 million. The selling price has been reduced by selling fees of approximately $0.5 million. The carrying value of the net assets disposed was $34.1 million resulting in a pre-tax gain of $13.1 million recorded in the consolidated statements of profit or loss.

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

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

# 8. OPERATING EXPENSES

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ |
| Salaries, employee benefits and outsourced services | 435,573 | 427,107 |
| Service delivery costs [(1)] | 668,586 | 665,018 |
| Customer related costs [(2)] | 76,923 | 75,052 |
| Other external purchases [(3)] | 131,051 | 121,464 |
| | 1,312,133 | 1,288,641 |

(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, losses and gains on disposals and write-offs of property, plant and equipment and other administrative expenses.

# 9. DEPRECIATION AND AMORTIZATION

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ |
| Depreciation of property, plant and equipment | 416,399 | 432,488 |
| Amortization of intangible assets | 62,052 | 69,682 |
| | 478,451 | 502,170 |

# 10. FINANCIAL EXPENSE

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ |
| Interest on long-term debt | 131,378 | 137,469 |
| Net foreign exchange losses (gains) | 835 | (266) |
| Amortization of deferred transaction costs | 2,578 | 2,507 |
| Capitalized borrowing costs [1] | (2,930) | (1,877) |
| Other | 4,918 | 4,649 |
| | 136,779 | 142,482 |

(1) For the years ended August 31, 2017 and 2016, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

# 11. INCOME TAXES

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ |
| Current | 94,346 | 100,680 |
| Deferred | 9,411 | (24,351) |
| | 103,757 | 76,329 |

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:

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ |
| Profit (loss) before income taxes | 417,124 | (82,376) |
| Combined Canadian income tax rate | 26.50% | 26.73% |
| Income taxes at combined Canadian income tax rate | 110,538 | (22,019) |
| Adjustment for losses or profit subject to lower or higher tax rates | 9,394 | 6,989 |
| Impact on deferred taxes as a result of changes in substantively enacted tax rates | (1,828) | 1,226 |
| Revaluation of deferred tax assets | 587 | 7,651 |
| Impact on income taxes arising from non-deductible expenses and non-taxable profit [1] | 1,405 | 106,605 |
| Tax impacts related to foreign operations | (17,009) | (21,346) |
| Other | 670 | (2,777) |
| Income taxes at effective income tax rate | 103,757 | 76,329 |

(1) Comprised of $107.2 million of non-deductible impairment of goodwill and intangible assets for the year ended August 31, 2016.

The following table shows deferred income taxes resulting from temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes, as well as tax losses carryforwards:

| At August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Property, plant and equipment | (164,901) | (174,348) |
| Intangible assets and goodwill | (583,523) | (585,872) |
| Deferred and prepaid revenue | 11,731 | 10,973 |
| Non-capital losses and other tax credits carryforwards, net of unrecognized benefits related to tax losses | 145,723 | 151,568 |
| Other | (7,704) | (737) |
| Net deferred tax liabilities | (598,674) | (598,416) |
| | | |
| Financial statement presentation: | | |
| Deferred tax assets | 24,762 | 22,404 |
| Deferred tax liabilities | (623,436) | (620,820) |
| Net deferred tax liabilities | (598,674) | (598,416) |

The movements in deferred tax asset and liability balances during fiscal 2017 and 2016 were as follows:

| Year ended August 31, 2017 | Balance beginning of the year | Recognized in profit or loss | Recognized in other comprehensive income (loss) | Acquired through a business combination | Foreign currency translation adjustments | Balance end of the year |
|---|---|---|---|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ |
| | *(restated, Note 3)* | | | | | |
| Property, plant and equipment | (174,348) | 4,767 | — | 63 | 4,617 | (164,901) |
| Intangible assets and goodwill | (585,872) | (11,083) | — | (612) | 14,044 | (583,523) |
| Deferred and prepaid revenue | 10,973 | 995 | — | — | (237) | 11,731 |
| Non-capital losses and other tax credits carryforwards, net of unrecognized benefits related to tax losses | 151,568 | (487) | — | — | (5,358) | 145,723 |
| Other | (737) | (3,603) | (3,461) | — | 97 | (7,704) |
| | (598,416) | (9,411) | (3,461) | (549) | 13,163 | (598,674) |

| Year ended August 31, 2016 | Balance beginning of the year | Recognized in profit or loss | Recognized in other comprehensive income (loss) | Disposed through sale of a subsidiary | Foreign currency translation adjustments | Balance end of the year |
|---|---|---|---|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ |
| | *(restated, Note 3)* | | | | | *(restated, Note 3)* |
| Property, plant and equipment | (170,051) | (3,458) | — | (193) | (646) | (174,348) |
| Intangible assets and goodwill | (595,795) | 5,902 | — | 2,616 | 1,405 | (585,872) |
| Deferred and prepaid revenue | 9,683 | 1,311 | — | — | (21) | 10,973 |
| Partnerships income | (20,710) | 20,710 | — | — | — | — |
| Non-capital losses and other tax credits carryforwards, net of unrecognized benefits related to tax losses | 150,557 | 2,211 | — | — | (1,200) | 151,568 |
| Other | (389) | (2,325) | 2,167 | (7) | (183) | (737) |
| | (626,705) | 24,351 | 2,167 | 2,416 | (645) | (598,416) |

At August 31, 2017, the Corporation and its subsidiaries had accumulated federal income tax losses, the benefits of which have been recognized in these financial statements, unless indicated otherwise. These losses expire as follows:

| | 2025 | 2026 | Thereafter | Total |
|---|---|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ |
| Canada | — | — | 106,996 | 106,996 |
| United States | 39,542 | 69,180 | 196,575 | 305,297 |
| United Kingdom [(1)] | — | — | 14,910 | 14,910 |
| | 39,542 | 69,180 | 318,481 | 427,203 |

(1) Net tax losses in United Kingdom can be carried forward indefinitely to offset against profit of the same enterprise. The benefit of these tax losses have not been recognized in these financial statements.

The Corporation and its subsidiaries also had accumulated capital losses amounting to $533 million which can be carried forward indefinitely against capital gains, and $248 million of unrealized foreign exchange temporary differences, the benefits of which have not been recognized in these consolidated financial statements.

## 12. EARNINGS (LOSS) PER SHARE

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

| Years ended August 31 | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars, except number of shares and per share data)* | $ | $ |
| **Profit (loss) for the year attributable to owners of the Corporation** | 108,985 | (29,351) |
| Weighted average number of multiple and subordinate voting shares outstanding | 16,618,229 | 16,728,185 |
| Effect of dilutive incentive share units [1] | 51,998 | — |
| Effect of dilutive performance share units [1] | 56,736 | — |
| Weighted average number of diluted multiple and subordinate voting shares outstanding | 16,726,963 | 16,728,185 |
| **Earnings (loss) per share** | | |
| Basic | 6.56 | (1.75) |
| Diluted | 6.52 | (1.75) |

(1) The weighted average dilutive potential of subordinate voting shares which amounted to 102,601 for the year ended August 31, 2016, is anti-dilutive due to the loss incurred for the year.

## 13. SHORT-TERM INVESTMENTS

At August 31, 2017 short-term investments, held by Cogeco Communications, are comprised of certificates of deposit, for a total of $54 million, bearing interest between 1.08% to 1.22% and with maturity dates ranging from October 2017 to June 2018.

## 14. OTHER ASSETS

| At August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Transaction costs | 3,392 | 5,493 |
| Other | 4,004 | 2,787 |
| | 7,396 | 8,280 |

# 15. PROPERTY, PLANT AND EQUIPMENT

During fiscal 2017 and 2016, property, plant and equipment variations were as follows:

| Years ended August 31, 2017 and 2016<br>*(In thousands of Canadian dollars)* | Land, buildings and leasehold improvements<br>$ | Networks and infrastructure (1)<br>$ | Data centre equipment (2)<br>$ | Home terminal devices<br>$ | Rolling stock and equipment (3)<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at August 31, 2015 | 250,376 | 2,874,338 | 272,520 | 555,844 | 341,598 | 4,294,676 |
| Additions | 17,240 | 212,784 | 57,374 | 89,297 | 70,463 | 447,158 |
| Disposals and write-offs | (406) | (7,527) | (3,162) | (37,181) | (15,133) | (63,409) |
| Disposals through the sale of a subsidiary | — | — | — | — | (8,028) | (8,028) |
| Foreign currency translation adjustments | (6,076) | (3,380) | (5,388) | (495) | (2,297) | (17,636) |
| Balance at August 31, 2016 | 261,134 | 3,076,215 | 321,344 | 607,465 | 386,603 | 4,652,761 |
| Acquisition through a business combination | — | 204 | — | — | — | 204 |
| Additions | 5,528 | 233,627 | 25,189 | 78,961 | 66,919 | 410,224 |
| Disposals and write-offs | (6,931) | (15,485) | (17,896) | (47,647) | (2,902) | (90,861) |
| Foreign currency translation adjustments | (3,463) | (31,450) | (11,523) | (6,198) | (5,316) | (57,950) |
| **Balance at August 31, 2017** | **256,268** | **3,263,111** | **317,114** | **632,581** | **445,304** | **4,914,378** |
| **Accumulated depreciation and impairment losses** | | | | | | |
| Balance at August 31, 2015 | 64,742 | 1,472,548 | 118,416 | 413,600 | 219,909 | 2,289,215 |
| Depreciation expense | 17,452 | 255,337 | 26,264 | 70,623 | 62,812 | 432,488 |
| Disposals and write-offs | (367) | (5,133) | (3,029) | (36,170) | (15,112) | (59,811) |
| Disposals through the sale of a subsidiary | — | — | — | — | (3,875) | (3,875) |
| Foreign currency translation adjustments | (1,712) | (2,020) | (3,932) | (230) | (1,609) | (9,503) |
| Balance at August 31, 2016 | 80,115 | 1,720,732 | 137,719 | 447,823 | 262,125 | 2,648,514 |
| Depreciation expense | 16,382 | 244,847 | 32,528 | 70,361 | 52,281 | 416,399 |
| Disposals and write-offs | (653) | (10,844) | (17,845) | (46,845) | (2,801) | (78,988) |
| Foreign currency translation adjustments | (1,339) | (16,237) | (9,807) | (2,799) | (3,108) | (33,290) |
| **Balance at August 31, 2017** | **94,505** | **1,938,498** | **142,595** | **468,540** | **308,497** | **2,952,635** |
| **Carrying amounts** | | | | | | |
| At August 31, 2016 | 181,019 | 1,355,483 | 183,625 | 159,642 | 124,478 | 2,004,247 |
| **At August 31, 2017** | **161,763** | **1,324,613** | **174,519** | **164,041** | **136,807** | **1,961,743** |

(1) Networks and infrastructure include cable towers, headends, transmitters, fibre and coaxial networks, customer drops, and network equipment.

(2) Data centre equipment includes general infrastructure, mechanical and electrical equipment, security and access control.

(3) Rolling stock and equipment includes rolling stock, programming equipment, furniture and fixtures, computer and software and other equipments.

# 16. INTANGIBLE ASSETS AND GOODWILL

## A) INTANGIBLE ASSETS

During fiscal 2017 and 2016, intangible assets variations were as follows:

| | Finite useful life | | Indefinite useful life | | | |
|---|---|---|---|---|---|---|
| Years ended August 31, 2017 and 2016 | Customer relationships [1] | Other [2] | Cable Distribution Licenses | Broadcasting licenses | Trade name | Total |
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | |
| Balance at August 31, 2015 | 442,720 | 68,353 | 1,811,679 | 79,918 | 25,934 | 2,428,604 |
| Additions | — | 22,960 | — | — | — | 22,960 |
| Fully amortized | — | (12,249) | — | — | — | (12,249) |
| Disposals through the sale of a subsidiary | (14,747) | — | — | — | — | (14,747) |
| Foreign currency translation adjustments | (3,328) | (445) | (2,632) | — | — | (6,405) |
| Balance at August 31, 2016 | 424,645 | 78,619 | 1,809,047 | 79,918 | 25,934 | 2,418,163 |
| Acquisition through a business combination | **2,358** | **—** | **—** | **—** | **—** | **2,358** |
| Additions | **—** | **21,572** | **—** | **—** | **—** | **21,572** |
| Fully amortized | **—** | **(13,533)** | **—** | **—** | **—** | **(13,533)** |
| Foreign currency translation adjustments | **(14,144)** | **(1,316)** | **(37,236)** | **—** | **—** | **(52,696)** |
| **Balance at August 31, 2017** | **412,859** | **85,342** | **1,771,811** | **79,918** | **25,934** | **2,375,864** |
| **Accumulated amortization and impairment losses** | | | | | | |
| Balance at August 31, 2015 | 172,535 | 34,492 | — | — | — | 207,027 |
| Amortization expense | 52,459 | 17,223 | — | — | — | 69,682 |
| Impairment | 21,500 | — | — | — | — | 21,500 |
| Fully amortized | — | (12,249) | — | — | — | (12,249) |
| Disposals through the sale of a subsidiary | (5,012) | — | — | — | — | (5,012) |
| Foreign currency translation adjustments | (2,027) | (224) | — | — | — | (2,251) |
| Balance at August 31, 2016 | 239,455 | 39,242 | — | — | — | 278,697 |
| Amortization expense | **44,095** | **17,957** | **—** | **—** | **—** | **62,052** |
| Fully amortized | **—** | **(13,533)** | **—** | **—** | **—** | **(13,533)** |
| Foreign currency translation adjustments | **(9,002)** | **(570)** | **—** | **—** | **—** | **(9,572)** |
| **Balance at August 31, 2017** | **274,548** | **43,096** | **—** | **—** | **—** | **317,644** |
| **Carrying amounts** | | | | | | |
| At August 31, 2016 | 185,190 | 39,377 | 1,809,047 | 79,918 | 25,934 | 2,139,466 |
| **At August 31, 2017** | **138,311** | **42,246** | **1,771,811** | **79,918** | **25,934** | **2,058,220** |

(1) Customer relationships include long-term contractual agreements with customers.

(2) Includes reconnect and additional service activation costs in the Broadband services, direct and incremental costs associated with the acquisition of customers and favorable leases.

## B) GOODWILL

During fiscal 2017 and 2016, goodwill variations were as follows:

| Years ended August 31, 2017 and 2016 | |
|---|---|
| *(In thousands of Canadian dollars)* | $ |
| **Cost** | |
| Balance at August 31, 2015 | 1,536,925 |
| Disposal through the sale of a subsidiary | (20,540) |
| Foreign currency translation adjustments | (11,910) |
| Balance at August 31, 2016 | 1,504,475 |
| Foreign currency translation adjustments | **(51,806)** |
| **Balance at August 31, 2017** | **1,452,669** |
| **Accumulated impairment losses** | |
| Balance at August 31, 2015 | — |
| Impairment | 428,500 |
| Foreign currency translation adjustments | (3,390) |
| Balance at August 31, 2016 | 425,110 |
| Foreign currency translation adjustments | **(14,450)** |
| **Balance at August 31, 2017** | **410,660** |
| **Carrying amounts** | |
| At August 31, 2016 | 1,079,365 |
| **At August 31, 2017** | **1,042,009** |

## C) IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS

The Corporation tests goodwill and intangible assets with indefinite useful lives for impairment annually, or more frequently when indicators of impairment are identified.

Goodwill is allocated to cash-generating units ("CGU") based on the level at which management monitors goodwill. The allocation is made to CGUs that are expected to benefit from the synergies of the business combination from which it arose.

Intangible assets with indefinite useful lives who do not generate independent cash inflows from those of other assets or group of assets, are allocated and tested for impairment as part of the CGU to which they belong.

For the purpose of impairment testing, goodwill and intangible assets with indefinite useful lives are allocated to each of the Corporation's CGUs as follows:

| At August 31, | | | | **2017** | | | | 2016 |
|---|---|---|---|---|---|---|---|---|
| Operating segment / CGU | **Goodwill** | **Cable Distribution Licenses** | **Trade name** | **Broadcasting Licenses** | Goodwill | Cable Distribution Licenses | Trade name | Broadcasting Licenses |
| *(In thousands of Canadian dollars)* | **$** | **$** | **$** | **$** | $ | $ | $ | $ |
| **Communications** | | | | | | | | |
| Canadian broadband services | **4,662** | | | | 4,662 | | | |
| Ontario | | **857,696** | — | — | | 857,696 | — | — |
| Québec | | **109,304** | — | — | | 109,304 | — | — |
| American broadband services | **749,982** | | | | 784,680 | | | |
| Southern Florida | | **234,423** | — | — | | 245,269 | — | — |
| South Carolina | | **38,862** | — | — | | 40,660 | — | — |
| Western Pennsylvania | | **389,870** | — | — | | 407,908 | — | — |
| Maryland/Delaware | | **51,398** | — | — | | 53,776 | — | — |
| Eastern Connecticut | | **90,258** | — | — | | 94,434 | — | — |
| Business ICT services | **268,780** | — | **25,934** | — | 271,438 | — | 25,934 | — |
| **Other** | | | | | | | | |
| Radio Broadcasting | **18,585** | — | — | **79,918** | 18,585 | — | — | 79,918 |
| **Total** | **1,042,009** | **1,771,811** | **25,934** | **79,918** | 1,079,365 | 1,809,047 | 25,934 | 79,918 |

Goodwill and intangible assets with indefinite useful lives are considered impaired if the recoverable amount is less than the carrying amount. The recoverable amount of each CGU is calculated based on the higher of value in use and fair value less cost to sell. The value in use is determined using cash flow projections derived from internal financial projections covering a period of five to eight years. 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 that period are extrapolated using an estimated terminal growth rate determined with regard to projected growth rates for the specific markets in which the CGUs participate 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 CGUs.

In fiscal 2017 the Corporation changed the date of its annual impairment tests from August 31st to June 30th. The change better aligns with the Corporation's annual budgeting process. The Corporation determined this date change to be more appropriate and believes it did not have any impact on the financial results of the Corporation.

At June 30, 2017 and August 31, 2016, the Corporation performed its annual test for its Radio broadcasting CGU. The recoverable amount of this CGU was determined to be higher than its carrying amount and no impairment loss has been recognized for the years ended August 31, 2017 and 2016. The 2015 recoverable amount calculation of the Radio broadcasting CGU, which represents the most recent detailed calculation made in a preceding year, was used in the impairment test of that CGU at June 30, 2017 and August 31, 2016.

At June 30, 2017 and August 31, 2016, the Corporation's subsidiary, Cogeco Communications performed impairment tests for its CGUs within the Canadian and American broadband services segments. The recoverable amount of each CGU was determined to be higher than its carrying amount and no impairment loss has been recognized for the years ended August 31, 2017 and 2016. The 2014 calculation of the recoverable amount of the Canadian broadband services, which represented the most recent detailed calculation made in a preceding year, was used in the impairment test of its CGUs at August 31, 2016.

At May 31, 2017 the Corporation's subsidiary, Cogeco Communications tested goodwill and all long-lived assets of its Business ICT services CGU for impairment, due to the financial performance indicators being lower than initially projected. The recoverable amount was determined to be higher than its carrying amount and no impairment loss was recognized at May 31, 2017.

### Impairment of goodwill and intangible assets in 2016

As part of a process initiated in fiscal 2015, Cogeco Communications performed a thorough review of its Business ICT services segment operations, organizational structure and portfolio of products and services. The review resulted in several initiatives primarily focused on profitable sales generation, the streamlining of the product offering, the simplification of operational processes and the combination of its two business units Cogeco Data Services and Peer 1 Hosting to form Cogeco Peer 1.

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 had decreased significantly in 2016 due to the entry in the market of these cloud-based offerings.

Consequently, management reviewed downwards its future financial projections, resulting in a decrease in the value of Cogeco Communications' investment in Cogeco Peer 1. As a result, at May 31, 2016, Cogeco Communications tested goodwill and all long-lived assets of Cogeco Peer 1 for impairment. Cogeco Communications recorded a non-cash impairment loss of $428.5 million on goodwill. In addition, Cogeco Communications also 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 also recognized during the third quarter of fiscal 2016 regarding the customer relationships.

The impairment of goodwill and intangible assets that affected the Corporation's financial results for the year ended August 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 included $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.

The following key assumptions were used to determine the recoverable amounts in the most recent impairment tests performed for each of the Corporation's operating segments:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Pre-tax discount rate** | **Terminal growth rate** | Pre-tax discount rate | Terminal growth rate |
| Operating segment | **%** | **%** | % | % |
| Communications | **9.2 to 11.5** | **2.0 to 3.2** | 10.5 to 11.6 | 2.0 to 3.2 |
| Other | **12.3** | **1.2** | 12.3 | 1.2 |

The following table presents, for each operating segment, the change in the pre-tax discount rate and in the perpetual growth rate used in the tests performed, that would have been required in order for the recoverable amount to equal the carrying value of the CGU at the date of the most recent impairment tests:

| | **Increase in pre-tax discount rate** | **Decrease in terminal growth rate** |
|---|---|---|
| Operating segment | **%** | **%** |
| Communications | **0.4 to 12.1** | **0.4 to 41.4** |
| Other | **5.8** | **6.4** |

# 17. PROVISIONS

During fiscal 2017, provisions variations were as follows:

| **Year ended August 31, 2017** | Withholding and stamp taxes | Programming and content costs | Restructuring costs | Claims and litigations | Other | **Total** |
|---|---|---|---|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ |
| Balance, beginning of the year | **6,976** | **8,104** | **340** | **7,000** | **8,658** | **31,078** |
| Provisions made during the year | **—** | **8,081** | **—** | **—** | **1,528** | **9,609** |
| Provisions used during the year | **—** | **(7,122)** | **(340)** | **(6,586)** | **(155)** | **(14,203)** |
| Provisions reversed during the year | **—** | **(3,282)** | **—** | **—** | **(10)** | **(3,292)** |
| Foreign currency translation | **123** | **(23)** | **—** | **—** | **(32)** | **68** |
| **Balance, end of the year** | **7,099** | **5,758** | **—** | **414** | **9,989** | **23,260** |

The provisions for withholding and stamp taxes relate to contingent liabilities for withholding and stamp taxes relating to fiscal years prior to the acquisition of a Portuguese subsidiary by Cogeco Communications. Pursuant to the completion of the sale of the Portuguese subsidiary in 2012, Cogeco Communications remains responsible for these contingent liabilities up to a maximum amount of €5 million under the terms of the sale agreement.

The provisions for programming and content costs include provisions for retroactive rate increases as well as additional royalties or content costs as a result of periodical audits from service providers.

The other provisions include provisions for contractual obligations and other legal obligations.

# 18. LONG-TERM DEBT

| At August 31, | Maturity | Interest rate | 2017 | 2016 |
|---|---|---|---|---|
| *(In thousands of Canadian dollars, except percentages)* | | % | $ | $ |
| **Corporation** [a] | | | | |
| Unsecured Debentures [b] | November 2021 | 6.50 | 34,822 | 34,784 |
| Senior Unsecured Notes [c] | — | — | — | 49,164 |
| Finance lease | February 2022 | 4.27 | 101 | 11 |
| **Subsidiaries** | | | | |
| Term Revolving Facility [d] | | | | |
| Canadian Revolving Facility | | | | |
| Revolving loan – US$59.5 million in 2016 | January 2022 | — | — | 78,040 |
| Revolving loan – £23.6 million in 2016 | January 2022 | — | — | 40,646 |
| UK Revolving Facility – £4.4 million in 2016 | January 2022 | — | — | 7,578 |
| Senior Secured Notes [e] | | | | |
| Series A – US$25 million | September 2024 | 4.14 | 31,229 | 32,665 |
| Series B - US$150 million | September 2026 | 4.29 | 187,325 | 195,961 |
| Senior Secured Notes Series B [f] | October 2018 | 7.60 | 54,922 | 54,853 |
| Senior Secured Notes - US$215 million [g] | June 2025 | 4.30 | 268,432 | 280,787 |
| Senior Secured Debentures Series 2 [h] | November 2020 | 5.15 | 199,354 | 199,174 |
| Senior Secured Debentures Series 3 [i] | February 2022 | 4.93 | 199,061 | 198,878 |
| Senior Secured Debentures Series 4 [j] | May 2023 | 4.18 | 298,078 | 297,788 |
| Senior Unsecured Debenture [k] | March 2018 | 5.94 | 99,979 | 99,939 |
| Senior Unsecured Notes – US$400 million [l] | May 2020 | 4.88 | 498,141 | 520,201 |
| First Lien Credit Facilities [m] | | | | |
| Term Loan A-2 Facility – US$94.4 million (US$98.2 million in 2016) | September 2019 | 3.11 [(1) (2)] | 117,397 | 127,146 |
| Term Loan A-3 Facility - US$118.4 million (US$124.6 million in 2016) | September 2019 | 3.11 [(1) (2)] | 147,073 | 161,284 |
| Term Loan B Facility – US$355.4 million (US$362.6 million in 2016) | December 2019 | 3.73 [(1)] | 439,088 | 466,024 |
| Revolving Facility – US$29 million (US$76 million in 2016) | September 2019 | 3.11 [(1)] | 36,354 | 99,682 |
| | | | 2,611,356 | 2,944,605 |
| Less current portion | | | 131,935 | 22,527 |
| | | | 2,479,421 | 2,922,078 |

(1) Interest rate on debt includes applicable margin.

(2) On October 14, 2015, Cogeco Communications has 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 0.9870% and 0.6120%, under Term Loan A-2 and Term Loan A-3 Facilities, until July 31, 2019 and October 30, 2017, respectively.

a) The Corporation benefits from a Term Revolving Facility of $50 million, including a swingline limit of $7.5 million. On December 5, 2016, the maturity was extended until February 1, 2022, and can be further extended annually. The Term Revolving Facility can be repaid at any time without penalty and is indirectly secured by a first priority fixed and floating charge on substantially all present and future real and personal property and undertaking of every nature and kind of the Corporation and certain of its subsidiaries, excluding the capital stock and assets of the Corporation's subsidiary, Cogeco Communications, and guaranteed by its subsidiaries, excluding Cogeco Communications and its subsidiaries. Under the terms and conditions of the credit agreement, the Corporation must comply with certain restrictive covenants. Generally, the most significant restrictions are related to permitted investments, distributions to shareholders including dividends on multiple and subordinate voting shares, share repurchases and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to EBITDA adjusted for integration, restructuring and acquisition costs, claims and litigations, impairment of goodwill and intangible assets ("adjusted EBITDA"), to financial expense and to total indebtedness. The Term Revolving Facility bears interest based, at the Corporation's option, on bankers' acceptance, LIBOR in US dollars, bank prime rate or US base rate plus the applicable margin, and commitment fees are payable on the unused portion.

b) On November 7, 2011, the Corporation completed, pursuant to a private placement, the issue of 6.50% Unsecured Debentures for a total of $35 million maturing November 7, 2021. Interest on these Notes is payable semi-annually in arrears on November 7 and May 7 of each year commencing May 7, 2012.

c) On March 5, 2014, the Corporation completed, pursuant to a private placement, the issuance of $50 million of Senior Unsecured Notes. These unsecured notes bear interest at 6.00% per annum payable semi-annually and mature on March 5, 2020. Half of the Senior Unsecured Notes are guaranteed on a senior unsecured basis, jointly and severally, by its subsidiaries except for the unrestricted subsidiaries. On August 25, 2017 the Corporation elected to repay these Senior Unsecured Notes prior to their scheduled maturity. The repayment was funded with available cash resources and the redemption price equals 100% of the principal amount, plus accrued interest and a make-whole premium of $1.5 million.

d) The Corporation's subsidiary, Cogeco Communications, has a Term Revolving Facility of $800 million with a syndicate of lenders. On December 9, 2016, the maturity was extended until January 24, 2022 and can be further extended annually. This amended and restated Term Revolving Facility is comprised of two tranches: a first tranche, a Canadian tranche, amounting to $788 million and the second tranche, a UK tranche, amounting to $12 million. Cogeco Peer 1 (UK) Ltd. can borrow under the UK tranche. The Canadian tranche is available in Canadian dollars, US dollars, Euros and British Pounds and interest rates are based on banker's acceptance, US dollar base rate loans, LIBOR loans in US dollars, Euros or British Pounds, plus the applicable margin. The UK tranche is available in British Pounds and interest rates are based on British Pounds base rate loans and British Pounds LIBOR loans.The Term Revolving Facility provides access to a swingline with a limit of $30 million, from which $12 million are available under a UK swingline.The Term Revolving Facility is indirectly secured by a first priority fixed and floating charges and a security interest on substantially all present and future real and personal properties and undertaking of every nature and kind of Cogeco Communications and certain of its subsidiaries, and provides for certain permitted encumbrances, including purchased money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary, subject to a maximum amount. The provisions under this facility provide for restrictions on the operations and activities of Cogeco Communications. Generally, the most significant restrictions relate to total indebtedness, financial expense, permitted investments, distributions to shareholders including dividends on multiple and subordinate voting shares and share repurchases, as well as the incurrence and maintenance of certain financial ratios primarily linked to EBITDA adjusted for integration, restructuring and acquisition costs, claims and litigations, impairment of goodwill and intangible assets ("adjusted EBITDA").

e) On August 27, 2014, the Corporation's subsidiary, Cogeco Communications, completed pursuant to a private placement, the issuance of US$25 million Senior Secured Notes Series A and of US$150 million Senior Secured Notes Series B. The Senior Secured Notes Series A bear interest at 4.14% per annum payable semi-annually and mature on September 1, 2024, and the Senior Secured Notes Series B bear interest at 4.29% per annum payable semi-annually and mature on September 1, 2026. The Senior Secured Notes Series A and B are redeemable at any time at Cogeco Communications' option, in whole or in part, at 100% of the principal amount plus a make-whole premium. These Notes are indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of Cogeco Communications and certain of its subsidiaries.

f) On October 1, 2008, the Corporation's subsidiary, Cogeco Communications, issued $55 million Senior Secured Notes Series B maturing October 1, 2018. The Senior Secured Notes Series B bear interest at the coupon rate of 7.60% per annum, payable semi-annually. The Senior Secured Notes are senior secured obligations and rank equally and rateably with all existing and future senior indebtedness. These Notes are indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of Cogeco Communications and certain of its subsidiaries. These Notes are redeemable at the Corporation's option at any time, in whole or in part, prior to maturity, at 100% of the principal amount plus a make-whole premium.

g) On June 27, 2013, the Corporation's subsidiary, Cogeco Communications, completed, pursuant to a private placement, the issuance of US$215 million Senior Secured Notes. The Senior Secured Notes bear interest at 4.30% payable semi-annually and mature on June 16, 2025. The Senior Secured Notes are redeemable at the Cogeco Communications' option at any time, in whole or in part, at 100% of the principal amount plus a make-whole premium. These notes are indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of Cogeco Communications and certain of its subsidiaries.

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

i) On February 14, 2012, the Corporation's subsidiary, Cogeco Communications, completed pursuant to a public debt offering, the issue of $200 million Senior Secured Debentures Series 3. These debentures mature on February 14, 2022 and bear interest at 4.925% per annum payable semi-annually. These debentures are indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of Cogeco Communications and certain of its subsidiaries.

j) On May 27, 2013, the Corporation's subsidiary, Cogeco Communications, completed pursuant to a public debt offering, the issue of $300 million Senior Secured Debentures Series 4. These debentures mature on May 26, 2023 and bear interest at 4.175% per annum payable semi-annually. These debentures are indirectly secured by a first priority fixed and floating charge and a security interest on substantially all present and future real and personal property and undertaking of every nature and kind of Cogeco Communications and its subsidiaries except for the unrestricted subsidiaries. The provisions under these debentures provide for restrictions on the operations and activities of Cogeco Communications and its subsidiaries except for the unrestricted subsidiaries. Generally, the most significant restrictions relate to permitted indebtedness, dispositions and maintenance of certain financial ratios.

k) On March 5, 2008, the Corporation's subsidiary, Cogeco Communications, issued a $100 million Senior Unsecured Debenture by way of a private placement. The debenture bears interest at a fixed rate of 5.936% per annum, payable semi-annually. The debenture matures on March 5, 2018 and is redeemable at Cogeco Communications' option at any time, in whole or in part, prior to maturity, at 100% of the principal amount plus a make-whole premium.

l) On April 23, 2013, the Corporation's subsidiary, Cogeco Communications, completed a private placement of US$400 million aggregate principal amount of Senior Unsecured Notes. These Notes mature on May 1, 2020 and bear interest at 4.875% per annum payable semi-annually. They are guaranteed on a senior unsecured basis, jointly and severally, by its subsidiaries except for the unrestricted subsidiaries. The provisions under these Notes provide for restrictions on the operations and activities of Cogeco Communications and its subsidiaries except for the unrestricted subsidiaries. Generally, the most significant restrictions relate to permitted indebtedness, investments and distributions.

m) In connection with the acquisition of Atlantic Broadband on November 30, 2012, the Corporation's subsidiary, Cogeco Communications, concluded, through two of its United States subsidiaries, First Lien Credit Facilities totaling US$710 million in three tranches: the first tranche, a Term Loan A Facility maturing on November 30, 2017, the second tranche, a Term Loan B Facility maturing on December 2, 2019 and the third tranche, a Revolving Credit Facility maturing on November 30, 2017. Interest rates on the First Lien Credit Facilities are based on LIBOR plus the applicable margin, with a LIBOR floor of 0.75% for the Term Loan B Facility. Term Loan A and B Facilities are subject to a quarterly fixed amortization schedule. In addition to the fixed amortization schedule and since the first quarter of fiscal 2015, loans under the Term Loan Facilities shall be prepaid according to a prepayment percentage of excess cash flow generated during the prior fiscal year which may reduce the quarterly fixed amortization schedule. The calculation of the excess cash flow prepayment is defined as follows:

(i) 50% if the Consolidated First Lien Leverage Ratio is greater than or equal to 4.00 to 1.00;
(ii) 25% if the Consolidated First Lien Leverage Ratio is greater than or equal to 3.00 to 1.00 but less than 4.00 to 1.00; and
(iii) 0% if the Consolidated First Lien Leverage Ratio is less than 3.00 to 1.00.

The First Lien Credit Facilities are non-recourse to Cogeco Communications and its Canadian subsidiaries and are indirectly secured by a first priority fixed and floating charge on substantially all present and future real and personal property and undertaking of every nature and kind of Atlantic Broadband and its subsidiaries. The provisions under these facilities provide for restrictions on the operations and activities of Atlantic Broadband and its subsidiaries. Generally, the most significant restrictions relate to permitted indebtedness, investments, distributions and maintenance of certain financial ratios.

In connection with the acquisition of MetroCast Connecticut by Cogeco Communications' subsidiary, Atlantic Broadband, on August 20, 2015, the First Lien Credit Facilities were amended on July 17, 2015 and such amendments became effective on the closing date of the acquisition. Pursuant to the amendment, an incremental Term Loan A-2 Facility in an amount of US$100 million was issued .The Term Loan A-2 Facility matures on September 3, 2019 and is subject to a quarterly fixed amortization schedule. In addition to the fixed amortization schedule, the Term Loan A-2 Facility is subject to a prepayment percentage of excess cash flow generated during the prior fiscal year which may reduce the quarterly fixed amortization schedule, consistent with that of the Term Loan A. Other terms and conditions related to financial covenants and interest rates remained the same.

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.

# 19. SHARE CAPITAL

## A) AUTHORIZED

*Unlimited number of:*

*Preferred shares of first and second rank*, issuable in series and non-voting, except when specified in the Articles of Incorporation of the Corporation or in the Law.

*Multiple voting shares*, 20 votes per share.

*Subordinate voting shares*, 1 vote per share.

## B) ISSUED AND PAID

| At August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars, except number of shares)* | $ | $ |
| 1,842,860 multiple voting shares | 12 | 12 |
| 14,750,245 subordinate voting shares (14,969,572 in 2016) | 120,031 | 121,815 |
| | 120,043 | 121,827 |
| 50,178 subordinate voting shares held in trust under the Incentive Share Unit Plan (63,021 in 2016) | (2,590) | (3,142) |
| 61,386 subordinate voting shares held in trust under the Performance Share Unit Plan (38,786 in 2016) | (3,432) | (2,196) |
| | 114,021 | 116,489 |

During fiscal 2017 and 2016, subordinate voting share transactions were as follows:

| Year ended August 31, | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| *(In thousands of Canadian dollars, except number of shares)* | | $ | | $ |
| Balance, beginning of the year | 14,969,572 | 121,815 | 14,989,338 | 121,976 |
| Purchase and cancellation of subordinate voting shares [1] | (219,327) | (1,784) | (19,766) | (161) |
| Balance, end of the year | 14,750,245 | 120,031 | 14,969,572 | 121,815 |

(1) On July 31,2017 Cogeco announced that the TSX accepted its renewed notice of intention for a normal course issuer bid, enabling it to purchase for cancellation up to 550,000 additional subordinate voting shares from August 2, 2017 to August 1, 2018 (initially up to 375,000 subordinate voting shares from August 2, 2016 to August 1, 2017). During fiscal 2017, Cogeco purchased and cancelled 219,327 (19,766 in 2016) subordinate voting shares with an average stated value of $1.8 million ($0.2 million in 2016), for consideration of $14.3 million ($1.0 million in 2016). The excess of the purchase price over the average stated value of the shares totaled $12.5 million ($0.9 million in 2016) and was charged to retained earnings.

During fiscal 2017 and 2016, subordinate voting shares held in trust under the Incentive Share Unit Plan transactions were as follows:

| Years ended August 31, | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| *(In thousands of Canadian dollars, except number of shares)* | | $ | | $ |
| Balance, beginning of the year | 63,021 | 3,142 | 78,482 | 3,730 |
| Subordinate voting shares acquired | 18,379 | 1,005 | 17,050 | 963 |
| Subordinate voting shares distributed to employees | (31,222) | (1,557) | (32,511) | (1,551) |
| Balance, end of the year | 50,178 | 2,590 | 63,021 | 3,142 |

During fiscal 2017 and 2016, subordinate voting shares held in trust under the Performance Share Unit Plan transactions were as follows:

| Years ended August 31, | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| *(In thousands of Canadian dollars, except number of shares)* | | $ | | $ |
| Balance, beginning of the year | 38,786 | 2,196 | 19,152 | 1,086 |
| Subordinate voting shares acquired | 22,701 | 1,242 | 20,299 | 1,146 |
| Subordinate voting shares distributed to employees | (101) | (6) | (665) | (36) |
| Balance, end of the year | 61,386 | 3,432 | 38,786 | 2,196 |

## C) DIVIDENDS

For the year ended August 31, 2017, quarterly dividends of $0.34 per share, for a total of $1.36 per share were paid to the shareholders of multiple and subordinate voting shares, totaling $22.6 million, compared to quarterly dividends of $0.295 per share, for a total of $1.18 per share, or $19.7 million for the year ended August 31, 2016.

At its November 2, 2017 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of $0.39 per share for multiple voting and subordinate voting shares, payable on November 30, 2017, to shareholders of record on November 16, 2017.

## D) SHARE-BASED PAYMENT PLANS

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

### Stock purchase plans

The Corporation and its subsidiary, Cogeco Communications, offer for the benefit of their employees and those of their subsidiaries, Employee Stock Purchase Plans, which are accessible to all employees up to a maximum of 7% of their base annual salary and the Corporation and its subsidiary contribute 25% of the employee contributions. The subscriptions are made monthly and employee subordinate voting shares are purchased on the stock market.

### Stock option plans

The Corporation and its subsidiary, Cogeco Communications, offer for the benefit of their executive officers and designated employees Stock Options Plans. Under the plans' conditions, the minimum exercise price at which options are granted is equal to the market value of such shares at the time the option is granted. Options granted vest equally over a period of five years beginning one year after the day such options are granted and are exercisable over ten years.

A total of 1,545,700 subordinate voting shares are reserved, for the purpose of Cogeco's Stock Option Plan. During fiscal years 2017 and 2016, no stock options were granted to employees by Cogeco and no stock options were outstanding at August 31, 2017 and 2016.

A total of 3,432,500 subordinate voting shares of Cogeco Communications are reserved for the purpose of its Stock Option Plan.

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

| Years ended August 31, | 2017 | | 2016 | |
|---|---|---|---|---|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding, beginning of the year | 645,626 | 53.67 | 721,973 | 47.24 |
| Granted [1] | 210,650 | 62.43 | 176,225 | 67.40 |
| Exercised [2] | (140,236) | 50.00 | (140,199) | 37.67 |
| Cancelled | (63,655) | 60.60 | (112,373) | 53.84 |
| **Outstanding, end of the year** | 652,385 | 56.61 | 645,626 | 53.67 |
| **Exercisable, end of the year** | 200,526 | 46.87 | 221,529 | 44.70 |

(1) For the year ended August 31, 2017, Cogeco Communications granted 81,350 (74,750 in 2016) stock options to Cogeco executive officers as executive officers of Cogeco Communications.

(2) The weighted average share price for options exercised during the year was $73.75 ($63.57 in 2016).

At August 31, 2017, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options are as follows:

| At August 31, 2017 | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Number outstanding | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| $ | | (years) | $ | | $ |
| 31.82 to 38.08 | 40,091 | 2.02 | 33.31 | 38,945 | 33.17 |
| 38.16 to 45.60 | 71,924 | 4.55 | 38.84 | 54,756 | 38.63 |
| 48.02 to 58.12 | 117,850 | 5.76 | 49.72 | 58,710 | 49.31 |
| 61.22 to 66.41 | 296,845 | 8.53 | 62.00 | 27,255 | 61.83 |
| 67.55 to 79.27 | 125,675 | 8.19 | 67.95 | 20,860 | 67.69 |
| | 652,385 | 7.12 | 56.61 | 200,526 | 46.87 |

The weighted average fair value of stock options granted for the period ended August 31, 2017 was $8.96 ($11.32 in 2016) 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:

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| | % | % |
| Expected dividend yield | 2.52 | 2.09 |
| Expected volatility [1] | 21.28 | 22.33 |
| Risk-free interest rate | 0.81 | 0.96 |
| Expected life (in years) | 6.1 | 6.1 |

(1) The expected volatility is based on the historical volatility of Cogeco Communications' subordinate voting shares for a period equivalent to the expected life of the options.

A compensation expense of $1,300,000 ($1,191,000 in 2016) was recorded for the year ended August 31, 2017 related to this plan.

## ISU plans

The Corporation and its subsidiary, Cogeco Communications, offer executive officers and designated employees Incentive Share Unit ("ISU") Plans. According to the plans, executive officers and designated employees periodically receive a given number of ISUs which entitle the participants to receive subordinate voting shares of the Corporation or its subsidiary after three years less one day from the date of grant. The number of ISUs is based on the dollar value of the award and the average closing stock price of the Corporation for the previous twelve month period ending August 31. ISUs are redeemable in case of death, permanent disability, normal retirement or termination of employment not for cause. For the grants made after April 7, 2015 the holder of ISUs is entitled to payment of the ISUs in proportion to the time of employment from the date of the grant to the date of termination versus the three-year vesting period.Two trusts were created for the purpose of purchasing these shares on the stock market in order to protect against stock price fluctuation and the Corporation and its subsidiary instructed the trustees to purchase subordinate voting shares of the Corporation and its subsidiary on the stock market. These shares are purchased and are held in trusts for the participants until they are fully vested. The trusts, considered as special purpose entities, are consolidated in the Corporation's financial statements with the value of the acquired subordinate voting shares held in trust under the ISU Plans presented in reduction of share capital or non-controlling interest.

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Outstanding, beginning of the year | 62,475 | 78,482 |
| Granted | 18,925 | 18,000 |
| Distributed | (31,222) | (32,511) |
| Cancelled | — | (1,496) |
| Outstanding, end of the year | 50,178 | 62,475 |

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Outstanding, beginning of the year | 144,623 | 217,779 |
| Granted [1] | 41,075 | 38,325 |
| Distributed | (74,495) | (91,456) |
| Cancelled | (9,665) | (20,025) |
| Outstanding, end of the year | 101,538 | 144,623 |

(1) For the years ended August 31, 2017 and 2016, Cogeco Communications did not grant ISUs to Cogeco's executive officers as executive officers of Cogeco Communications.

A compensation expense of $2,964,000 ($4,621,000 in 2016) was recorded for the year ended August 31, 2017 related to these plans.

## PSU plans

The Corporation and its subsidiary, Cogeco Communications, also offer Performance Share Unit ("PSU") Plans for executive officers and designated employees. The objectives of the PSU Plans are to retain executive officers and designated employees, to align their interests with those of the shareholders and to sustain positive corporate performance, as measured by the Economic Value Creation formula, a performance measure used by management. The number of PSUs is based on the dollar value of the award and the average closing stock price of the Corporation and its subsidiary for the previous twelve month period ending August 31. The PSUs vest over a three-year less one day period, based on the level of increase in the Economic Value of the Corporation or the relevant subsidiary for the preceding three-year period ending August 31, meaning that no vesting will occur if there is no increase in the Economic Value. The participants are entitled to receive dividend equivalents in the form of additional PSUs but only with respect to vested PSUs. PSUs are redeemable in case of death, permanent disability, normal retirement or termination of employment not for cause, in which cases, the holder of PSUs is entitled to payment of the PSUs in proportion to the time of employment from the date of the grant to the date of termination versus the three-year vesting period. Two trusts were created for the purpose of purchasing these shares on the stock market in order to protect against stock price fluctuation and the Corporation and its subsidiary instructed the trustee to purchase subordinate voting shares of the Corporation and its subsidiary on the stock market. These shares are purchased and are held in trust for the participants until they are fully vested. The trusts, considered as special purpose entities, are consolidated in the Corporation's financial statements with the value of the acquired subordinate voting shares held in trust under the PSU Plans presented in reduction of share capital or non-controlling interest.

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Outstanding, beginning of the year | 38,062 | 19,139 |
| Granted | 21,925 | 20,850 |
| Distributed | (101) | (665) |
| Cancelled | — | (2,116) |
| Dividend equivalents | 1,256 | 854 |
| Outstanding, end of the year | 61,142 | 38,062 |

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Outstanding, beginning of the year | 81,376 | 49,862 |
| Granted [1] | 50,925 | 44,425 |
| Distributed | (1,362) | (2,677) |
| Cancelled | (18,421) | (12,339) |
| Dividend equivalents | 2,689 | 2,105 |
| Outstanding, end of the year | 115,207 | 81,376 |

(1) For the year ended August 31, 2017, Cogeco Communications granted 12,150 (11,950 in 2016) PSUs to Cogeco's executive officers as executive officers of Cogeco Communications.

A compensation expense of $2,776,000 ($2,212,000 in 2016) was recorded for the year ended August 31, 2017 related to these plans.

## DSU plans

The Corporation and its subsidiary, Cogeco Communications, also offer Deferred Share Unit ("DSUs") Plans for members of the Board to assist in the attraction and retention of qualified individuals to serve on their respective Boards. Each existing or new member of the Board may elect to be paid a percentage of the annual retainer in the form of DSUs with the balance, if any, being paid in cash. The number of DSUs that a member is entitled to receive is based on the average closing price of the subordinate shares on the TSX for the twenty consecutive trading

days immediately preceding by one day the date of issue. Dividend equivalents are awarded with respect to DSUs in a member's account on the same basis as if the member was a shareholder of record of subordinate shares on the relevant record date, and the dividend equivalents are credited to the individual's account as additional DSUs. DSUs are redeemable and payable in cash or in shares, upon an individual ceasing to be a member of the Board or in the event of the death of the member.

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Outstanding, beginning of the year | 59,824 | 47,814 |
| Issued | 7,196 | 10,753 |
| Redeemed | (7,890) | — |
| Dividend equivalents | 1,244 | 1,257 |
| Outstanding, end of the year | 60,374 | 59,824 |

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Outstanding, beginning of the year | 32,483 | 26,579 |
| Issued | 7,097 | 5,155 |
| Dividend equivalents | 866 | 749 |
| Outstanding, end of the year | 40,446 | 32,483 |

A compensation expense of $3,653,000 ($565,000 in 2016) was recorded for the year ended August 31, 2017 related to these plans.

# 20. ACCUMULATED OTHER COMPREHENSIVE INCOME

During fiscal 2017 and 2016, accumulated other comprehensive income variations were as follows:

| Years ended August 31, 2017 and 2016 | Cash flow hedge reserve | Foreign currency translation | Total |
|---|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ | $ |
| Balance at August 31, 2015 | 438 | 26,401 | 26,839 |
| Other comprehensive income (loss) for the year | (485) | 755 | 270 |
| Balance at August 31, 2016 | (47) | 27,156 | 27,109 |
| Other comprehensive income (loss) for the year | 177 | (2,711) | (2,534) |
| **Balance at August 31, 2017** | 130 | 24,445 | 24,575 |

# 21. STATEMENTS OF CASH FLOWS

## A) CHANGES IN NON-CASH OPERATING ACTIVITIES

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(in thousands of Canadian dollars)* | $ | $ |
| Trade and other receivables | 29,591 | 3,358 |
| Prepaid expenses and other | (6,736) | 13,113 |
| Trade and other payables | 33,312 | 1,029 |
| Provisions | (9,411) | 7,829 |
| Deferred and prepaid revenue and other liabilities | 26,282 | (795) |
| | 73,038 | 24,534 |

## B) CASH AND CASH EQUIVALENTS

| At August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Cash | 163,320 | 68,344 |
| Cash equivalents [1] | 48,963 | — |
| | 212,283 | 68,344 |

(1) At August 31, 2017, comprised of banker's acceptances and a certificate of deposit, bearing interest between 1.12% to 1.30% and with maturity dates ranging from September 21st to October 19th, 2017.

# 22. EMPLOYEE BENEFITS

## A) DEFINED CONTRIBUTION PLANS AND COLLECTIVE REGISTERED RETIREMENT SAVING PLANS

The Corporation and its subsidiaries offer to their employees defined contribution plans or collective registered retirement savings plans. Under these plans, the Corporation and its subsidiaries' obligations are limited to the payment of the monthly employer's contribution. The total expense recognized with respect to these plans amounted to $10,311,000 ($10,122,000 in 2016) for the year ended August 31, 2017 and are included in the Corporation's consolidated statement of profit and loss under "salaries, employee benefits and outsourced services".

## B) DEFINED BENEFIT PLANS

The Corporation and its subsidiaries sponsor defined benefit plans for the benefit of their employees and separate defined benefit plans for the benefit of their executive officers, which provide pensions based on the number of years of service and the average salary during the employment of each participant. In addition, the Corporation and its subsidiaries offer to their designated executive officers supplementary pension plans. Each year at August 31 the Corporation and its subsidiaries measure plan assets at fair value, as well as the defined benefit obligation for all plans. The most recent actuarial valuation of the pension plan for the benefit of the employees was at August 31, 2016 and the next required valuation is at August 31, 2017. For the executive officers' plans, the most recent actuarial valuation was at August 31, 2014 and the next required valuation is at August 31, 2017. The next required valuation of the pension plan for the benefit of the employees and for the executive officers is expected to be completed in February 2018.

The following table provides a reconciliation of the change in the defined benefit obligations and plan assets at fair value and a statement of the funded status at August 31:

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| **Defined benefit obligation** [1] | | |
| Defined benefit obligation, beginning of the year | 102,050 | 84,258 |
| Current service cost | 3,966 | 3,392 |
| Interest cost | 3,156 | 3,482 |
| Contributions by plan participants | 382 | 394 |
| Benefits paid | (2,482) | (2,065) |
| Actuarial losses (gains) on obligation arising from: | | |
| Experience adjustments | (124) | 93 |
| Changes in demographic assumptions | 31 | (9) |
| Changes in financial assumptions | (6,927) | 12,505 |
| Defined benefit obligation, end of the year | 100,052 | 102,050 |
| **Plan assets at fair value** | | |
| Plan assets at fair value, beginning of the year | 90,734 | 77,923 |
| Interest income | 2,782 | 3,302 |
| Return on plan assets, except amounts included in interest income | 3,991 | 1,105 |
| Administrative expense | (403) | (314) |
| Contributions by plan participants | 382 | 394 |
| Employer contributions | 6,252 | 10,389 |
| Benefits paid | (2,482) | (2,065) |
| Plan assets at fair value, end of the year | 101,256 | 90,734 |
| **Funded status** | | |
| Plan assets at fair value | 101,256 | 90,734 |
| Defined benefit obligation | 100,052 | 102,050 |
| Net defined benefit liability (asset) | (1,204) | 11,316 |

(1) The weighted average duration of the defined benefit obligation at August 31, 2017 is 13 years (14 years in 2016).

The net defined benefit liability (asset) is included in the Corporation's consolidated statement of financial position under "pension plan liabilities and accrued employee benefits".

## Defined benefit costs recognized in profit or loss

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Recognized in operating expenses (salaries, employee benefits and outsourced services) | | |
| Current service cost | 3,966 | 3,392 |
| Administrative expense | 403 | 314 |
| Recognized in financial expense (other) | | |
| Net interest | 374 | 180 |
| | 4,743 | 3,886 |

## Defined benefit costs recognized in other comprehensive income

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Actuarial losses (gains) arising from: | | |
| Experience adjustments | (124) | 93 |
| Change in demographic assumptions | 31 | (9) |
| Change in financial assumptions | (6,927) | 12,505 |
| Return on plan assets, except amounts included in interest income | (3,991) | (1,105) |
| | (11,011) | 11,484 |

The expected employer contributions to the Corporation's defined benefit plans will be $4,310,000 in 2018.

Plan assets consist of:

| At August 31, | 2017 | 2016 |
|---|---|---|
| | % | % |
| Equity securities [1] | 55 | 55 |
| Debt securities [1] | 13 | 13 |
| Deposits in trust [2] | 24 | 24 |
| Other | 8 | 8 |
| Total | 100 | 100 |

(1) All debt and equity securities have a quoted price in active markets.

(2) Deposits in trust prescribed by the Canada Revenue Agency for funded supplemental employee retirement plans are non-interest-bearing.

The significant weighted average assumptions used in measuring the Corporation's defined benefit obligation and defined benefit costs are as follows:

| At August 31, | 2017 | 2016 |
|---|---|---|
| | % | % |
| **Defined benefit obligation** | | |
| Discount rate | 3.50 | 3.00 |
| Rate of compensation increase | 2.75 | 2.75 |
| Mortality table | CPM-2014 | CPM-2014 |
| **Defined benefit costs** | | |
| Discount rate | 3.00 | 4.00 |
| Rate of compensation increase | 2.75 | 3.00 |
| Mortality table | CPM-2014 | CPM-2014 |

## C) EXPOSURE TO ACTUARIAL RISKS

The Corporation is exposed to the following actuarial risks:

### Investment risk

The investment strategy of the plans is to diversify the nature of the returns on assets. Given the long-term nature of the defined benefit obligation, a portion of the assets are invested in equity securities in order to maximize return. Since equity securities are inherently volatile and risky, the Corporation sets investment goals, both in terms of asset mix percentage and target return, which is monitored monthly and adjusted as needed.

### Interest rate risk

A decrease in the interest rate on investment-grade fixed-rate Corporate bonds, which would reduce the discount rate used, will increase the present value of the defined benefit obligation. However, the increase in the obligation would be partly offset by an increase in the value of plan investments in debt securities.

### Salary risk

Active members expected benefits are linked to their pre-retirement compensation. The present value of the defined benefit obligation is calculated using management's best estimate of the expected rate of compensation increase of plan members. Increasing that assumption would increase the defined benefit obligation.

## D) SENSITIVITY ANALYSIS

The sensitivity analysis of the defined benefit obligation were calculated based on reasonably possible changes to each key actuarial assumption without considering simultaneous changes to several key actuarial assumptions. A change in one actuarial assumption could trigger a change in another actuarial assumption, which could amplify or mitigate the impact of the change in these assumptions on the present value of the defined benefit obligation. The sensitivity analysis were prepared in accordance with the Corporation's accounting policies described in Note 2 L). The actual results of items subject to estimates may differ.

| At August 31, 2017 | Change in assumption | Impact of change in assumption |
|---|---|---|
| *(In thousands of Canadian dollars)* | % | $ |
| Discount rate decrease | 0.10 | 1,327 |
| Expected rate of compensation increase | 0.25 | 234 |

# 23. 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 risk.

### Credit risk

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

Credit risk from derivative financial instruments arises from the possibility that counterparties to the interest rate swaps and foreign currency forward contracts may default on their obligations in instances where these agreements have positive fair values for the Corporation. The Corporation reduces this risk by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. The Corporation assesses the creditworthiness of the counterparties in order to minimize the risk of counterparties default under the agreements. At August 31, 2017, management believes that the credit risk relating to its derivative financial instruments is minimal, since the lowest credit rating of the counterparties to the agreements is "A" by Standard & Poor's rating services ("S&P").

Cash equivalents and short-term investments consist mainly of highly liquid money market short-term investments. The Corporation has deposited the cash and cash equivalents and short-term investments with reputable financial institutions, for which management believes the risk of loss to be remote. The credit rating of the counterparties to the cash equivalents and short-term investments is "A+" by S&P and "A (high)" by Dominion Bond Rating Services ("DBRS"), or better.

The Corporation is also exposed to credit risk in relation to its trade accounts receivable. To mitigate such risk, the Corporation continuously monitors the financial condition of its customers and reviews the credit history or worthiness of each new large customer. The Corporation establishes an allowance for doubtful accounts based on specific credit risk of its customers by examining such factors as the number of overdue days of the customer's balance outstanding as well as the customer's collection history. The Corporation believes that its allowance for doubtful accounts is sufficient to cover the related credit risk. The Corporation has credit policies in place and has established various credit controls, including credit checks, deposits on accounts and advance billing, and has also established procedures to suspend the availability of services when customers have fully utilized approved credit limits or have violated existing payment terms. Since the Corporation has a large and diversified clientele dispersed throughout its market areas in Canada, in United States and in Europe, there is no significant concentration of credit risk.

The following table provides further details on trade and other receivables, net of allowance for doubtful accounts:

| At August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Trade accounts receivable | 108,922 | 122,410 |
| Allowance for doubtful accounts | (4,355) | (4,878) |
| | 104,567 | 117,532 |
| Other accounts receivable [1] | 7,525 | 25,010 |
| | 112,092 | 142,542 |

(1) In fiscal 2016, include amounts receivable related to a claim with a supplier, which was paid partly in cash and partly in the form of credit notes applicable on future purchases of property, plant and equipment.

Trade accounts receivable past due is defined as amount outstanding beyond normal credit terms and conditions for the respective customers. A large portion of the Corporation's customers are billed and pay before the services are rendered. The Corporation considers the amount outstanding at the due date as trade accounts receivable past due. The following table provides further details on trade accounts receivable past due net of allowance for doubtful accounts at August 31, 2017 and 2016:

| At August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Less than 60 days past due | 32,965 | 33,595 |
| 60 to 90 days past due | 2,373 | 3,345 |
| More than 90 days past due | 1,358 | 2,630 |
| | 36,696 | 39,570 |

The following table shows changes in the allowance for doubtful accounts for the year ended August 31, 2017 and 2016:

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Balance, beginning of the year | 4,878 | 6,707 |
| Provision for impaired receivables | 17,403 | 18,492 |
| Net use | (17,902) | (20,307) |
| Foreign currency translation adjustments | (24) | (14) |
| Balance, end of the year | 4,355 | 4,878 |

## Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation manages liquidity risk through the management of its capital structure and access to different capital markets. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure sufficient liquidity to meet its obligations when due. At August 31, 2017, an amount of $0.4 million was used from the Corporation's Term Revolving Facility of $50 million and $6.1 million was used from Cogeco Communications' Term Revolving Facility of $800 million, for remaining availabilities of $49.6 million and $793.9 million, respectively. Management believes that the committed revolving credit facilities will, until their maturities in February 2022 and January 2022, provide sufficient liquidity to manage its long-term debt maturities and support working capital requirements. In addition, two subsidiaries of Cogeco Communications, also benefit from a Revolving Facility of $188 million (US$150 million) of which $38.6 million (US$30.8 million) was used at August 31, 2017 for a remaining availability of $149.4 million (US$119.2 million) .

The following table summarizes the contractual maturities of the financial liabilities and related capital amounts at August 31, 2017:

| | | Contractual cash flows | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ | $ | $ |
| Bank indebtedness | 3,801 | 3,801 | — | — | — | — | — | 3,801 |
| Trade and other payables [1] | 309,593 | 309,593 | — | — | — | — | — | 309,593 |
| Long-term debt | 2,611,356 | 131,956 | 93,859 | 1,179,292 | 200,024 | 235,013 | 788,904 | 2,629,048 |
| Balance due on a business combination | 118 | 118 | — | — | — | — | — | 118 |
| Derivative financial instruments | 192 | 192 | — | — | — | — | — | 192 |
| | 2,925,060 | 445,660 | 93,859 | 1,179,292 | 200,024 | 235,013 | 788,904 | 2,942,752 |

(1) Excluding accrued interest on long-term debt.

The following table is a summary of interest payable on long-term debt that is due for each of the next five years and thereafter, based on the principal amount and interest rate prevailing on the outstanding debt at August 31, 2017 and their respective maturities:

| | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ | $ |
| Interest payments on long-term debt | 116,026 | 106,843 | 84,463 | 50,754 | 39,541 | 86,838 | 484,465 |
| Interest receipts on derivative financial instruments | (1,356) | (1,068) | — | — | — | — | (2,424) |
| Interest payments on derivative financial instruments | 1,022 | 851 | — | — | — | — | 1,873 |
| | 115,692 | 106,626 | 84,463 | 50,754 | 39,541 | 86,838 | 483,914 |

## Interest rate risk

The Corporation and its subsidiary, Cogeco Communications, are exposed to interest rate risks on floating interest rate instruments. Interest rates fluctuations will have an effect on the repayment of these instruments. At August 31, 2017, all of the Corporation's and Cogeco Communications' long-term debt was at fixed rate, except for the amounts drawn under Cogeco Communications' First Lien Credit Facilities.

To mitigate such risk, the Cogeco Communications' US subsidiary entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at August 31, 2017:

| 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 an increase of 1% in the interest rate applicable to the unhedged portion of these facilities is approximately $5.6 million based on the outstanding debt at August 31, 2017.

## Foreign exchange risk

Cogeco Communications is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximatively $7.1 million based on the outstanding debt at August 31, 2017.

Cogeco Communications faces exposure to foreign exchange risk related to forecasted purchase commitments of property, plant and equipment denominated in US dollars. In order to mitigate such risk, Cogeco Communications entered into foreign currency forward contracts and designated them as cash-flow hedges for accounting purposes. The following table shows the forward contracts outstanding at August 31, 2017:

| Type of hedge | Notional amount | Maturity | Exchange rate | Hedged item |
|---|---|---|---|---|
| Cash flow | US$9.9 million | October - November 2017 | 1.2653 - 1.2672 | Purchase commitments of property, plant and equipment |

The Corporation faces exposure to foreign exchange risk on cash and cash equivalents, trade and other receivables, trade and other payables and provisions denominated in US dollars, Euros or British Pounds. The Corporation's exposure to foreign currency risk is as follows:

| At August 31, | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | US | Euro | British Pounds | US | Euro | British Pounds |
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ | $ | $ |
| **Financial assets (liabilities)** | | | | | | |
| Cash and cash equivalents | 18,864 | 957 | 108 | 16,520 | 1,446 | 224 |
| Trade and other receivables | 4,889 | 122 | — | 3,000 | 170 | — |
| Trade and other payables and provisions | (15,828) | (7,100) | — | (15,499) | (6,982) | — |
| | 7,925 | (6,021) | 108 | 4,021 | (5,366) | 224 |

Due to their short-term nature, the risk arising from fluctuations in foreign exchange rates is not significant. The impact of a 10% fluctuation in the foreign exchange rates (US dollar, Euro and British Pound) would not change financial expense significantly.

Furthermore, Cogeco Communications' net 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 related to the US dollar is mitigated since the major part of the purchase prices for Atlantic Broadband and Cogeco Peer 1 were borrowed directly in US dollars.

The following table shows the net investments in foreign operations outstanding at August 31, 2017:

| Type of hedge | Notional amount of debt | Aggregate investments | Hedged item |
|---|---|---|---|
| Net investment | US$790 million | US$905.9 million | Net investments in foreign operations in US dollar |
| N/A | £— million | £27.4 million | N/A |

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollar for the consolidated statement of financial position accounts at August 31, 2017 was $1.2536 ($1.3116 in 2016) per US dollar and $1.6161 ($1.7223 in 2016) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease other comprehensive income by approximately $18.9 million.

## B) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimated at a specific point in time, by discounting expected cash flows at rates for assets and liabilities of the same remaining maturities and conditions. These estimates are subjective in nature and involve uncertainties and significant judgment, and therefore, cannot be determined with precision. In addition, income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were settled. The Corporation has determined the fair value of its financial instruments as follows:

- The carrying amount of cash and cash equivalents, short-term investments, trade and other receivables, bank indebtedness and trade and other payables approximates fair value because of the short-term nature of these instruments;
- Interest rates under the terms of the Term Revolving Facilities and First Lien Facilities are based on bankers' acceptance, US dollar base rate loans, LIBOR loans in US dollars, Euros or British Pounds loans plus applicable margin. Therefore, the carrying value approximates fair value for these facilities, since they have conditions similar to those currently available to the Corporation;
- The fair value of the Senior Secured Debentures Series 2, 3 and 4, Senior Secured Notes Series A and B, Senior Secured Notes, Senior Unsecured Notes, Senior Unsecured Debenture and Unsecured Debentures are based upon current trading values for similar financial instruments; and
- The fair values of finance leases are not significantly different from their carrying amounts.

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

| At August 31, | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| *(In thousands of Canadian dollars)* | $ | $ | $ | $ |
| Long-term debt | 2,611,356 | 2,722,629 | 2,944,605 | 3,067,189 |

All financial instruments recognized at fair value on the consolidated statement of financial position must be measured based on the three fair value hierarchy levels, which are as follows:

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

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

## C) CAPITAL MANAGEMENT

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

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

The provisions of financing agreements of the Corporation and its subsidiary, Cogeco Communications provide for restrictions on their activities. Generally, the most significant restrictions relate to permitted investments and dividends on multiple and subordinate voting shares, as well as the maintenance of certain financial ratios primarily linked to the adjusted EBITDA, financial expense and total indebtedness. At August 31, 2017 and 2016 the Corporation and its subsidiary were in compliance with all of their debt covenants and were not subject to any other externally imposed capital requirements.

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Net secured indebtedness [1] / adjusted EBITDA | 1.7 | 2.2 |
| Net indebtedness [2] / adjusted EBITDA | 2.3 | 2.9 |
| Adjusted EBITDA / financial expense | 7.6 | 7.2 |

(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, short-term investments and principal on Unsecured Debentures, Senior Unsecured Debenture and Senior Unsecured Notes.
(2) Net indebtedness is defined as the total of bank indebtedness, balance due on a business combination, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and short-term investments.

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

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| Net secured indebtedness [1] / adjusted EBITDA | 1.7 | 2.3 |
| Net indebtedness [2] / adjusted EBITDA | 2.3 | 2.9 |
| Adjusted EBITDA / financial expense | 7.8 | 7.2 |

(1) Net secured indebtedness is defined as the total of bank indebtedness, intercompany note payable, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents, short-term investments and principal on Senior Unsecured Debenture and Senior Unsecured Notes.
(2) Net indebtedness is defined as the total of bank indebtedness, balance due on a business combination, intercompany note payable, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and short-term investments.

### D) CATEGORIES OF FINANCIAL INSTRUMENTS

| At August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| **Financial assets** | | |
| Loans and receivables | 343,431 | 210,886 |
| Held to maturity | 34,944 | — |
| Derivative financial instruments in designated hedge relationships | 857 | 1,040 |
| | 379,232 | 211,926 |
| **Financial liabilities** | | |
| Derivative financial instruments in designated hedge relationships | 192 | 165 |
| Other liabilities | 2,952,942 | 3,261,634 |
| | 2,953,134 | 3,261,799 |

## 24. RELATED PARTY TRANSACTIONS

### A) MANAGEMENT FEES AND OTHER RELATED PARTY TRANSACTIONS

Cogeco is the parent company of Cogeco Communications and holds 31.7% of Cogeco Communications' equity shares, representing 82.3% of Cogeco Communications' voting shares.

Cogeco provides executive, administrative, financial and strategic planning services and other services to Cogeco Communications under a Management Services Agreement. Under the Agreement, management fees are payable on a monthly basis, representing 0.85% of the consolidated revenue of Cogeco Communications. In addition, Cogeco Communications reimburses Cogeco's out-of-pocket expenses incurred with respect to services provided to Cogeco Communications under the Agreement. Provision is made for future adjustment upon the request of either Cogeco Communications or the Corporation should the level of management fees no longer align with the costs, time and resources committed by Cogeco. For fiscal 2017 management fees paid to Cogeco amounted to $18.9 million, compared to $18.5 million for fiscal 2016.

No direct remuneration is payable to Cogeco's executive officers by Cogeco Communications. However, Cogeco Communications granted 81,350 stock options (74,750 in 2016), did not grant any ISUs (nil in 2016) and granted 12,150 PSUs (11,950 in 2016) to these executive officers as executive officers of Cogeco Communications during fiscal 2017. During fiscal 2017, Cogeco Communications charged the Corporation amounts of $652,000 ($616,000 in 2016), $39,000 ($330,000 in 2016) and $660,000 ($501,000 in 2016) with regards to Cogeco Communications' stock options, ISUs and PSUs granted to these executive officers.

### B) INTERCOMPANY NOTE PAYABLE

On August 2, 2016 an intercompany loan agreement was concluded between the Corporation and its subsidiary, Cogeco Communications, by which a revolving credit facility was established in favour of Cogeco Communications. The maximum principal amount of the facility was set at $40 million and the full amount was advanced to Cogeco Communications as of the signing date. The credit facility is payable on demand and the interest is calculated on the daily outstanding balance at an annual rate equivalent to Cogeco Communications' Canadian Revolving Facility. During the third quarter of fiscal 2017 the intercompany loan was fully repaid by Cogeco Communications.

### C) COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are comprised of the members of the Board and of the Management Committee of the Corporation. The compensation paid or payable to key management personnel for employee services is as follows:

| Years ended August 31, | 2017 | 2016 |
|---|---|---|
| *(In thousands of Canadian dollars)* | $ | $ |
| Salaries and other short-term employee benefits | 6,614 | 5,601 |
| Post-employment benefits | 599 | 463 |
| Share-based payments | 3,507 | 3,025 |
| | 10,720 | 9,089 |

# 25. COMMITMENTS, CONTINGENCIES AND GUARANTEES

## A) COMMITMENTS

At August 31, 2017, the Corporation and its subsidiaries are committed under operating lease agreements and other long-term contracts to make annual payments as follows:

| *(In thousands of Canadian dollars)* | 2018<br>$ | 2019<br>$ | 2020<br>$ | 2021<br>$ | 2022<br>$ | Thereafter<br>$ |
|---|---|---|---|---|---|---|
| Operating lease agreements [1] | 33,165 | 30,790 | 29,932 | 26,979 | 23,079 | 32,239 |
| Acquisitions of property, plant and equipment and intangible assets [2] | 10,615 | 16,989 | — | — | — | — |
| Other long-term contracts [3] | 36,066 | 15,404 | 12,466 | 7,543 | 5,632 | 30,192 |
| | 79,846 | 63,183 | 42,398 | 34,522 | 28,711 | 62,431 |

(1) Include operating lease agreements for rent of premises and support structures.

(2) Include minimum spend commitments under acquisitions of home terminal devices and software licenses.

(3) Include long-term commitments with suppliers to provide services including minimum spend commitments.

### Business combination expected in fiscal 2018

On July 10, 2017, Cogeco Communications' subsidiary, Atlantic Broadband, announced that it entered into an agreement with Harron Communications, L.P. to acquire substantially all of the assets of its cable systems operating under the MetroCast brand name which serves about 120,000 Internet, 76,000 video and 37,000 telephony customers. The transaction valued at US$1.4 billion is subject to customary closing adjustments. This acquisition is expected to be financed through a combination of non-recourse debt financing at Atlantic Broadband and a US$315 million equity investment by Caisse de dépôt et placement du Québec (“CDPQ”) in Atlantic Broadband’s holding company, representing 21% of Atlantic Broadband. The transaction is subject to usual closing conditions, regulatory approvals and other customary conditions, which are proceeding as expected. The Corporation expects the transaction to close in early January 2018.

In connection with the expected business combination of MetroCast, a US subsidiary of Cogeco Communications has entered into an agreement with a group of banks who committed to a new US$1.7 billion Senior Secured Term Loan B, whereby US$585 million is expected to be used to refinance the existing First Lien Credit Facilities. An additional borrowing of US$150 million is committed by way of a Senior Secured Revolving Credit Facility.

## B) CONTINGENCIES

The Corporation and its subsidiaries are involved in matters involving litigations or potential claims from suppliers arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Corporation's exposure to litigations to be significant to these consolidated financial statements.

## C) GUARANTEES

In the normal course of business, the Corporation provides indemnification in conjunction with certain transactions. While many of the agreements specify a maximum potential exposure, some do not specify a maximum amount. The overall maximum amount of an indemnification obligation will depend on future events and conditions and therefore cannot be reasonably estimated. As a result, we cannot determine how they could affect our future liquidity, capital resources or credit risk profile. At August 31, 2017 and 2016, no liability has been recorded with respect to these indemnifications, except for those disclosed in Note 17.

### Business combinations and asset disposals

In connection with the acquisition or sale of a business or assets, in addition to possible indemnifications relating to failure to perform covenants and breach of representations and warranties, the Corporation and its subsidiaries have agreed to indemnify the seller or the purchaser against claims related to events that occurred prior to the date of acquisition or sale.

### Long-term debt

Under the terms of Cogeco Communications' Senior Secured Notes and Senior Unsecured Notes, the subsidiary has agreed to indemnify the lenders against changes in regulations relative to withholding taxes and costs incurred due to changes in laws.

### Employees and contractuals indemnification agreements

The Corporation's subsidiary, Cogeco Media, indemnifies certain of its on-air hosts against charges, costs and expenses as a result of any lawsuit, resulting from judicial or administrative proceedings in which they are named as defending party and arising from the performance of their services. The Corporation has purchased employees' and contractual's liability insurance with a deductible per loss.

### Sale of services

As part of transactions involving the sale of services, the Corporation and its subsidiaries may be required to make payments to counterparties as a result of breaches of representations and warranties made into the service agreements.

### Purchase and development of assets

As part of transactions involving the purchase and development of assets, the Corporation and its subsidiaries may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties contained in the purchase agreements.

## 26. NON-MONETARY TRANSACTIONS

During fiscal 2017, the Corporation's subsidiary, Cogeco Media, entered into non-monetary transactions. An amount of $4.5 million ($5.1 million in 2016) of revenue and $4.6 million ($5.4 million in 2016) of operating expenses were recorded.

## 27. GOVERNMENT ASSISTANCE

In 2017, the Corporation's subsidiary, Cogeco Communications did not receive any government assistance, while in 2016 it received $2.1 million in diverse forms of governments grants and research and development credits. The assistance received in fiscal 2016 was accounted as a reduction of property, plant and equipment for an amount of $1.3 million and as a reduction of operating expenses for an amount of $0.8 million.

## 28. SUBSEQUENT EVENT

In October 2017, a US subsidiary of Cogeco Communications has entered into four forward starting interest rate swap agreements on a notional amount totalling US$500 million. These agreements will have the effect of converting the floating US LIBOR base rate at an average fixed rate of 2.07% starting on January 31, 2018, under the US$1.7 billion Senior Secured Term Loan B to be issued to finance the MetroCast acquisition and refinance the existing First Lien Credit Facilities. The MetroCast acquisition is expected to close in early January 2018.

# INVESTOR INFORMATION

## CREDIT RATINGS

### COGECO COMMUNICATIONS

The table below shows Cogeco Communications' and Atlantic Broadband's credit ratings:

| At August 31, 2017 | S&P | DBRS | Fitch | Moody's |
|---|---|---|---|---|
| **Cogeco Communications** | | | | |
| Senior Secured Notes and Debentures | BBB | BBB (low) | BBB- | NR |
| Senior Unsecured Notes | BB- | BB | BB+ | NR |
| **Atlantic Broadband** | | | | |
| First Liens Credit Facilities | BB | NR | NR | Ba3 |

**NR :** Not rated

Pursuant to the announcement of the MetroCast acquisition, all credit ratings for Cogeco Communications and Atlantic Broadband were confirmed. However, the credit rating on Atlantic Broadband's First Lien Credit Facilities to be issued at the closing of the MetroCast acquisition will be downgraded to B1 and BB- by Moody's and S&P, respectively, due to the additional financial leverage at Atlantic Broadband resulting from the acquisition.

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

## SHARE INFORMATION

| At August 31, 2017 | | Registrar / Transfer agent |
|---|---|---|
| Number of multiple voting shares (20 votes per share) outstanding | 1,842,860 | Computershare Trust Company of Canada<br>100 University Avenue, 9th Floor<br>Toronto, ON M5J 2Y1<br>Tel.: 514-982-7555<br>Tel.: 1-800-564-6253<br>Fax: 416-263-9394 |
| Number of subordinate voting shares (1 vote per share) outstanding | 14,750,245 | |
| Stock exchange listing | The Toronto Stock Exchange | |
| Trading symbol | CGO | |

## DIVIDENDS

### DIVIDEND DECLARATION

At its November 2, 2017 meeting, the Board of Directors of Cogeco declared a quarterly eligible dividend of $0.39 per share for multiple voting and subordinate voting shares, payable on November 30, 2017, to shareholders of record on November 16, 2017. 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.

# TRADING STATISTICS

| | | | | | 2017 |
|---|---|---|---|---|---|
| Quarters ended | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total |
| *(in dollars, except subordinate voting share volumes)* | $ | $ | $ | $ | |
| The Toronto Stock Exchange | | | | | |
| High | 55.63 | 63.56 | 70.00 | 82.75 | |
| Low | 47.55 | 53.45 | 58.30 | 65.31 | |
| Close | 54.95 | 62.00 | 67.08 | 82.51 | |
| Volume (subordinate voting shares) | 1,212,782 | 689,219 | 558,904 | 797,634 | 3,258,539 |

| | | | | | 2016 |
|---|---|---|---|---|---|
| Quarters ended | Nov. 30 | Feb. 29 | May 31 | Aug. 31 | Total |
| *(in dollars, except subordinate voting share volumes)* | $ | $ | $ | $ | |
| The Toronto Stock Exchange | | | | | |
| High | 57.99 | 55.45 | 57.82 | 56.75 | |
| Low | 51.00 | 48.18 | 50.20 | 49.20 | |
| Close | 54.82 | 53.04 | 56.26 | 50.62 | |
| Volume (subordinate voting shares) | 687,954 | 624,019 | 508,118 | 835,190 | 2,655,281 |

# COMMUNICATIONS SEGMENT CUSTOMER STATISTICS

| | August 31, 2017 | May 31, 2017 | February 28, 2017 | November 30, 2016 | August 31, 2016 | August 31, 2015 |
|---|---|---|---|---|---|---|
| **CONSOLIDATED** | | | | | | |
| Primary service units | 2,527,882 | 2,534,925 | 2,536,876 | 2,527,602 | 2,507,750 | 2,497,702 |
| Internet service customers | 1,042,996 | 1,034,686 | 1,023,519 | 1,007,610 | 987,365 | 934,470 |
| Video service customers | 956,775 | 967,020 | 976,997 | 981,682 | 982,955 | 1,014,661 |
| Telephony service customers | 528,111 | 533,219 | 536,360 | 538,310 | 537,430 | 548,571 |
| **CANADA** | | | | | | |
| Primary service units | 1,916,861 | 1,926,537 | 1,934,496 | 1,930,909 | 1,914,017 | 1,926,542 |
| Internet service customers | 769,869 | 764,350 | 759,152 | 749,275 | 733,701 | 704,555 |
| Penetration as a percentage of homes passed | 44.5% | 44.3% | 44.2% | 43.8% | 43.0% | 41.8% |
| Video service customers | 720,636 | 729,701 | 737,975 | 740,855 | 739,323 | 765,358 |
| Penetration as a percentage of homes passed | 41.6% | 42.3% | 42.9% | 43.3% | 43.4% | 45.4% |
| Telephony service customers | 426,356 | 432,486 | 437,369 | 440,779 | 440,993 | 456,629 |
| Penetration as a percentage of homes passed | 24.6% | 25.1% | 25.5% | 25.8% | 25.9% | 27.1% |
| **UNITED STATES** | | | | | | |
| Primary service units | 611,021 | 608,388 | 602,380 | 596,693 | 593,733 | 571,160 |
| Internet service customers | 273,127 | 270,336 | 264,367 | 258,335 | 253,664 | 229,915 |
| Penetration as a percentage of homes passed | 45.9% | 45.7% | 44.7% | 43.7% | 42.9% | 38.9% |
| Video service customers | 236,139 | 237,319 | 239,022 | 240,827 | 243,632 | 249,303 |
| Penetration as a percentage of homes passed | 39.7% | 40.1% | 40.4% | 40.7% | 41.2% | 42.2% |
| Telephony service customers | 101,755 | 100,733 | 98,991 | 97,531 | 96,437 | 91,942 |
| Penetration as a percentage of homes passed | 17.1% | 17.0% | 16.7% | 16.5% | 16.3% | 15.5% |

# BOARD OF DIRECTORS AND CORPORATE MANAGEMENT

## BOARD OF DIRECTORS

✪ **JAN PEETERS, Board Chair**
Montréal (Québec)
President and Chief Executive Officer and Board Chair
Olameter Inc. (Telemetry company)

●♦ **PIERRE L. COMTOIS**, B. Sc., Com., Adm. A.
Montréal (Québec)
Vice-Chairman of the Board and Director
Optimum Asset Management Inc. (Canadian Private International Financial Group)

★ **LOUIS AUDET**, Eng., MBA, C.M.
Westmount (Québec)
President and Chief Executive Officer
Cogeco Inc. and Cogeco Communications Inc.

●■★ **CLAUDE A. GARCIA**, B.A., B. Com.
Montréal (Québec)
Corporate Director

♦■ **MARY-ANN BELL**, Eng., M.Sc., ASC
Montréal (Québec)
Corporate Director

●★ **NORMAND LEGAULT**, B.B.A
Montréal (Québec)
Chairman
Solotech Group Inc. (Entertainment technology provider)

● **JAMES C. CHERRY**, B.Com, FCPA, FCA
Montréal (Québec)
Corporate Director

■♦★ **DAVID MCAUSLAND**, B.C.L., LL.B.
Baie-D'Urfé (Québec)
Partner
McCarthy Tétrault (Major law firm in Canada)

**Legend :**

✪ Attends as an observer and participates in meetings of all the committees
● Member of the Audit Committee
■ Member of the Human Resources Committee
♦ Member of the Corporate Governance Committee
★ Member of the Strategic Opportunities Committee

# CORPORATE HEAD OFFICE

5 Place Ville Marie
Suite 1700
Montréal (Québec)
H3B 0B3
corpo.cogeco.com

# CORPORATE MANAGEMENT

**LOUIS AUDET**
President and Chief Executive Officer

**ELIZABETH ALVES**
Vice President, Internal Audit and Risk Management

**PHILIPPE BONIN**
Vice President, Corporate Development

**NATHALIE DORVAL**
Vice President, Regulatory Affairs and Copyright

**RENÉ GUIMOND**
Senior Vice President, Public Affairs and Communications

**CHRISTIAN JOLIVET**
Senior Vice President, Corporate Affairs, Chief Legal Officer and Secretary

**PIERRE MAHEUX**
Vice President, Corporate Controller

**LUC NOISEUX**
Senior Vice President and Chief Technology and Strategy Officer

**DIANE NYISZTOR**
Senior Vice President, Corporate Human Resources

**PATRICE OUIMET**
Senior Vice President and Chief Financial Officer

**ANDRÉE PINARD**
Vice President and Treasurer

# SUBSIDIARIES INFORMATION

## COGECO COMMUNICATIONS INC.

**LOUIS AUDET**
President and Chief Executive Officer

5 Place Ville Marie
Suite 1700
Montréal (Québec)
H3B 0B3
corpo.cogeco.com

## COGECO CONNEXION

**KEN SMITHARD**
President

5 Place Ville Marie
Suite 1700
Montréal (Québec)
H3B 0B3
www.cogeco.ca

## ATLANTIC BROADBAND

**RICHARD SHEA**
President and Chief Executive Officer

2 Batterymarch Park
Suite 205
Quincy, MA 02169
www.atlanticbb.com

## COGECO PEER 1

**PHILIPPE JETTÉ**
President

413 Horner Avenue
Toronto (Ontario)
M8W 4W3
www.cogecopeer1.com

## COGECO MÉDIA

**RICHARD LACHANCE**
President and Chief Executive Officer

800, rue de la Gauchetière Ouest
Montréal (Québec)
H5A 1K6
www.cogecomedia.com

# CORPORATE INFORMATION

**ANNUAL MEETING**
The Annual Meeting of Shareholders will be held at 11:45 a.m. on Thursday, January 11, 2018, at the Centre Mont-Royal, Mont-Royal room 1, 4th Floor, Montréal (Québec).

**AUDITORS**
Deloitte LLP
1190 Avenue des Canadiens-de-Montréal
Suite 500
Montréal (Québec)
H3B 0M7

**LEGAL COUNSEL**
Stikeman Elliott LLP
1155 René-Lévesque Blvd. West
40th Floor
Montréal (Québec)
H3B 3V2

**TRANSFER AGENT FOR SUBORDINATE AND MULTIPLE VOTING SHARES, AND TRUSTEE FOR SENIOR SECURED DEBENTURES AND NOTES**
Computershare Trust Company of Canada

**TRUSTEE FOR SENIOR UNSECURED NOTES**
Computershare Trust Company, N.A

**QUARTER ENDS**
November, February, May

**YEAR END**
August 31

# INQUIRIES

The Annual Report, Annual Information Form, Quarterly Reports and Information Circular are available in the Investors section of the Corporation's website (corpo.cogeco.com) or upon request by calling 514-764-4700.

*Des versions françaises du rapport annuel, de la notice annuelle, des rapports trimestriels et de la circulaire d'information sont disponibles sous la section « Investisseurs » du site Internet de la société (corpo.cogeco.com) ou sur demande au 514-764-4700.*

## INVESTORS AND ANALYSTS

For financial information about the Corporation, please contact the Department of Finance of the Corporation.

## SHAREHOLDERS

For any inquiries regarding a change of address or a change of registration of shares, please contact Computershare Trust Company of Canada. For any other inquiries please contact the Corporate and Legal Affairs Department of the Corporation.

## DUPLICATE COMMUNICATIONS

Some shareholders may receive more than one copy of publications such as Quarterly Reports and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise Computershare Trust Company of Canada.

## ETHICS LINE

Cogeco Inc., makes available an anonymous and confidential Ethics Line for its employees and the employees of all its business units and other individuals who wish to report any perceived or actual instances of violations of the Cogeco Code of Ethics (including complaints regarding accounting, internal accounting controls and audit matters). The Ethics Line is operated by a specialized external provider that is independent of Cogeco Inc. Reports can be made through secured confidential toll-free telephone lines or the web site described below. All reports submitted through the Ethics Line will be examined by the Vice President, Internal Audit and Risk Management and/or the Senior Vice President, Corporate Affairs, Chief Legal Officer and Secretary. Individuals will be protected from dismissal or retaliation of any kind for reporting truthfully and in good faith.

By telephone:

| | |
|---|---|
| **Canada or United States:** | **1-877-706-2640** |
| **United Kingdom:** | **0 800 016 3854** |
| **France:** | **0 800 914 343** |

Web site of ClearView Connects: www.clearviewconnects.com


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corpo.cogeco.com