

SHAREHOLDERS' REPORT

Three and six-month periods ended February 28, 2013

FINANCIAL HIGHLIGHTS

(in thousands of dollars, except PSU growth, percentages and per share data)	Quarters ended			Six months ended		
	February 28, 2013	February 29, 2012	Change	**February 28, 2013**	February 29, 2012	Change
	$	$	%	**$**	$	%
Operations						
Revenue	**458,501**	345,613	32.7	**825,109**	691,636	19.3
Operating income before depreciation and amortization[(1)]	**195,968**	144,518	35.6	**352,548**	284,779	23.8
Operating income	**102,464**	58,931	73.9	**185,741**	133,573	39.1
Profit for the period from continuing operations	**56,517**	29,449	91.9	**103,612**	73,973	40.1
Profit for the period from discontinued operations	**—**	52,047	—	**—**	55,446	–
Profit for the period	**56,517**	81,496	(30.7)	**103,612**	129,419	(19.9)
Profit for the period attributable to owners of the Corporation	**16,899**	25,089	(32.6)	**35,386**	43,859	(19.3)
Cash Flow						
Cash flow from operating activities	**157,095**	126,455	24.2	**151,090**	136,025	11.1
Cash flow from operations[(1)]	**140,413**	105,153	33.5	**242,203**	209,892	15.4
Acquisitions of property, plant and equipment, intangible and other assets	**106,019**	87,186	21.6	**189,174**	165,590	14.2
Free cash flow[(1)]	**34,394**	17,967	91.4	**53,029**	44,302	19.7
Financial Condition[(2)]						
Property, plant and equipment	**—**	—	—	**1,752,195**	1,343,904	30.4
Total assets	**—**	—	—	**5,406,525**	3,103,919	74.2
Indebtedness[(3)]	**—**	—	—	**3,137,780**	1,180,971	–
Equity attributable to owners of the Corporation	**—**	—	—	**430,130**	397,799	8.1
Primary service units ("PSU") growth[(4)]	**7,463**	12,280	(39.2)	**22,543**	58,459	(61.4)
Per Share Data[(5)]						
Earnings per share attributable to owners of the Corporation						
From continuing and discontinued operations						
Basic	**1.01**	1.50	(32.7)	**2.12**	2.62	(19.1)
Diluted	**1.00**	1.49	(32.9)	**2.10**	2.61	(19.5)
From continuing operations						
Basic	**1.01**	0.50	—	**2.12**	1.56	35.9
Diluted	**1.00**	0.50	—	**2.10**	1.55	35.5
From discontinued operations						
Basic	**—**	1.00	—	**—**	1.07	**–**
Diluted	**—**	0.99	—	**—**	1.06	**–**

(1) 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").

(2) At February 28, 2013 and August 31, 2012.

(3) Indebtedness is defined as the total of bank indebtedness, principal on long-term debt, balance due on business combinations and obligations under derivative financial instruments.

(4) Represents the sum of Television, High Speed Internet ("HSI") and Telephony service customers.

(5) Per multiple and subordinate voting share.



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Three and six-month periods ended February 28, 2013

FORWARD-LOOKING STATEMENTS

Certain statements 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's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. In particular, statements regarding the Corporation's future operating results and economic performance and its objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which COGECO believes are reasonable as of the current date. While management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. The Corporation cautions the reader that the economic downturn experienced over the past few years makes forward-looking information and the underlying assumptions subject to greater uncertainty and that, consequently, they may not materialize, or the results may significantly differ from the Corporation's expectations. It is impossible for COGECO to predict with certainty the impact that the current economic uncertainties may have on future results. Forward-looking information is also subject to certain factors, including risks and uncertainties (described in the "Uncertainties and main risk factors" section of the Corporation's 2012 annual MD&A as well as in the present MD&A) that could cause actual results to differ materially from what COGECO currently expects. These factors include risks pertaining to markets and competition, technology, regulatory developments, operating costs, information systems, disasters or other contingencies, financial risks related to capital requirements, human resources, controlling shareholder and holding structure, many of which are beyond the Corporation's control. Therefore, future events and results may vary significantly from what management currently foresees. The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While management may elect to, the Corporation is under no obligation and does not undertake to update or alter this information at any particular time, except as may required by law.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the Corporation's condensed interim consolidated financial statements and the notes thereto, prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2012 Annual Report.

CORPORATE OBJECTIVES AND STRATEGIES

COGECO's objectives are to provide outstanding service to its customers and maximize shareholder value by increasing profitability and ensuring continued revenue growth. The strategies employed to reach these objectives, supported by tight controls over costs and business processes, are specific to each segment. The main strategies used to reach COGECO's objectives in the Cable segment focus on sustained corporate growth and continuous improvement of networks and equipment. The radio activities focus on continuous improvement of its programming in order to increase its market share and thereby its profitability. The Corporation measures its performance, with regard to these objectives by monitoring operating income before depreciation and amortization[(1)], PSU[(2)] growth and free cash flow[(1)].

KEY PERFORMANCE INDICATORS

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION

For the six-month period ended February 28, 2013, operating income before depreciation and amortization increased by 23.8% when compared to the same period of fiscal 2012 to reach $352.5 million. As a result of the acquisition of Peer 1 Network Enterprises, Inc. (“PEER 1”) in the Cable segment, management revised its January 14, 2013 projections for fiscal 2013. Operating income before depreciation and amortization is now expected to reach $782 million from $750 million. For further details, please consult the fiscal 2013 revised projections in the “Fiscal 2013 financial guidelines” section.

FREE CASH FLOW

For the six-month period ended February 28, 2013, COGECO reports free cash flow of $53 million, compared to $44.3 million for the first six months of the previous fiscal year, representing an increase of $8.7 million. This variance is mostly attributable to the improvement of operating income before depreciation and amortization, partly offset by the increase in financial expense, the acquisition costs related to Atlantic Broadband (“ABB”) and PEER 1 acquisitions as well as the increase in acquisition of property, plant and equipment. Giving effect to the acquisition of PEER 1, management also revised its free cash flow projections from $175 million to $150 million as a result of acquisitions of property, plant and equipment, intangible and other assets exceeding cash flow generated by PEER 1, additional integration, restructuring and acquisition costs of $9 million as well as additional financial expense of $17 million both related to this acquisition. For further details, please consult the fiscal 2013 revised projections in the “Fiscal 2013 financial guidelines” section.

CABLE SEGMENT

PSU growth and penetration of service offerings

During the six-month period ended February 28, 2013, PSU reach 2,486,350 of which 1,984,555 comes from the Canadian cable services segment and 501,795 from the American cable services segment. In the American cable services segment, PSU increased by 7,121 in the quarter, stemming primarily from the Television and HSI services. In the Canadian cable services segment, PSU increased at a lower pace to 342 when compared to 12,280 PSU for the comparable period of the prior year, mainly as a result of service category maturity and more competitive environment in the Television services. Cogeco Cable maintains targeted marketing initiatives to increase the penetration level of its services.

BUSINESS DEVELOPMENTS AND OTHER

BBM Canada's winter 2013 survey in the Montréal region, conducted with the Portable People Meter (“PPM”), reported that 98.5 FM is the leading radio station in the Montreal French market amongst all listeners and men two years old and over (“2+”), while Rythme FM has maintained its leadership position in the female 2+ segment among the musical stations. Regarding the Montreal English market, *The Beat* is the leading radio station in the female 35-64 segment. In the other Quebec regions, our radio stations registered good ratings.

On January 31, 2013, Cogeco Cable completed the acquisition of 96.57% of the issued and outstanding shares of PEER 1 by way of takeover bid (the “offer”) valued at approximately $649 million. On April 3, 2013, Cogeco Cable completed the acquisition of the remaining 3.43% of the issued and outstanding shares of PEER 1 for a cash consideration of $17 million pursuant to the compulsory acquisition provisions in Section 300 of the Business Corporations Act ("British Columbia"). In connection with the completion of the offer, Cogeco Cable has entered into secured credit facilities in the amount of approximately $650 million and maturing in 2017, with a syndicate of lenders. PEER 1 is one of the world’s leading internet infrastructure providers, specializing in managed hosting, dedicated servers, cloud services and co-location. This acquisition enhances Cogeco Cable footprint and builds on its strategic initiatives by increasing scale in an attractive industry segment with significant growth prospects in the state of the art data center platforms. The Corporation will also serve additional businesses worldwide, in addition to approximately 11,000 customers currently served, through 23 data centres and 21 points-of-presence across North America and Europe. PEER 1's primary network centre and head office remain located in Vancouver.

On November 30, 2012, Cogeco Cable completed the acquisition of ABB, an independent cable system operator formed in 2003, serving about 495,000 PSU’s and providing Analogue and Digital Television, as well as HSI and Telephony services. The acquisition is an attractive entry point into the United States of America ("US") market, providing a significant increase in PSU base with further growth potential, a high quality network infrastructure and the ability for the Corporation’s management to leverage its core knowledge and operational experience. The transaction, valued at US$1.36 billion, was financed through a combination of cash on hand, a draw-down on the existing Term Revolving Facility of approximately US$588 million and US$660 million of borrowings under a new committed non-recourse debt financing at ABB. Ranked the 12th-largest cable television system operator in the US, ABB operates cable systems in Western Pennsylvania, Southern Florida, Maryland, Delaware and South Carolina.

(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 Television, High Speed Internet ("HSI") and Telephony service customers.

OPERATING AND FINANCIAL RESULTS

OPERATING RESULTS

	Quarters ended			Six months ended		
	February 28, 2013	February 29, 2012	Change	**February 28, 2013**	February 29, 2012	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Revenue	**458,501**	345,613	32.7	**825,109**	691,636	19.3
Operating expenses	**262,533**	201,095	30.6	**472,561**	406,857	16.1
Operating income before depreciation and amortization	**195,968**	144,518	35.6	**352,548**	284,779	23.8

REVENUE

Fiscal 2013 second-quarter revenue increased by $112.9 million or 32.7%, to reach $458.5 million, when compared to the same period last year. For the first six months, revenue amounted to $825.1 million, an increase of $133.5 million, or 19.3% when compared to the first six months of fiscal 2012. Revenue increased for both periods mainly attributable to the operating results of the Cable segment and the revenue generated by Métromédia CMR Plus Inc. ("Métromédia"), acquired during the second quarter of fiscal 2012.

In the Cable segment, fiscal 2013 second-quarter revenue increased by $111.9 million, or 35.2%, to reach $429.7 million, when compared to the same period last year. For the first six months, revenue amounted to $757.6 million, an increase of $124.4 million, or 19.7% when compared to the same period of fiscal 2012. For further details on the Cable segment's revenue, please refer to the “Cable segment” section.

OPERATING EXPENSES

For the second quarter of fiscal 2013, operating expenses increased by $61.4 million, to reach $262.5 million, an increase of 30.6% compared to the prior year. For the first half of the fiscal year, operating expenses amounted to $472.6 million, an increase of $65.7 million, or 16.1%, when compared to the same period of fiscal 2012. The increase in operating expenses is mainly attributable to the Cable segment operating results.

Operating expenses in the Cable segment for the second quarter, increased by $59.3 million, to reach $230.9 million, an increase of 34.5% compared to the prior year. For the first half of the fiscal year, operating expenses amounted to $405.1 million, an increase of $57 million, or 16.4%, when compared to the same period of fiscal 2012. For further details on the Cable segment's revenue, please refer to the “Cable segment” section.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION

Mainly as a result of higher growth from revenue than operating expenses stemming primarily from the Cable segment, operating income before depreciation and amortization grew by $51.5 million, or 35.6%, to reach $196.0 million in the second quarter and by $67.8 million, or 23.8% to reach $352.5 million for the first six months of fiscal 2013, when compared to the same periods of the previous year. For further details on Cogeco Cable's operating results, please refer to the “Cable segment” section.

FIXED CHARGES

	Quarters ended			Six months ended		
	February 28, 2013	February 29, 2012	Change	**February 28, 2013**	February 29, 2012	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Depreciation and amortization	**86,014**	85,479	0.6	**152,055**	151,098	0.6
Financial expense	**30,531**	16,110	89.5	**47,545**	33,888	40.3

For the three and six-month periods ended February 28, 2013, depreciation and amortization expense was essentially the same at $86.0 million and $152.1 million, respectively, compared to $85.5 million and $151.1 million for the same periods of the prior year, respectively, resulting mainly from Cogeco Cable's recent acquisitions of ABB and PEER 1 ("recent acquisitions") and from additional acquisition of property, plant and equipment offset by higher fiscal 2012 depreciation expense related to the reduction of useful lives for certain home terminal devices.

Fiscal 2013 second-quarter financial expense increased by $14.4 million, or 89.5%, at $30.5 million when compared to $16.1 million in fiscal 2012 second-quarter. For the first six months of fiscal 2013, financial expense increased by $13.7 million, or 40.3%, at $47.5 million, compared to $33.9 million in the prior year. Financial expense increased in both periods as a result of the cost of financing related to the recent acquisitions.

INCOME TAXES

For the three and six-month periods ended February 28, 2013, income tax expense amounted to $15.4 million and $34.6 million, respectively, compared to $13.4 million and $25.7 million, respectively, for the comparable periods in the prior year. These increases are mostly attributable to the improvement in operating income before depreciation and amortization and by income taxes reductions, in fiscal 2012, from the implementation of certain tax measures of the 2011 federal budget limiting the tax deferrals for corporations with a significant interest in a partnership, partly offset by the increase in financial expense and by the efficient tax structure resulting from the recent acquisitions in the Cable segment.

PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

For the three-month period ended February 28, 2013, profit for the period from continuing operations amounted to $56.5 million of which $16.9 million, or $1.01 per share is attributable to owners of the Corporation, compared to a profit for the period from continuing operations of $29.4 million of which $8.4 million or $0.50 per share is attributable to owners of the Corporation for the comparable period. For the six-month period ended February 28, 2013, profit for the period from continuing operations amounted to $103.6 million of which $35.4 million, or $2.12 per share is attributable to owners of the Corporation, compared to a profit for the period from continuing operations of $74.0 million of which $26.0 million, or $1.56 per share is attributable to owners of the corporation for the comparable period. Profit for the period from continuing operations progression for the quarter and the first half of fiscal 2013 is mostly attributable to the increase in operating income before depreciation and amortization, partly offset by the acquisition costs related to the recent acquisitions and the financial expense and income tax expenses increases explained above.

PROFIT FOR THE PERIOD

For the three and six-month periods ended February 28, 2013, profit for the period amounted to $56.5 million and $103.6 million, respectively, compared to $81.5 million and $129.4 million for the comparable periods. Fiscal 2013 second-quarter profit for the period attributable to owners of the Corporation amounted to $16.9 million, or $1.01 per share, compared to $25.1 million, or $1.50 per share, in the second quarter of fiscal 2012. For the six-month period ended February 28, 2013, profit for the period attributable to owners of the Corporation amounted to $35.4 million, or $2.12 per share, compared to $43.9 million, or $2.62 per share for the comparable period of fiscal 2012.The decline for both periods is mostly attributable to last year's profit from the Portuguese subsidiary, Cabovisão - Televisão por Cabo, S.A. (“Cabovisão”), reported as discontinued operations and disposed of on February 29, 2012, partly offset by the increases of operating income before depreciation and amortization, financial expense and acquisition costs all related to the recent acquisitions.

The non-controlling interest represents a participation of approximately 67.9% in Cogeco Cable's results. For the three and six-month periods ended February 28, 2013, profit for the period attributable to non-controlling interest amounted to $39.6 million and $68.2 million, respectively, when compared to $56.4 million and $85.6 million for the comparable periods of fiscal 2012.

CASH FLOW ANALYSIS

	Quarters ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
(in thousands of dollars)	**$**	$	**$**	$
Operating activities				
Cash flow from operations	**140,413**	105,153	**242,203**	209,892
Changes in non-cash operating activities	**12,757**	9,905	**(74,751)**	(64,781)
Amortization of deferred transaction costs and discounts on long-term debt	**(2,861)**	(914)	**(3,717)**	(1,676)
Income taxes paid	**(18,211)**	(19,093)	**(62,459)**	(57,077)
Current income tax expense	**22,552**	25,971	**48,664**	47,290
Financial expense paid	**(28,086)**	(10,677)	**(46,395)**	(31,511)
Financial expense	**30,531**	16,110	**47,545**	33,888
	157,095	126,455	**151,090**	136,025
Investing activities	**(735,466)**	(118,470)	**(2,172,678)**	(196,669)
Financing activities	**610,653**	64,401	**1,847,625**	95,389
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**705**	—	**705**	—
Net change in cash and cash equivalents from continuing operations	**32,987**	72,386	**(173,258)**	34,745
Net change in cash and cash equivalents from discontinued operations [(1)]	—	47,237	—	49,597
Cash and cash equivalents from continuing and discontinued operations, beginning of year	**9,278**	19,935	**215,523**	55,216
Cash and cash equivalents from continuing and discontinued operations, end of year	**42,265**	139,558	**42,265**	139,558

(1) For further details on the Corporation’s cash flows attributable to discontinued operations, please refer to the “Disposal of subsidiary and discontinued operations” on note 14 of the condensed interim consolidated financial statements.

OPERATING ACTIVITIES

Fiscal 2013 second-quarter cash flow from operations reached $140.4 million compared to $105.2 million, an increase of $35.3 million or 33.5%, compared to the same period of prior year. For the first six months, cash flow from operations reached $242.2 million compared to $209.9 million for the same period last year, an increase of $32.3 million, or 15.4%. Increases for both periods are primarily due to the improvement of operating income before depreciation and amortization, partly offset by financial expense increase and by the acquisition costs related to ABB and PEER 1 acquisitions. For the second quarter, changes in non-cash operating activities generated cash inflows of $12.8 million compared to $9.9 million in the second quarter of fiscal 2012, mainly as a result of an increase in trade and other payables compared to a decrease in the prior year, partly offset by an increase in trade and other receivables in the prior year. For the first six months, changes in non-cash operating activities generated cash outflows of $74.8 million compared to $64.8 million for the same period in fiscal 2012, mainly as a result of a higher decrease in trade and other payables and by a decrease in provisions compared to an increase in the prior year, partly offset by an increase in deferred and prepaid revenue and other liabilities compared to a decrease in prior year.

INVESTING ACTIVITIES

BUSINESS COMBINATIONS IN FISCAL 2013

On January 31, 2013, the Corporation's subsidiary, Cogeco Cable, completed the acquisition of PEER 1 and on November 30, 2012, the acquisition of ABB. These acquisitions were accounted for using the purchase method. In addition, Métromédia also completed the acquisition of a non-controlling interest participation of 27.5% in one of its subsidiaries for a cash consideration of approximately $0.5 million.

The preliminary purchase price allocation of these acquisitions, pending the completion of the valuation of the net assets acquired as well as Métromédia's non-controlling interest acquisition are as follows:

	Métromédia	PEER 1	ABB	TOTAL
	$	$	$	$
Consideration				
Paid				
Purchase of shares	**462**	**477,834**	**337,779**	**816,075**
Repayment of secured debts and settlement of options outstanding	**—**	**170,872**	**1,021,854**	**1,192,726**
	462	**648,706**	**1,359,633**	**2,008,801**
Net assets acquired				
Cash and cash equivalents	**—**	**10,840**	**5,480**	**16,320**
Restricted cash	**—**	**8,729**	**—**	**8,729**
Trade and other receivables	**—**	**12,772**	**9,569**	**22,341**
Prepaid expenses and other	**—**	**3,855**	**1,370**	**5,225**
Income tax receivable	**—**	**672**	**—**	**672**
Other assets	**—**	**3,328**	**—**	**3,328**
Property, plant and equipment	**—**	**150,206**	**205,353**	**355,559**
Intangible assets	**—**	**139,703**	**763,084**	**902,787**
Goodwill	**—**	**421,986**	**602,690**	**1,024,676**
Deferred tax assets	**—**	**8,355**	**33,835**	**42,190**
Trade and other payables assumed	**—**	**(26,330)**	**(27,620)**	**(53,950)**
Provisions	**—**	**—**	**(721)**	**(721)**
Income tax liabilities assumed	**—**	**(4,716)**	**—**	**(4,716)**
Deferred and prepaid revenue and other liabilities assumed	**—**	**(3,315)**	**(5,254)**	**(8,569)**
Long-term debt assumed	**—**	**(1,735)**	**—**	**(1,735)**
Deferred tax liabilities	**—**	**(58,682)**	**(228,153)**	**(286,835)**
Non-controlling interest	**462**	**(16,962)**	**—**	**(16,500)**
	462	**648,706**	**1,359,633**	**2,008,801**

FISCAL 2013 ADJUSTEMENT RELATED TO FISCAL 2012 BUSINESS COMBINATION

During the second quarter, the Corporation completed the purchase price allocation of Métromédia which was acquired on December 26, 2011. The final purchase price allocation of Métromédia is as follows:

	Preliminary	**Final**
	$	**$**
Consideration		
Paid		
Purchase of shares	36,860	**36,860**
Repayment of secured debt	2,140	**2,140**
	39,000	**39,000**
Balance due on a business combination, bank prime rate plus 1% and payable in June 2013	2,000	**2,000**
	41,000	**41,000**
Net assets acquired		
Cash and cash equivalents	3,265	**3,265**
Trade and other receivables	7,242	**7,364**
Prepaid expenses and other	57	**57**
Income tax receivable	234	**132**
Property, plant and equipment	4,764	**4,645**
Intangible assets	14,747	**14,747**
Goodwill	20,171	**20,540**
Trade and other payables assumed	(4,615)	**(4,786)**
Income tax liabilities	(142)	**—**
Deferred and prepaid revenue and other liabilities assumed	(374)	**(615)**
Deferred tax liabilities	(3,887)	**(3,887)**
Non-controlling interest	(462)	**(462)**
	41,000	**41,000**

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

For the three and six-month periods ended February 28, 2013, acquisition of property, plant an equipment amounted to $101.5 million and $180.0 million, respectively, compared to $84.5 million and $159.0 million for the comparable periods of fiscal 2012 mainly as a results of the following factors in the Cable segment:

- A decrease in the quarter and an increase for the six-month period ended February 28, 2013 in scalable infrastructure and network upgrade and rebuild to extend and improve network capacity and to deploy advanced technologies such as DOCSIS 3.0 and Switched Digital Video in existing areas served;
- A decrease in customer premise equipment, mainly due to the achievement in fiscal 2012 of the first phase in the conversion of Television service customers from analogue to digital and the lower PSU growth as a result of services category maturity in the Canadian operations; and
- An increase in data centre facilities capital expenditures in the Montreal and Toronto areas in Canada and Portsmouth in England for PEER 1 as well as expansion of the fibre in the Toronto area in order to fulfill orders from new customers.

Acquisition of intangible and other assets are mainly attributable to reconnect and additional service activation costs as well as other customer acquisition costs. For the second quarter and the first six months of fiscal 2013, the acquisition of intangible and other assets amounted to $4.5 million and $9.1 million, compared to $2.6 million and $6.6 million for the same periods last year, respectively.

FREE CASH FLOW AND FINANCING ACTIVITIES

In the second quarter of fiscal 2013, free cash flow amounted to $34.4 million, $16.4 million higher than in the comparable period of fiscal 2012. For the six-month period, free cash flow amounted to $53.0 million, $8.7 million, or 19.7%, higher than the same period of last year. Free cash flow increase for both periods over the prior year are due to the improvement of operating income before depreciation and amortization, partly offset by the increase in financial expense and acquisition costs both related to ABB and PEER 1 acquisitions, in the Cable segment, as well as the increase in acquisition of property, plant and equipment.

In the second quarter of fiscal 2013, higher Indebtedness level provided for a cash increase of $636.1 million mainly due to drawings of $640.3 million (net of transaction costs of $2.8 million) under new credit facilities amounting approximately to $650 million incurred to finance the acquisition of PEER 1 in the Cable segment. In the second quarter of fiscal 2012, higher Indebtedness level provided a cash increase of $80.8 million mainly due mainly due to the issuance, on February 14, 2012, of $200 million Senior Secured Debentures Series 3 (“Fiscal 2012 debentures”) for net proceed of $198.1 million which was used to repay the $84.9 million Term Revolving Facility and $31.7 million of bank indebtedness.

For the six-month period of fiscal 2013, higher Indebtedness level provided for a cash increase of $1.9 billion, mainly due to the draw-down on the existing Term Revolving Facility of $584.2 million (US$588 million) and the new Term Loan Facilities of $637.4 million (US$660 million for a net proceed of US$641.5 million, net of transaction costs of US$18.5 million) to finance the acquisition of ABB as well as to drawings of $640.3 million (net of transaction costs of $2.8 million) under new credit facilities amounting approximately to $650 million incurred to finance the acquisition of PEER 1. In the first six months of fiscal 2012, Indebtedness affecting cash increased by $127.8 million mainly due to the issuance of Fiscal 2012 debentures previously described, which was used to repay the $103.7 million Term Revolving Facility.

During the second quarter of fiscal 2013, quarterly dividends of $0.19 per share were paid to the holders of subordinate and multiple voting shares, totaling $3.2 million, compared to quarterly dividends of $0.18 per share for a total of $3.0 million the year before. Dividend payments in the first six months totaled $0.38 per share, or $6.4 million, compared to $0.36 per share, or $6.0 million the year before. In addition, dividends paid by a subsidiary to non-controlling interests in the second quarter amounted to $8.6 million and $17.1 million for the first six months, compared to $8.2 million and $16.5 million, respectively, for the comparable periods of the prior year.

As at February 28, 2013, the Corporation had a working capital deficiency of $151.3 million compared to $18.5 million at August 31, 2012. The increase of $132.8 million in the deficiency is mainly due to the decrease of $173.3 million million in cash and cash equivalents, primarily used for the acquisition of ABB in the Cable segment. The deficiency was also impacted by an increase of $26.0 million in trade and other receivables and by a decrease of $23.9 million in trade and other payables. As part of the usual conduct of its business, Cogeco Cable maintains a working capital deficiency due to a low level of accounts receivable as a large portion of the Corporation's customers pay before their services are rendered, unlike trade and other payables, which are paid after products are delivered or services are rendered, thus enabling the Corporation to use cash and cash equivalents to reduce Indebtedness.

At February 28, 2013, the Corporation had used $78.8 million of its $100 million Term Revolving Facility for a remaining availability of $21.2 million and Cogeco Cable had used $626.5 million of its $750 million Term Revolving Facility for a remaining availability of $123.5 million. Cogeco Cable also benefits, through its subsidiary ABB, from a Revolving Credit Facility of $51.6 million (US$50 million), of which $3.6 million (US$3.5 million) was used at February 28, 2013 for a remaining availability of $48 million. At February 28, 2013, Cogeco Cable also benefits from additional Revolving Credit Facilitiies of $250.9 million incurred as a result of the acquisition of PEER 1, of which $243.6 million was used at February 28, 2013 for a remaining availability of $7.3 million.

FINANCIAL POSITION

As a result of the acquisition of ABB and PEER 1 in the Cable segment, most financial position balances have changed significantly since August 31, 2012. For further details on the preliminary allocation of the purchase price of the acquisitions, please refer to the investing activities under the "Cash flow analysis" section.

OUTSTANDING SHARE DATA

A description of COGECO's share data at March 31, 2013 is presented in the table below. Additional details are provided in note 10 of the condensed interim consolidated financial statements.

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

In the normal course of business, COGECO has incurred financial obligations, primarily in the form of long-term debt, operating and finance leases and guarantees. COGECO's obligations, as discussed in the 2012 Annual Report, have not materially changed since August 31, 2012, except as mentioned below.

In connection with the acquisition of PEER 1 on January 31, 2013, the Corporation's subsidiary, Cogeco Cable, concluded Secured Credit Facilities totaling approximately $650 million with a syndicate of lenders in four tranches for a net proceed of $640.3 million net of transaction costs of $2.8 million. The first tranche, a Canadian Term Facility amounting to $175 million, the second tranche, a US Term Facility amounting to US$225 million, the third tranche, a Revolving Facility of $240 million and the fourth tranche, a UK Revolving Facility of £7 million. The Canadian and US Term Facilities are available in Canadian and US dollars and interest rates are based on Bankers' Acceptance, LIBOR Loans, Prime Rate Loans or US Base Rate Loans, plus the applicable margin. The Revolving Facility is available in Canadian dollars, US dollars, British Pounds and Euros and interest rates are based on Bankers' Acceptance, LIBOR Loans in US dollars, British Pounds or Euros, Prime Rate Loans or US and British Pounds Base Rate Loans, plus the applicable margin. The UK Revolving Facility is available in British Pounds and interest rates are based on British Pounds Base Rate Loans or British Pounds LIBOR Loans. Starting on August 31, 2013, the Canadian and US Term Facilities are subject to quarterly amortization of 1.25% in the first year, 1.875% in the second year, 3.125% in the third year and 3.75% in the fourth year, payable on the last business day of each fiscal quarter. The Secured Credit Facilities will mature on January 31, 2017. The Secured Credit Facilities 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 the Corporation and most of its subsidiaries except for ABB and 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 provides for restrictions on the operations and activities of the Corporation but does not cover ABB. Generally, the most significant restrictions relate to permitted investments and dividends on multiple and subordinate voting shares, as well as incurrence and maintenance of certain financial ratios primarily linked to operating income before amortization, financial expense and total indebtedness.

In connection with the acquisition of ABB on November 30, 2012, Cogeco Cable concluded, through two of its US subsidiaries, First Lien Credit Facilities totaling US$710 million with a syndicate of banks and other institutional lenders in three tranche and draw down by an amount of US $660 million of which US$641.5 million was used to repay ABB's prior secured debt and US$18.5 million to pay for some of the transaction costs. The first tranche, a Term Loan A Facility amounting to US$240 million, which will mature on November 30, 2017, the second tranche, a Term Loan B Facility amounting to US$420 million, which will mature on November 30, 2019 and the third tranche, a Revolving Credit Facility of US $50 million, including a swingline of US$15 million, which will mature 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 1.00% for the Term Loan B Facility. Starting on December 31, 2013, the Term Loan A Facility is subject to quarterly amortization of 1.25% in the first year, 2.5% in the second year and 3.0% in the third and fourth years. Starting on December 31, 2012, the Term Loan B Facility is subject to quarterly amortization of 0.25% until its maturity date. In addition to the fixed amortization schedule and commencing in 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. The First Lien Credit Facilities are non-recourse to the Corporation, its Canadian subsidiaries and PEER 1's 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 ABB and its subsidiaries. The provisions under these facilities provide for restrictions on the operations and activities of ABB and its subsidiaries. Generally, the most significant restrictions relate to permitted indebtedness and investments, distributions and maintenance of certain financial ratios.

FINANCIAL MANAGEMENT

Cogeco Cable has entered into cross-currency swap agreements to set the liability for interest and principal payments on its US$190 million Senior Secured Notes Series A maturing on October 1, 2015. These agreements have the effect of converting the U.S. interest coupon rate of 7.00% per annum to an average Canadian dollar interest rate of 7.24% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at $1.0625 per US dollar. Cogeco Cable elected to apply cash flow hedge accounting on these derivative financial instruments. During the first half of fiscal 2013, amounts due under the US$190 million Senior Secured Notes Series A increased by $8.7 million due to the US dollar's appreciation relative to the Canadian dollar. The fair value of cross-currency swaps liability decreased by a net amount of $7.9 million, of which a decrease of $8.7 million offsets the foreign exchange loss on the debt denominated in US dollars. The difference of $0.7 million was recorded as a decrease of other comprehensive income. During the first half of fiscal 2012, amounts due under the US$190 million Senior Secured Notes Series A increased by $1.9 million due to the US dollar's appreciation over the Canadian dollar. The fair value of cross-currency swaps liability decreased by a net amount of $1.9 million, of which $1.9 million offsets the foreign exchange loss on the debt denominated in US dollars.

Furthermore, Cogeco Cable's net investment in foreign subsidiaries is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the US dollar and British Pound. This risk was mitigated since the major part of the purchase prices for ABB and PEER 1 were borrowed directly in US dollars and British Pounds. These debts were designated as hedges of net investments in foreign operations. At February 28, 2013, the net investment for ABB amounted to US$472.6 million while long-term debt was of US$323 million. At February 28, 2013, the net investment for PEER 1 amounted to US$368 million and £69.1 million while long-term debt was of $US245 million and £69.1 million. The exchange rate used to convert the US dollar currency and British Pound currency into Canadian dollars for the statement of financial position accounts at February 28, 2013 was $1.0314 per US dollar and $1.5645 per British Pound. The impact of a 10% change in the exchange rate of the US dollar and British Pound into Canadian dollars would change other comprehensive income by approximately $28.1 million.

The Corporation is also impacted by foreign currency exchange rates, primarily changes in the values of the US dollar relative to the Canadian dollar with regards to purchases of certain equipment, as the majority of customer premise equipment is purchased and subsequently paid in US dollars. Please consult the "Foreign Exchange Risk" section in Note 13 of the condensed interim consolidated financial statements for further details.

DIVIDEND DECLARATION

At its April 10, 2013 meeting, the Board of Directors of COGECO declared a quarterly eligible dividend of $0.19 per share for multiple voting and subordinate voting shares, payable on May 8, 2013, to shareholders of record on April 24, 2013. 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.

CABLE SEGMENT

CUSTOMER STATISTICS

				Consolidated			
				Net additions (losses)		Net additions (losses)	
	Consolidated	US	CANADA	Quarters ended		Six months ended	
		February 28, 2013		February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
PSU	**2,486,350**	**501,795** [(1)]	**1,984,555**	**7,463**	12,280	**22,543**	58,459
Television service customers	**1,100,547**	**247,840**	**852,707**	**(4,896)**	(9,111)	**(6,972)**	(4,659)
HSI service customers	**824,144**	**174,979**	**649,165**	**7,125**	7,518	**17,970**	24,803
Telephony service customers	**561,659**	**78,976**	**482,683**	**5,234**	13,873	**11,545**	38,315

(1) Include 494,674 PSU (244,404 Television service, 171,640 HSI service and 78,630 Telephony service customers) from the acquisition of ABB on November 30, 2012.

Fiscal 2013 second-quarter and first six months, PSU net additions were lower than in the comparable period of the prior year mainly as a result of service category maturity, competitive offers and tightening of our customer credit controls and processes. PSU progression comes mainly from the US operations. For the second quarter net customer losses for Television service customers stood at 4,896 compared to 9,111 for fiscal 2012 second-quarter. Television service customer net losses are mainly due to the promotional offers of competitors for the video service combined with the tightening of our customer credit controls. Fiscal 2013 second-quarter HSI service customers grew by 7,125 compared to 7,518 in the second quarter of the prior year, and the number of net additions to the Telephony service stood at 5,234 customers compared to 13,873 customers for the same period of the prior year. For the first six months of fiscal 2013, PSU net additions are the results of the recent acquisition of ABB at the end of the first quarter of fiscal 2013.

Operating results

	Quarters ended			Six months ended		
	February 28, 2013	February 29, 2012	Change	**February 28, 2013**	February 29, 2012	Change
(in thousands of dollars, except percentages)	**$**	$	%	**$**	$	%
Revenue	**429,672**	317,735	35.2	**757,583**	633,159	19.7
Operating expenses	**230,908**	171,649	34.5	**405,112**	348,108	16.4
Management fees – COGECO Inc.	**2,988**	2,343	27.5	**9,569**	9,485	0.9
Operating income before depreciation and amortization	**195,776**	143,743	36.2	**342,902**	275,566	24.4
Operating margin	**45.6%**	45.2%		**45.3%**	43.5%	

Revenue

Fiscal 2013 second-quarter revenue increased by $111.9 million, or 35.2%, to reach $429.7 million, when compared to the same period last year. For the first six months, revenue amounted to $757.6 million, an increase of $124.4 million, or 19.7% when compared to the same period of fiscal 2012. Revenue increased for both periods is mainly attributable to the operating results of Cogeco Cable's recent acquisitions.

Operating expenses

For the second quarter of fiscal 2013, operating expenses increased by $59.3 million, to reach $230.9 million, an increase of 34.5% compared to the prior year. For the first half of the fiscal year, operating expenses amounted to $405.1 million, an increase of $57.0 million, or 16.4%, when compared to the same period of fiscal 2012. Operating expenses increased is mostly attributable to Cogeco Cable's recent acquisitions, partly offset by cost reduction initiatives and by the reduction in operating expenses in the Canadian operations related to the deployment and support costs incurred in fiscal 2012 for the migration of Television service customers from analogue to digital.

Operating income before depreciation and amortization and operating margin

Fiscal 2013 second-quarter operating income before depreciation and amortization increased by $52.0 million, or 36.2%, to reach $195.8 million, and by $67.3 million, or 24.4% as a result of the recent acquisitions and the improvement in the Canadian operations. Cogeco Cable's second-quarter operating margin increased to 45.6% from 45.2% and to 45.3% from 43.5% for the first six months of fiscal 2013 when compared to the comparable periods of the prior year.

FISCAL 2013 FINANCIAL GUIDELINES

As a result of revised projections in the Cable segment described below, the Corporation revised its consolidated projections for the 2013 fiscal year. Revenue is now expected to reach $1.8 billion, an increase of $105 million when compared to the January 14, 2013 projections. Operating income before depreciation and amortization should increase from $750 million to $782 million and financial expense should increase from $101 million to $118 million. Acquisitions of property, plant and equipment, intangible and other assets should increase by approximately $31 million and free cash flow should reach $150 million, a decrease of $25 million from January 14, 2013 projections.

	Revised projections April 10, 2013	Revised projections January 14, 2013
	Fiscal 2013	Fiscal 2013
(in millions of dollars)	**$**	$
Financial guidelines		
Revenue	**1,835**	1,730
Operating income before depreciation and amortization	**782**	750
Integration, restructuring and acquisition costs	**16**	7
Financial expense	**118**	101
Current income tax expense	**94**	94
Profit for the year	**207**	227
Profit for the year attributable to owners of the Corporation	**69**	75
Acquisitions of property, plant and equipment, intangible and other assets	**404**	373
Free cash flow[1]	**150**	175

(1) Free cash flow is calculated as operating income before depreciation and amortization less integration, restructuring and acquisition costs, financial expense, current income tax expense and acquisitions of property, plant and equipment, intangible and other assets.

CABLE SEGMENT

Giving effect to the recent acquisition of PEER 1 on January 31, 2012, the Corporation revised its financial guidelines for the 2013 fiscal year issued on January 14, 2013 to include a seven-month period of PEER 1's financial projections. Management expects revenue to reach $1.70 billion, representing a growth of $105 million, or 6.6%, when compared to those issued on January 14, 2013. Operating income before depreciation and amortization should increase by $32 million to reach $767 million reflecting the PEER 1 acquisition. However, operating margin should decrease from 46.2% to 45.2% as a result of lower margins business activities from PEER 1. Depreciation and amortization of property, plant and equipment and intangible assets should increase from $330 million to $368 million and acquisition of property, plant and equipment, intangible and other assets should increase by $31 million to take into consideration the PEER 1 seven-month operations. Financial expense should amount to $113 million, an increase of $17 million, as a result of the cost of financing related to the PEER 1 acquisition. Fiscal 2013 free cash flow is expected to amount to $145 million, a decrease of $25 million, or 14.7%, when compared to the free cash flow projection issued on January 14, 2013 as a result of acquisitions of property, plant and equipment, intangible and other assets exceeding cash flow generated by PEER 1, additional integration, restructuring and acquisition costs of $9 million as well as additional financial expense of $17 million both related to PEER 1. Profit for the year is expected to amount to $205 million, $20 million lower than the January 14, 2013 projections, mainly as a result of the PEER 1's expected financial results for the seven-month operations.

Fiscal 2013 revised financial guidelines are as follows:

(in millions of dollars, except net customer additions and operating margin)	**Revised projections April 10, 2013 Fiscal 2013 $**	Revised projections January 14, 2013 Fiscal 2013 $
Financial guidelines		
Revenue	**1,695**	1,590
Operating income before depreciation and amortization	**767**	735
Operating margin	**45.2%**	46.2%
Integration, restructuring and acquisition costs	**16**	7
Depreciation and amortization	**368**	330
Financial expense	**113**	96
Current income tax expense	**92**	92
Profit for the year	**205**	225
Acquisitions of property, plant and equipment, intangible and other assets	**401**	370
Free cash flow[(1)]	**145**	170
Net customer addition guidelines		
PSU growth	**35,000**	35,000

(1) Free cash flow is calculated as operating income before depreciation and amortization less integration, restructuring and acquisition costs, financial expense, current income tax expense and acquisitions of property, plant and equipment, intangible and other assets.

CONTROLS AND PROCEDURES

The President and Chief Executive Officer ("CEO") and the Senior Vice President and Chief Financial Officer ("CFO"), together with Management, are responsible for establishing and maintaining adequate disclosure controls and procedures and internal controls over financial reporting, as defined in National Instrument 52-109. Cogeco Cable's internal control framework is based on the criteria published in the report *Internal Control-Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission* and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The CEO and CFO, supported by Management, evaluated the design of the Corporation's disclosure controls and procedures and internal controls over financial reporting as of February 28, 2013, and have concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the quarter ended February 28, 2013, except as described below with respect to ABB and PEER 1.

On November 30, 2012, the Corporation's subsidiary, Cogeco Cable, completed the acquisition of ABB and, subsequently on January 31, 2013 and April 3, 2013, the Corporation acquired 100% of the issued and outstanding shares of PEER 1. Due to the short period of time between those acquisition dates and the certification date on April 10, 2013, management was unable to complete its review of the design of Internal Controls Over Financial Reporting ("ICFR") for the newly acquired corporations. At February 28, 2013, risks were however mitigated as management was fully apprised of any material events affecting these recent acquisitions. In addition, all the assets and liabilities acquired were valued and recorded in the condensed interim consolidated financial statements as part of the preliminary purchase price allocation process and both ABB and PEER 1 results of operations were also included in the Corporation's consolidated results. ABB constitutes 10% of revenue, 7% of profit for the period, 31% of the total assets, 15% of the current assets, 32% of the non current assets, 11% of the current liabilities and 24% of the non current liabilities of the consolidated condensed interim financial statements for the six-month period ended February 28, 2013. PEER 1 constitutes 2% of revenue, -6% of profit for the period, 14% of the total assets, 16% of the current assets, 14% of the non current assets, 9% of the current liabilities and 2% of the non current liabilities of the consolidated condensed interim financial statements for the six-month period ended February 28, 2013. In the upcoming quarters, management will complete its review of the design of ICFR for ABB and PEER 1 and assess its effectiveness. The business combinations of fiscal 2013 under the "Cash flow analysis" section of this MD&A presents summary financial information about the preliminary purchase price allocation, assets acquired and liabilities assumed as well as other financial information about ABB and PEER 1 business impact on the consolidated results of the Corporation. Other financial information can be found in the Business Acquisition Report filed by the Corporation on www.sedar.com, on February 13, 2013.

UNCERTAINTIES AND MAIN RISK FACTORS

The uncertainties and main risk factors faced by the Corporation have not changed significantly for its Canadian Cable segment since August 31, 2012, except for the proposed Astral/Bell amended Arrangement Agreement described below. In addition, risks and uncertainties have been updated to reflect the recent acquisitions of ABB and PEER 1. A detailed description of the uncertainties and main risk factors faced by COGECO can be found in the 2012 Annual Report.

In Canada, following the denial by the CRTC on October 18, 2012 of an application by BCE Inc. (“Bell”) to acquire Astral Media Inc. (“Astral”), Astral Bellamended their Arrangement Agreement with a view to submitting a revised proposal to the CRTC for approval of Bell's acquisition of Astral. The closing date of the proposed transaction was extended to June 1, 2013, with Astral and Bell having a further right to postpone the closing date to July 31, 2013. On March 4, 2013, the Commissioner of Competition and Bell announced the signing of a consent agreement and the filing thereof with the Competition Tribunal. The consent agreement provides conditional clearance for the proposed transaction under the *Competition Act* subject to, inter alia, the divestiture by Bell of Astral's joint venture ownership interests in certain television services and its ownership interest certain additional French-language television services. Also on March 4, 2013, Bell announced that it had concluded an agreement to sell the Astral joint venture ownership interests as well as two Ottawa FM radio stations to Corus Entertainment Inc. (“Corus”), and that it was putting up for sale the remaining properties to be divested and 8 additional English-language radio stations through an auction process. The sale of the joint venture properties to Corus was approved by the Commissioner of Competition on March 15, 2013. In Management's view, if it is ultimately approved by the CRTC, the proposed transaction, as revised, would still significantly increase the level of vertical integration in the Canadian broadcasting and communications industries and leave the opportunity as well as an incentive for Bell to abuse its dominant position in the supply of programming for distribution in the downstream broadcasting distribution market in Canada by non-vertically integrated distributors such as Cogeco Cable. Bell would end up controlling over forty percent (40 %) of Cogeco Cable's programming service affiliation payments at current wholesale rates. The Corporation's businesses and results of operations could thus be adversely affected in the future as affiliation agreements need to be renewed with Bell. In the event of future disputes concerning the terms of affiliation between Cogeco Cable and Bell for services controlled by Bell, the CRTC may however set such terms at either party's request following a dispute resolution process, and the services may not be interrupted by either party while such dispute resolution process is pending.

Uncertainties and risks subsequent to the acquisitions of PEER 1 or ABB

Cogeco Cable acquired PEER 1 and ABB with the expectation that the combination of its businesses and each of PEER 1 and ABB would result in greater long-term potential and value creation than the individual corporations could achieve on their own. These anticipated benefits will depend in part on whether the operations, systems, management and cultures of each of the Corporation's other businesses and those of PEER 1 and ABB can be combined in an effective manner and in part on whether the presumed bases for the combination produce the benefits anticipated. Most operational and strategic decisions, and certain staffing decisions, with respect to the combined entity have not yet been made and may not have been fully identified at this time.

There can be no assurance that the integration of Cogeco Cable's capital investment optimization and equipment purchases with those of PEER 1 and ABB will be timely or effectively accomplished, or ultimately will be successful in achieving the anticipated benefits. The integration process may lead to greater than expected operating costs, customer loss and business disruption for Cogeco Cable's other businesses, PEER 1, ABB or the combined businesses. Similarly, the integration process that may adversely affect the ability of the combined businesses to realize the anticipated benefits of the combination or may materially and adversely affect Cogeco Cable's, PEER 1's, ABB's or the combined entity's businesses, results of operations and/or financial condition.

There may be liabilities and contingencies that Cogeco Cable did not discover in its due diligence review prior to consummation of the PEER 1 and ABB acquisitions and the Corporation may not be indemnified for these liabilities and contingencies. The discovery of any material liabilities or contingencies relating to the business of PEER 1 or ABB following the acquisitions could have a material adverse effect on the Corporation businesses, financial condition and results of operations.

Cogeco Cable currently intends to retain key personnel of PEER 1 and ABB to continue to manage and operate each of PEER 1 and ABB. Cogeco Cable will compete with other potential employers for employees, and may not be successful in keeping the services of executives and other employees that PEER 1 or ABB need. The failure of key personnel to remain as part of the management team of PEER 1 and ABB in the period following the PEER 1 and ABB acquisitions could have a material adverse effect on the Corporation businesses, financial condition and results of operations.

Risks pertaining to markets and competition

In the US, the competition is fragmented and varies by geographical area. ABB's principal competitor for video services is Direct Broadcast Satellite (“DBS”) and its principal competitor for High Speed Data (“HSD”) services is Direct Subscriber Line (“DSL”). Intensive marketing efforts and aggressive pricing from its competitors and an increase in the presence of local telephone companies and electric utilities competing in its market may have an adverse impact on the Corporation's ability to retain customers. Cogeco Cable's phone service faces competition from the local incumbent local exchange carriers (“ILEC”), as well as other providers such as cellular and Voice over Internet Protocol (“VoIP”) providers such as Vonage.

In the US, ABB also currently faces competition from over-the-top services such as Netflix, Google TV, and Apple TV, Hulu and Samsung, which are gaining increased interest by consumers. The availability of these services could cause customers to view television content through their broadband connection rather than through their traditional cable television subscription services, and view less on-demand television content on the video-on-demand (“VOD”) or subscription-video-on-demand (“SVOD”) platforms of cable television service providers. We may not be able to make up for the loss of revenue associated with this migration.

PEER 1's risks pertaining to markets and competition are similar to Cogeco Data Services risks which can be found in the 2012 Annual Report.

Risk pertaining to Third-Party Service Suppliers

In the US, ABB also depends on third-party suppliers and providers, such as Motorola and Cisco for certain specialized services, hardware and equipment that are critical to their operations. These materials and services include set-top boxes, telephony, cable and telephony modems, servers and routers, fiber-optic cable, telephony switches, inter-city links, support structures, software, the “backbone” telecommunications network for the Internet access and telephony services; and construction services for expansion and upgrades of the cable and telephony networks. These services and equipment are available from a limited number of suppliers.

In addition, ABB depends on third-party plant construction contractors in areas of new homes growth. If no supplier can provide ABB with the equipment or services that it require or that comply with evolving internet and telecommunications standards or that are compatible with ABB's other equipment and software, ABB's cable services businesses, financial condition and results of operations could be materially adversely affected. In addition, if ABB is unable to obtain critical equipment, software, services or other items on a timely basis and at an acceptable cost, its ability to offer its products and services and roll out its advanced services may be delayed, and ABB's businesses, financial condition and results of operations could be materially adversely affected.

In addition, in recent years, the US cable industry has experienced a rapid escalation in the cost of programming, particularly sports programming and retransmission of broadcast programming. This escalation may continue, and ABB may not be able to pass programming cost increases on to its customers. The inability to pass these programming cost increases on to its customers would have an adverse impact on ABB's cash flow and operating margins. In addition, as ABB upgrades the channel capacity of its systems and adds programming to its basic, expanded basic and digital service offerings, ABB may face additional market constraints on its ability to pass programming costs on to its customers. The inability to pass these costs increases on to its customers could materially adversely affect ABB's profitability. ABB is also subject to increasing financial and other demands by broadcasters to obtain the required consent for the transmission of broadcast programming to its subscribers.

Financial risks - currency

Most of the Corporation's financial results are reported in Canadian dollars and a significant portion of its sales and operating costs are realized in currencies other than Canadian dollars, most often US dollars, Euros and pounds sterling. For the purposes of financial reporting, any change in the value of the Canadian dollar against the US dollar or pounds sterling during a given financial reporting period would result in a foreign exchange gain or loss on the translation of any unhedged foreign currency denominated debt into Canadian dollars. Consequently, Cogeco Cable reported earnings and indebtedness could fluctuate materially as a result of foreign-exchange gains or losses. Significant fluctuations in relative currency values against the Canadian dollar could therefore have a significant impact on the Corporation's future profitability.

Risk pertaining to leased facilities

Certain of PEER 1's data centers are located in leased premises, and there can be no assurance that PEER 1 will remain in compliance with its leases and that they will not be terminated or can be renewed at commercially reasonable terms. Termination of a lease could have a material impact on its businesses, results of operations and financial condition.

Regulatory risks - US

US federal, state and local governments extensively regulate the video services industry and may increase the regulation of the Internet services and VoIP phone industries. Current regulation of the cable industry imposes administrative and operational expenses and may limit the revenues of cable systems. Cable operators are subject to, among other things:

- subscriber privacy regulations;
- limited rate regulation;
- requirements that, under specified circumstances, a cable system carry a local broadcast station or obtain consent to carry a local or distant broadcast station;
- rules for franchise renewals and transfers;
- regulations concerning the content of programming offered to subscribers;
- the manner in which program packages are marketed to subscribers;
- the use of cable system facilities by local franchising authorities, the public and unrelated entities;
- cable system ownership limitations and program access requirements;
- payment of franchise fees to local franchising authorities;
- payment of federal universal service assessments for any end user revenues from interstate and international telecommunications services and telecommunications provided to a third party for a fee, and other state and federal telecommunications fees; and
- regulations governing other requirements covering a variety of operational areas such as equal employment opportunity, technical standards and customer service requirements.

Further US regulation could give rise to increases in cable rates. The Federal Communications Commission (“FCC”) and the US Congress continue to be concerned that cable rate increases are exceeding inflation and as a result it is possible that either the FCC or the US Congress will restrict the ability of cable system operators to implement rate increases. If ABB is unable to raise its rates in response to increasing costs, its financial condition and results of operations could be materially adversely affected.

In addition, ABB could be materially disadvantaged if it remains subject to legal and regulatory constraints that do not apply equally to its competitors. The FCC recently adopted rules to ensure that the local franchising process does not unreasonably interfere with competitive entry, and several states have enacted legislation to ease the franchising obligations of new entrants. These changes in regulation by the FCC and several states will benefit ABB's competitors. In addition, both the Congress and the FCC are considering various forms of “network neutrality” regulation which may have the impact of restricting the ABB's ability to manage its network efficiently.

Human Resources

As of February 28, 2013, approximately 26.8% of ABB's employees are represented by several unions under collective bargaining agreements. ABB can neither predict the outcome of current or future negotiations relating to labor disputes, union representation or renewal of collective bargaining agreements, nor be able to avoid future work stoppages, strikes or other forms of labor protests pending the outcome of any current of future negotiations. A prolonged work stoppage, strike or other form of labor protest could have a material adverse effect on its businesses, operations and reputation. Even if ABB does not experience strikes or other forms of labor protests, the outcome of labor negotiations could adversely affect its businesses and results of operations. In addition, its ability to make short-term adjustments to control compensation and benefits costs is limited by the terms of its collective bargaining agreements.

ABB's and PEER 1's success are substantially dependent upon the retention and the continued performance of their 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 of these officers could adversely affect Cogeco Cable's growth, financial condition and results of operations. In addition, to implement and manage its businesses and operating strategies effectively, ABB and PEER 1 must maintain a high level of efficiency, performance and content quality, continue to enhance its operational and management systems, and continue to effectively attract, train, motivate and manage its employees. If ABB and PEER 1 are not successful in their efforts, it may have a material adverse effect on the Corporation's businesses, prospects, results of operations and financial condition.

FUTURE ACCOUNTING DEVELOPMENTS 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 period ended February 28, 2013 and have not been applied in preparing the condensed interim consolidated financial statements. These standards are described under “Future accounting developments in Canada” in the Corporation’s 2012 annual MD&A, available at www.sedar.com and www.cogeco.ca.

CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in COGECO’s accounting policies, estimates and future accounting pronouncements since August 31, 2012. A description of the Corporation’s policies and estimates can be found in the 2012 Annual Report, available at www.sedar.com and www.cogeco.ca.

NON-IFRS FINANCIAL MEASURES

This section describes non-IFRS financial measures used by COGECO throughout this MD&A. It also provides reconciliations between these non-IFRS measures and the most comparable IFRS financial measures. These financial measures do not have standard definitions prescribed by IFRS and therefore, may not be comparable to similar measures presented by other companies. These measures include “cash flow from operations”, “free cash flow” and “operating income before depreciation and amortization”.

CASH FLOW FROM OPERATIONS AND FREE CASH FLOW

Cash flow from operations is used by COGECO’s management and investors to evaluate cash flows generated by operating activities, excluding the impact of changes in non-cash operating activities, amortization of deferred transaction costs and discounts on long-term debt, income taxes paid, current income tax expense, financial expense paid and financial expense. This allows the Corporation to isolate the cash flows from operating activities from the impact of cash management decisions. Cash flow from operations is subsequently used in calculating the non-IFRS measure, “free cash flow”. Free cash flow is used, by COGECO’s management and investors, to measure its ability to repay debt, distribute capital to its shareholders and finance its growth.

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

	Quarters ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
(in thousands of dollars)	**$**	$	**$**	$
Cash flow from operating activities	**157,095**	126,455	**151,090**	136,025
Changes in non-cash operating activities	**(12,757)**	(9,905)	**74,751**	64,781
Amortization of deferred transaction costs and discounts on long-term debt	**2,861**	914	**3,717**	1,676
Income taxes paid	**18,211**	19,093	**62,459**	57,077
Current income tax expense	**(22,552)**	(25,971)	**(48,664)**	(47,290)
Financial expense paid	**28,086**	10,677	**46,395**	31,511
Financial expense	**(30,531)**	(16,110)	**(47,545)**	(33,888)
Cash flow from operations	**140,413**	105,153	**242,203**	209,892

Free cash flow is calculated as follows:

	Quarters ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
(in thousands of dollars)	**$**	$	**$**	$
Cash flow from operations	**140,413**	105,153	**242,203**	209,892
Acquisition of property, plant and equipment	**(101,526)**	(84,540)	**(180,040)**	(159,000)
Acquisition of intangible and other assets	**(4,493)**	(2,646)	**(9,134)**	(6,590)
Free cash flow	**34,394**	17,967	**53,029**	44,302

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION

Operating income before depreciation and amortization is used by COGECO's management and investors to assess the Corporation's ability to seize growth opportunities in a cost effective manner, to finance its ongoing operations and to service its debt. Operating income before depreciation and amortization is a proxy for cash flows from operations excluding the impact of the capital structure chosen, and is one of the key metrics used by the financial community to value the business and its financial strength.

The most comparable IFRS financial measure is operating income. Operating income before depreciation and amortization is calculated as follows:

	Quarters ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
(in thousands of dollars, except percentages)	**$**	$	**$**	$
Operating income	**102,464**	58,931	**185,741**	133,573
Depreciation and amortization	**86,014**	85,479	**152,055**	151,098
Integration, restructuring and acquisitions costs	**7,490**	108	**14,752**	108
Operating income before depreciation and amortization	**195,968**	144,518	**352,548**	284,779

SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Quarters ended	**February 28,**	February 29,	November 30,		August 31,			May 31,
(in thousands of dollars, except percentages and per share data)	**2013**	2012	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$	$	$
Revenue	**458,501**	345,613	**366,608**	346,023	356,685	331,045	358,032	330,258
Operating income before depreciation and amortization	**195,968**	144,518	**156,580**	140,261	163,617	152,434	158,446	142,025
Operating income	**102,464**	58,931	**83,277**	74,642	95,943	101,304	95,473	90,242
Income taxes	**15,416**	13,372	**19,168**	12,340	33,625	21,804	22,278	19,252
Profit for the period from continuing operations	**56,517**	29,449	**47,095**	44,524	44,900	63,870	55,373	54,371
Profit (loss) for the period from discontinued operations	**—**	52,047	**—**	3,399	—	6,219	—	(233,573)
Profit (loss) for the period	**56,517**	81,496	**47,095**	47,923	44,900	70,089	55,373	(179,202)
Profit (loss) for the period attributable to owners of the Corporation	**16,899**	25,089	**18,487**	18,770	13,889	23,317	19,303	(56,303)
Cash flow from operating activities	**157,095**	126,455	**(6,005)**	9,570	203,193	217,792	109,546	141,106
Cash flow from operations	**140,413**	105,153	**101,790**	104,739	119,612	148,228	117,606	129,327
Acquisitions of property, plant and equipment, intangible and other assets	**106,019**	87,186	**83,155**	78,404	124,638	122,441	88,141	63,807
Free cash flow	**34,394**	17,967	**18,635**	26,335	(5,026)	25,787	29,465	65,520
Earnings (loss) per share[1]								
From continuing and discontinued operations								
Basic	**1.01**	1.50	**1.11**	1.12	0.83	1.39	1.15	(3.36)
Diluted	**1.00**	1.49	**1.10**	1.11	0.83	1.39	1.15	(3.36)
From continuing operations								
Basic	**1.01**	0.50	**1.11**	1.06	0.83	1.27	1.15	1.13
Diluted	**1.00**	0.50	**1.10**	1.05	0.83	1.27	1.15	1.13
From discontinued operations								
Basic	**—**	1.00	**—**	0.07	—	0.12	—	(4.49)
Diluted	**—**	0.99	**—**	0.06	—	0.12	—	(4.49)

(1) Per multiple and subordinate voting share.

SEASONAL VARIATIONS

Cogeco Cable's operating results are not generally subject to material seasonal fluctuations except as follows. The customer growth in the Television service customers and HSI service 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 Cable offers its services in several university and college towns such as Kingston, Windsor, St.Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada.

ADDITIONAL INFORMATION

This MD&A was prepared on April 10, 2013. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR website at www.sedar.com.

/s/ Jan Peeters
Jan Peeters
Chairman of the Board

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

COGECO Inc.
Montréal, Québec
April 10, 2013



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six-month periods ended February 28, 2013

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

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
(In thousands of Canadian dollars, except per share data)	**$**	$	**$**	$
Revenue	**458,501**	345,613	**825,109**	691,636
Operating expenses (note 4)	**262,533**	201,095	**472,561**	406,857
Integration, restructuring and acquisition costs (note 2)	**7,490**	108	**14,752**	108
Depreciation and amortization (note 5)	**86,014**	85,479	**152,055**	151,098
Operating income	**102,464**	58,931	**185,741**	133,573
Financial expense (note 6)	**30,531**	16,110	**47,545**	33,888
Profit before income taxes	**71,933**	42,821	**138,196**	99,685
Income taxes (note 7)	**15,416**	13,372	**34,584**	25,712
Profit for the period from continuing operations	**56,517**	29,449	**103,612**	73,973
Profit for the period from discontinued operations (note 14)	**—**	52,047	**—**	55,446
Profit for the period	**56,517**	81,496	**103,612**	129,419
Profit for the period attributable to:				
Owners of the Corporation	**16,899**	25,089	**35,386**	43,859
Non-controlling interest	**39,618**	56,407	**68,226**	85,560
	56,517	81,496	**103,612**	129,419
Earnings per share (note 8)				
Basic				
Profit for the period from continuing operations	**1.01**	0.50	**2.12**	1.56
Profit for the period from discontinued operations	**—**	1.00	**—**	1.07
Profit for the period	**1.01**	1.50	**2.12**	2.62
Diluted				
Profit for the period from continuing operations	**1.00**	0.50	**2.10**	1.55
Profit for the period from discontinued operations	**—**	0.99	**—**	1.06
Profit for the period	**1.00**	1.49	**2.10**	2.61

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

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
(In thousands of Canadian dollars)	**$**	$	**$**	$
Profit for the period	**56,517**	81,496	**103,612**	129,419
Other comprehensive income (loss)				
Cash flow hedging adjustments				
Net change in fair value of hedging derivative financial instruments	**6,890**	(5,164)	**7,945**	1,880
Net change in fair value of hedging derivative financial instruments reclassified to financial expense	**(7,182)**	5,852	**(8,683)**	(1,919)
Income tax expense on cash flow hedging adjustments	**(133)**	100	**(185)**	(145)
	(425)	788	**(923)**	(184)
Foreign currency translation adjustments				
Net foreign currency translation differences on net investments in foreign operations	**29,093**	(473)	**29,093**	(745)
Net changes in unrealized adjustments on translation of long-term debts designated as hedges of net investments in foreign operations	**(18,805)**	—	**(18,805)**	—
Reclassification to profit and loss of accumulated realized foreign currency translation gain of a net investment in foreign operations	**—**	(19,817)	**—**	(19,817)
	10,288	(20,290)	**10,288**	(20,562)
Defined benefit pension plans actuarial adjustments				
Net change in defined benefit pension plans actuarial adjustments	**3,223**	(2,228)	**1,931**	(4,054)
Income tax recovery (expense) on defined benefit pension plans actuarial adjustments	**(867)**	599	**(519)**	1,090
	2,356	(1,629)	**1,412**	(2,964)
Other comprehensive income (loss) for the period	**12,219**	(21,131)	**10,777**	(23,710)
Comprehensive income for the period	**68,736**	60,365	**114,389**	105,709
Comprehensive income for the period attributable to:				
Owners of the Corporation	**21,710**	17,781	**39,259**	34,815
Non-controlling interest	**47,026**	42,584	**75,130**	70,894
	68,736	60,365	**114,389**	105,709

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

	Equity attributable to owners of the Corporation					
(In thousands of Canadian dollars)	Share capital	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Equity attributable to non-controlling interest	Total shareholders' equity
	$	$	$	$	$	$
	(note 10)					
Balance at August 31, 2011	119,318	3,912	7,290	212,005	701,155	1,043,680
Profit for the period	—	—	—	43,859	85,560	129,419
Other comprehensive loss for the period	—	—	(6,671)	(2,373)	(14,666)	(23,710)
Comprehensive income for the period	—	—	(6,671)	41,486	70,894	105,709
Share based compensation	—	895	—	—	672	1,567
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	—	(121)	—	—	1,416	1,295
Dividends on multiple voting shares	—	—	—	(663)	—	(663)
Dividends on subordinate voting shares	—	—	—	(5,362)	(16,482)	(21,844)
Effect of changes in ownership of a subsidiary on non-controlling interest	—	—	—	109	(109)	—
Acquisition of subordinate voting shares held in trust under the Incentive Share Unit Plan	(1,740)	—	—	—	—	(1,740)
Disposal of subordinate voting shares held in trust under the Incentive Share Unit Plan	33	—	—	17	—	50
Distribution to employees of subordinate voting shares held in trust under the Incentive Share Unit Plan	325	(442)	—	117	—	—
Acquisition by a subsidiary from non-controlling interests of subordinate voting shares held in trust under the Incentive Share Unit Plan	—	—	—	—	(3,049)	(3,049)
Business combination (note 2)	—	—	—	—	462	462
Total contributions by and distributions to shareholders	(1,382)	332	—	(5,782)	(17,090)	(23,922)
Balance at February 29, 2012	**117,936**	**4,244**	**619**	**247,709**	**754,959**	**1,125,467**
Balance at August 31, 2012	**117,936**	**5,338**	**1,036**	**273,489**	**806,606**	**1,204,405**
Profit for the period	**—**	**—**	**—**	**35,386**	**68,226**	**103,612**
Other comprehensive income for the period	**—**	**—**	**2,888**	**985**	**6,904**	**10,777**
Comprehensive income for the period	**—**	**—**	**2,888**	**36,371**	**75,130**	**114,389**
Share-based compensation	**—**	**1,147**	**—**	**—**	**1,028**	**2,175**
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	**—**	**(68)**	**—**	**—**	**655**	**587**
Dividends on multiple voting shares	**—**	**—**	**—**	**(700)**	**—**	**(700)**
Dividends on subordinate voting shares	**—**	**—**	**—**	**(5,677)**	**(17,139)**	**(22,816)**
Acquisition of subordinate voting shares held in trust under the Incentive Share Unit Plan	**(1,201)**	**—**	**—**	**—**	**—**	**(1,201)**
Distribution to employees of subordinate voting shares held in trust under the Incentive Share Unit Plan	**1,034**	**(1,041)**	**—**	**7**	**—**	**—**
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive Share Unit Plan	**—**	**—**	**—**	**—**	**(4,076)**	**(4,076)**
Distribution by a subsidiary to non-controlling interest of subordinate voting shares held in trust under the Incentive Share Unit Plan	**—**	**(435)**	**—**	**6**	**429**	**—**
Business combinations (note 2)	**—**	**—**	**—**	**—**	**16,500**	**16,500**
Total contributions by and distributions to shareholders	**(167)**	**(397)**	**—**	**(6,364)**	**(2,603)**	**(9,531)**
Balance at February 28, 2013	**117,769**	**4,941**	**3,924**	**303,496**	**879,133**	**1,309,263**

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

(In thousands of Canadian dollars)	**February 28, 2013** **$**	August 31, 2012 $
Assets		
Current		
Cash and cash equivalents (note 11 b))	**42,265**	215,523
Trade and other receivables (note 13 a))	**124,614**	98,627
Income taxes receivable	**12,553**	13,614
Prepaid expenses and other	**17,522**	12,920
	196,954	340,684
Non-current		
Other assets	**11,290**	7,133
Property, plant and equipment	**1,752,195**	1,343,904
Intangible assets	**2,061,246**	1,133,816
Goodwill	**1,305,454**	249,198
Deferred tax assets	**79,386**	29,184
	5,406,525	3,103,919
Liabilities and Shareholders' equity		
Liabilities		
Current		
Bank indebtedness	**3,993**	741
Trade and other payables	**224,912**	248,822
Provisions	**10,230**	10,567
Income tax liabilities	**31,194**	41,908
Deferred and prepaid revenue	**54,737**	42,920
Balance due on business combinations, bank prime rate plus 1% and payable in June 2013 (February and June 2013 at August 31, 2012)	**2,000**	13,400
Current portion of long-term debt (note 9)	**21,169**	855
	348,235	359,213
Non-current		
Long-term debt (note 9)	**3,077,058**	1,144,814
Balance due on a business combination, bank prime rate plus 1% and payable in July 2014	**875**	—
Derivative financial instruments	**3,723**	11,668
Deferred and prepaid revenue and other liabilities	**20,659**	17,891
Pension plan liabilities and accrued employees benefits	**23,957**	32,975
Deferred tax liabilities	**622,755**	332,953
	4,097,262	1,899,514
Shareholders' equity		
Equity attributable to owners of the Corporation		
Share capital (note 10)	**117,769**	117,936
Share-based compensation reserve	**4,941**	5,338
Accumulated other comprehensive income	**3,924**	1,036
Retained earnings	**303,496**	273,489
	430,130	397,799
Non-controlling interest	**879,133**	806,606
	1,309,263	1,204,405
	5,406,525	3,103,919

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

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
(In thousands of Canadian dollars)	**$**	$	**$**	$
Cash flow from operating activities				
Profit for the period from continuing operations	**56,517**	29,449	**103,612**	73,973
Adjustments for:				
Depreciation and amortization (note 5)	**86,014**	85,479	**152,055**	151,098
Income taxes (note 7)	**15,416**	13,372	**34,584**	25,712
Financial expense (note 6)	**30,531**	16,110	**47,545**	33,888
Share-based compensation (note 10)	**1,235**	701	**2,456**	1,715
Loss on disposals and write-offs of property, plant and equipment	**438**	720	**1,824**	730
Defined benefit pension plans contributions, net of expense	**722**	489	**(7,143)**	2,278
Other	**(238)**	—	**(238)**	—
	190,635	146,320	**334,695**	289,394
Changes in non-cash operating activities (note 11 a))	**12,757**	9,905	**(74,751)**	(64,781)
Income taxes paid	**(18,211)**	(19,093)	**(62,459)**	(57,077)
Financial expense paid	**(28,086)**	(10,677)	**(46,395)**	(31,511)
	157,095	126,455	**151,090**	136,025
Cash flow from investing activities				
Acquisition of property, plant and equipment	**(101,526)**	(84,540)	**(180,040)**	(159,000)
Acquisition of intangible and other assets	**(4,493)**	(2,646)	**(9,134)**	(6,590)
Business combinations, net of cash and cash equivalents acquired (note 2)	**(629,599)**	(35,735)	**(1,983,752)**	(35,735)
Disposal of subsidiaries, net of cash and cash equivalents disposed	**—**	4,509	**—**	4,509
Other	**152**	(58)	**248**	147
	(735,466)	(118,470)	**(2,172,678)**	(196,669)
Cash flow from financing activities				
Increase (decrease) in bank indebtedness	**(21,965)**	(31,688)	**3,252**	—
Net increases (repayments) under the revolving facilities	**262,943**	(84,936)	**853,179**	(103,703)
Issuance of long-term debts, net of discounts and transaction costs	**396,546**	198,074	**1,033,966**	232,715
Repayments of long-term debt	**(1,404)**	(602)	**(1,684)**	(1,216)
Increase in deferred transaction costs	**(1,757)**	(26)	**(2,357)**	(1,456)
Repayment of balance due on a business combination	**(10,525)**	—	**(10,525)**	—
Repayment of promissory note payable	**—**	(5,000)	**—**	(5,000)
Acquisition of subordinate voting shares held in trust under the Incentive Share Unit Plan (note 10)	**(10)**	(30)	**(1,201)**	(1,740)
Disposal of subordinate voting shares held in trust under the Incentive Share Unit Plan	**—**	50	**—**	50
Dividends paid on multiple voting shares	**(350)**	(331)	**(700)**	(663)
Dividends paid on subordinate voting shares	**(2,829)**	(2,678)	**(5,677)**	(5,362)
Issuance of subordinate voting shares by a subsidiary to non-controlling interest	**414**	—	**587**	1,295
Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive Share Unit Plan	**(1,854)**	(194)	**(4,076)**	(3,049)
Dividends paid on subordinate voting shares by a subsidiary to non-controlling interest	**(8,556)**	(8,238)	**(17,139)**	(16,482)
	610,653	64,401	**1,847,625**	95,389
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**705**	—	**705**	—
Net change in cash and cash equivalents from continuing operations	**32,987**	72,386	**(173,258)**	34,745
Net change in cash and cash equivalents from discontinued operations (note 14)	**—**	47,237	**—**	49,597
Cash and cash equivalents, beginning of the period	**9,278**	19,935	**215,523**	55,216
Cash and cash equivalents, end of the period	**42,265**	139,558	**42,265**	139,558

NATURE OF OPERATIONS

COGECO Inc. (the “Corporation” or the “Parent Corporation”) is a Canadian public corporation whose shares are listed on the Toronto Stock Exchange (“TSX”). The Corporation is engaged in Cable Television, High Speed Internet (“HSI”), Telephony, managed information technology and infrastructure, and other telecommunications services to its residential and commercial customers in Canada,in the United States of America (“US”), in the United Kingdom ("UK") and in France through Cogeco Cable Inc., and in Radio broadcasting through Cogeco Diffusion Acquisitions Inc. (“Cogeco Diffusion”) and operates an advertising public transit business through Métromédia CMR Plus Inc. (“Métromédia”).

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

1. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. Certain information and footnote disclosure normally included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information. As such, these condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2012 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2012 annual consolidated financial statements. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements unless otherwise indicated.

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

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

The results of operations for the interim period are not necessarily indicative of the results of operations for the full year. The Corporation does not expect seasonality to be a material factor in quarterly results except that the customer growth in the Cable Television and HSI service are generally lower in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television season, and students leaving their campuses at the end of the school year.

The condensed interim consolidated financial statements were approved by the Board of Directors of COGECO Inc. at its meeting held on April 10, 2013.

2. Business Combinations

Business Combinations in fiscal 2013

On November 30, 2012, the Corporation's subsidiary, Cogeco Cable, completed the acquisition of all the outstanding shares of Atlantic Broadband ("ABB"), an independent cable system operator formed in 2003, serving about 495,000 primary service units and providing Analogue and Digital Television, as well as HSI and Telephony services. The acquisition is an attractive entry point into the US market, providing a significant increase in Primary Service Units base with further growth potential, a high quality network infrastructure and the ability for the Corporation's management to leverage its core knowledge and operational experience. The transaction, valued at US$1.36 billion, was financed through a combination of cash on hand, a draw-down on the existing Term Revolving Facility of approximately US$588 million and US$660 million of borrowings under a new committed non-recourse debt financing at ABB. Ranked the 12th-largest cable television system operator in the US, ABB operates cable systems in Western Pennsylvania, Southern Florida, Maryland, Delaware and South Carolina.

On January 31, 2013, the Corporation's subsidiary, Cogeco Cable, acquired approximately 96.57% of the issued and outstanding shares (see note 15) of Peer 1 Network Enterprises, Inc ("PEER 1"). The transaction, valued at approximately $649 million, was financed by new secured revolving credit facilities in the amount of approximately $250 million as well as new secured term credit facilities in the amount of approximately $400 million both having a maturity of four years. PEER 1 is one of the world's leading internet infrastructure providers, specializing in managed hosting, dedicated servers, cloud services and collocation. This acquisition enhances Cogeco Cable's footprint and builds on its strategic initiatives by increasing scale in an attractive industry segment with significant growth prospects in the state of the art data center platforms. Cogeco Cable will also serve additional businesses worldwide, in addition to approximately 11,000 customers currently served, through 23 data centres and 21 points-of-presence across North America and Europe. PEER 1's primary network centre and head office remain located in Vancouver.

In addition, Métromédia also completed the acquisition of a non-controlling interest participation of 27.5% in one of its subsidiaries for a cash consideration of approximately $0.5 million.

The preliminary purchase price allocation of these acquisitions, pending the completion of the valuation of the net assets acquired as well as Metromedia's non-controlling interest acquisition are as follows:

	Métromédia	PEER 1	ABB	TOTAL
	$	$	$	$
Consideration				
Paid				
Purchase of shares	**462**	**477,834**	**337,779**	**816,075**
Repayment of secured debts and settlement of options outstanding	**—**	**170,872**	**1,021,854**	**1,192,726**
	462	**648,706**	**1,359,633**	**2,008,801**
Net assets acquired				
Cash and cash equivalents	**—**	**10,840**	**5,480**	**16,320**
Restricted cash	**—**	**8,729**	**—**	**8,729**
Trade and other receivables	**—**	**12,772**	**9,569**	**22,341**
Prepaid expenses and other	**—**	**3,855**	**1,370**	**5,225**
Income tax receivable	**—**	**672**	**—**	**672**
Other assets	**—**	**3,328**	**—**	**3,328**
Property, plant and equipment	**—**	**150,206**	**205,353**	**355,559**
Intangible assets	**—**	**139,703**	**763,084**	**902,787**
Goodwill	**—**	**421,986**	**602,690**	**1,024,676**
Deferred tax assets	**—**	**8,355**	**33,835**	**42,190**
Trade and other payables assumed	**—**	**(26,330)**	**(27,620)**	**(53,950)**
Provisions	**—**	**—**	**(721)**	**(721)**
Income tax liabilities assumed	**—**	**(4,716)**	**—**	**(4,716)**
Deferred and prepaid revenue and other liabilities assumed	**—**	**(3,315)**	**(5,254)**	**(8,569)**
Long-term debt assumed	**—**	**(1,735)**	**—**	**(1,735)**
Deferred tax liabilities	**—**	**(58,682)**	**(228,153)**	**(286,835)**
Non-controlling interest[(1)]	**462**	**(16,962)**	**—**	**(16,500)**
	462	**648,706**	**1,359,633**	**2,008,801**

(1) At fair value, based on the takeover bid offer for PEER 1.

ABB

The amount of goodwill, none of which is expected to be deductible for tax purposes, is mainly attributable to revenue and operating income before depreciation and amortization growth, future market development related to the entry of the Corporation's subsidiary, Cogeco Cable, in the US market, expected benefit from the future utilization of tax losses carryforward and to the strength of ABB assembled workforce.

In connection with this acquisition, the Corporation's subsidiary, Cogeco Cable,incurred acquisition-related costs of $10.9 million of which $9.2 million have been recognized in the current year as “Integration, restructuring and acquisition costs” in the Corporation’s consolidated statements of profit or loss.

PEER 1

The amount of goodwill, none of which is expected to be deductible for tax purposes, is mainly attributable to revenue and operating income before depreciation and amortization growth in the enterprise data centre services sector, future development of service suite for businesses across the Canadian, US and European markets and to the strength of PEER 1's assembled workforce.

In connection with this acquisition, the Corporation's subsidiary, Cogeco Cable, incurred acquisition-related costs of $5.5 million which have been recognized in the current year as “Integration, restructuring and acquisition costs” in the Corporation's consolidated statements of profit or loss.

Impact of acquisitions on the results of COGECO Inc.

Revenue and profit for the period for three and six-month periods ended February 28, 2013, include revenue of $85.9 million and profit for the period of $6.8 million attributable to the additional business generated by ABB and revenue of $14.3 million and a loss for the period of $5.9 million attributable to the additional business generated by PEER 1.

Had the business combinations been effective at September 1, 2012, the consolidated revenue of the Corporation would have been $981 million and the profit for the year would have been $103 million. Management considers these “pro-forma” numbers to represent an approximate measure of the performance of the combined group and to provide a reference point for comparison in future periods. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the dates of acquisitions would have been the same if the acquisition had occurred on September 1, 2012.

Business Combination in fiscal 2012

During the second quarter, the Corporation completed the purchase price allocation of Métromédia which was acquired on December 26, 2011. Accordingly, the final purchase price allocation is as follows:

	Preliminary $	**Final** **$**
Consideration		
Paid		
Purchase of shares	36,860	**36,860**
Repayment of secured debt	2,140	**2,140**
	39,000	**39,000**
Balance due on a business combination, bank prime rate plus 1% and payable in June 2013	2,000	**2,000**
	41,000	**41,000**
Net assets acquired		
Cash and cash equivalents	3,265	**3,265**
Trade and other receivables	7,242	**7,364**
Prepaid expenses and other	57	**57**
Income tax receivable	234	**132**
Property, plant and equipment	4,764	**4,645**
Intangible assets	14,747	**14,747**
Goodwill	20,171	**20,540**
Trade and other payables assumed	(4,615)	**(4,786)**
Income tax liabilities	(142)	**—**
Deferred and prepaid revenue and other liabilities assumed	(374)	**(615)**
Deferred tax liabilities	(3,887)	**(3,887)**
Non-controlling interest	(462)	**(462)**
	41,000	**41,000**

3. Operating Segments

The Corporation's profit for the year are reported in two operating segments: Cable and other.

The Cable segment provides a wide range of Analogue and Digital Television, HSI and Telephony services primarily to residential customers. It also provides business solutions, including data networking, Ethernet, hosting, HSI access and Voice over Internet Protocol ("VoIP") services, to small and medium sized businesses. The segment also provides data centre, managed IT and connectivity services for medium and large enterprises and public sector customers, and high-performance Ethernet broadband connectivity services to carriers. This segment's offerings includes the provision of physical space and power within its high security data centres and a new suite of managed IT and infrastructure services as well as a full suite of connectivity services provisioned over its wholly-owned optical networks.

The Other segment is comprised of radio, advertising transit businesses sector, head office activities as well as inter-segment eliminations.

The activities of the Cable segment are carried out in Canada, in the US and in Europe, mostly in the UK, and the activities of the Other segment are carried out in Canada.

The Corporation assesses the performance of each segment based on segment profit or loss. Transactions between segments are measured at agreed to amounts to between the parties.

The principal financial information per operating segment is presented in the table below:

					Three months ended	
	Cable		**Other**		**Consolidated**	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$	**$**	$
Revenue[1]	**429,672**	317,735	**28,829**	27,878	**458,501**	345,613
Operating expenses	**230,908**	171,649	**31,625**	29,446	**262,533**	201,095
Management fees – COGECO Inc.	**2,988**	2,343	**(2,988)**	(2,343)	**—**	—
Integration, restructuring and acquisition costs	**7,464**	—	**26**	108	**7,490**	108
Depreciation and amortization	**84,591**	84,252	**1,423**	1,227	**86,014**	85,479
Operating income (loss)	**103,721**	59,491	**(1,257)**	(560)	**102,464**	58,931
Financial expense	**29,094**	14,788	**1,437**	1,322	**30,531**	16,110
Income taxes	**16,169**	13,617	**(753)**	(245)	**15,416**	13,372
Profit (loss) for the period from continuing operations	**58,458**	31,086	**(1,941)**	(1,637)	**56,517**	29,449
Profit for the period from discontinued operations	**—**	52,047	**—**	—	**—**	52,047
Profit (loss) for the period	**58,458**	83,133	**(1,941)**	(1,637)	**56,517**	81,496
Acquisition of property, plant and equipment	**99,940**	83,588	**1,586**	952	**101,526**	84,540
Acquisition of intangible and other assets	**4,493**	2,646	**—**	—	**4,493**	2,646

(1) Revenue by geographic market includes $362,260 in Canada, $93,920 in the US and $2,321 in Europe.

	Cable		Other		Six months ended Consolidated	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$	**$**	$
Revenue[1]	**757,583**	633,159	**67,526**	58,477	**825,109**	691,636
Operating expenses	**405,112**	348,108	**67,449**	58,749	**472,561**	406,857
Management fees – COGECO Inc.	**9,569**	9,485	**(9,569)**	(9,485)	**—**	—
Integration, restructuring and acquisition costs	**14,764**	—	**(12)**	108	**14,752**	108
Depreciation and amortization	**149,257**	149,076	**2,798**	2,022	**152,055**	151,098
Operating income	**178,881**	126,490	**6,860**	7,083	**185,741**	133,573
Financial expense	**44,694**	31,617	**2,851**	2,271	**47,545**	33,888
Income taxes	**33,569**	24,220	**1,015**	1,492	**34,584**	25,712
Profit for the period from continuing operations	**100,618**	70,653	**2,994**	3,320	**103,612**	73,973
Profit for the period from discontinued operations	**—**	55,446	**—**	—	**—**	55,446
Profit for the period	**100,618**	126,099	**2,994**	3,320	**103,612**	129,419
Total assets[2]	**5,207,588**	2,908,079	**198,937**	195,840	**5,406,525**	3,103,919
Property, plant and equipment[2]	**1,730,766**	1,322,093	**21,429**	21,811	**1,752,195**	1,343,904
Intangible assets[2]	**1,968,035**	1,039,982	**93,211**	93,834	**2,061,246**	1,133,816
Goodwill[2]	**1,266,329**	210,442	**39,125**	38,756	**1,305,454**	249,198
Acquisition of property, plant and equipment	**178,132**	156,927	**1,908**	2,073	**180,040**	159,000
Acquisition of intangible and other assets	**9,134**	6,590	**—**	—	**9,134**	6,590

(1) Revenue by geographic market includes $728,868 in Canada, $93,920 in the US and $2,321 in Europe.

(2) At February 28, 2013 and August 31, 2012.

The following table sets out certain geographic market information at February 28, 2013:

	Canada	**US**	**Europe**	**Total**
	$	**$**	**$**	**$**
Property, plant and equipment	**1,427,984**	**287,513**	**36,698**	**1,752,195**
Intangible assets	**1,184,910**	**863,832**	**12,504**	**2,061,246**
Goodwill	**358,875**	**888,187**	**58,392**	**1,305,454**

4. Operating Expenses

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Salaries, employee benefits and outsourced services	**88,856**	69,120	**159,282**	139,781
Service delivery costs[1]	**131,364**	98,606	**232,604**	193,745
Customer related costs[2]	**18,020**	14,994	**34,051**	33,150
Other external purchases[3]	**24,293**	18,375	**46,624**	40,181
	262,533	201,095	**472,561**	406,857

(1) Include cost of equipment sold, content and programming costs, payment to other carriers, data center expenses, franchise fees and network costs.
(2) Include advertising and marketing expenses, selling costs, billing expenses, bad debts and collection expenses.
(3) Include office building expenses, professional service fees, Canadian Radio-television and Telecommunications Commission ("CRTC") fees and other administrative expenses.

5. Depreciation and Amortization

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Property, plant and equipment	**75,892**	80,185	**136,309**	140,810
Intangible assets	**10,122**	5,294	**15,746**	10,288
	86,014	85,479	**152,055**	151,098

6. Financial Expense

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Interest on long-term debt	**29,011**	15,738	**46,223**	30,632
Net foreign exchange losses (gains)	**721**	(522)	**738**	1,010
Amortization of deferred transaction costs	**728**	449	**1,179**	924
Capitalized borrowing costs	**(956)**	(361)	**(1,797)**	(733)
Other	**1,027**	806	**1,202**	2,055
	30,531	16,110	**47,545**	33,888

7. Income Taxes

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Current	**22,552**	25,971	**48,664**	47,290
Deferred	**(7,136)**	(12,599)	**(14,080)**	(21,578)
	15,416	13,372	**34,584**	25,712

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

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Profit before income taxes	**71,933**	42,821	**138,196**	99,685
Combined income tax rate	**27.98%**	27.03%	**27.23%**	27.03%
Income tax expense at combined income tax rate	**20,130**	11,575	**37,630**	26,945
Adjustment for losses or profit subject to lower or higher tax rates	**5**	100	**(393)**	358
Decrease in income taxes from changes in tax legislation on partnership income	**—**	—	**—**	(3,450)
Income taxes arising from non-deductible expenses	**2,312**	385	**4,422**	441
Tax impacts related to investments in foreign operations	**(3,407)**	—	**(3,407)**	—
Changes in valuation allowance	**(3,122)**	—	**(3,122)**	—
Other	**(502)**	1,312	**(546)**	1,418
Income tax expense at effective income tax rate	**15,416**	13,372	**34,584**	25,712

8. Earnings Per Share

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

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Profit for the period from continuing operations attributable to owners of the Corporation	**16,899**	8,357	**35,386**	26,034
Profit for the period from discontinued operations attributable to owners of the Corporation	**—**	16,732	**—**	17,825
Profit for the period attributable to owners of the Corporation	**16,899**	25,089	**35,386**	43,859
Weighted average number of multiple and subordinate voting shares outstanding	**16,725,181**	16,719,256	**16,726,086**	16,728,447
Effect of dilutive incentive share units	**107,124**	112,077	**108,159**	107,391
Weighted average number of diluted multiple and subordinate voting shares outstanding	**16,832,305**	16,831,333	**16,834,245**	16,835,838
Earnings per share				
Basic				
Profit for the period from continuing operations	**1.01**	0.50	**2.12**	1.56
Profit for the period from discontinued operations	**—**	1.00	**—**	1.07
Profit for the period	**1.01**	1.50	**2.12**	2.62
Diluted				
Profit for the period from continuing operations	**1.00**	0.50	**2.10**	1.55
Profit for the period from discontinued operations	**—**	0.99	**—**	1.06
Profit for the period	**1.00**	1.49	**2.10**	2.61

9. Long-Term Debt

	Maturity	Interest rate	February 28, 2013	August 31, 2012
		%	$	$
Parent Corporation				
Term Revolving Facility				
Revolving loans	February 2017 (1)	3.10 (2)	**76,757**	73,848
Unsecured Notes	November 2021	6.50	**34,689**	34,671
Finance lease	January 2017	3.23	**105**	118
Subsidiaries				
Term Revolving Facility				
Revolving loan – US$588 million	November 2017 (3)	1.95 (2)	**606,463**	—
Revolving loan – $20 million	November 2017 (3)	3.75 (2)	**20,000**	—
Secured Credit Facilities[a)]				
Canadian Term Facility – $175 million	January 2017	3.17 (2)	**173,819**	—
US Term Facility – US$225 million	January 2017	2.20 (2)	**230,547**	—
Revolving Facility				
Revolving loans – $114.5 million	January 2017	3.30 (2)	**114,500**	—
Revolving loan – £65 million	January 2017	2.49 (2)	**101,692**	—
Revolving loan – US$20 million	January 2017	2.20 (2)	**20,628**	—
UK Revolving Facility – £4.1 million	January 2017	3.00 (2)	**6,414**	—
Senior Secured Notes				
Series A – US$190 million	October 2015	7.00 (4)	**195,077**	186,244
Series B	October 2018	7.60	**54,644**	54,619
Senior Secured Debentures Series 1	June 2014	5.95	**299,054**	298,694
Senior Secured Debentures Series 2	November 2020	5.15	**198,612**	198,539
Senior Secured Debentures Series 3	February 2022	4.93	**198,342**	198,249
Senior Unsecured Debenture	March 2018	5.94	**99,813**	99,850
First Lien Credit Facilities[b)]				
Term Loan A Facility – US$240 million	November 2017	3.21	**241,013**	—
Term Loan B Facility – US$419 million	November 2019	4.50	**420,530**	—
Revolving Facility – US$2.5 million	November 2017	5.25	**2,578**	—
Finance leases	March 2013 to January 2015	3.94 (5)	**2,950**	837
			3,098,227	1,145,669
Less current portion			**21,169**	855
			3,077,058	1,144,814

(1) On November 30, 2012, the Corporation amended its Term Revolving Facility. Under the term of the amendment, the maturity was extended by an additional year and consequently, the Term Revolving Facility will mature on February 1, 2017.

(2) Interest rate on debt as at February 28, 2013, including applicable margin.

(3) On October 26, 2012, the Corporation's subsidiary, Cogeco Cable Inc., amended its Term Revolving Facility. Under the term of the amendment, the maturity will be extended by an additional year and consequently the Term Revolving Facility will mature on November 22, 2017.

(4) Cross-currency swap agreements have resulted in an effective interest rate of 7.24% on the Canadian dollar equivalent of the US denominated debt.

(5) Weighted average interest rate on finance leases.

a) In connection with the acquisition of PEER 1 on January 31, 2013, the Corporation's subsidiary, Cogeco Cable Inc., concluded Secured Credit Facilities totaling approximately $650 million with a syndicate of lenders in four tranches for a net proceed of $640.3 million net of transaction costs of $2.8 million. The first tranche, a Canadian Term Facility amounting to $175 million, the second tranche, a US Term Facility amounting to US$225 million, the third tranche, a Revolving Facility of $240 million and the fourth tranche, a UK Revolving Facility of £7 million. The Canadian and US Term Facilities are available in Canadian and US dollars and interest rates are based on Bankers' Acceptance, LIBOR Loans, Prime Rate Loans or US Base Rate Loans, plus the applicable margin. The Revolving Facility is available in Canadian dollars, US dollars, British Pounds and Euros and interest rates are based on Bankers' Acceptance, LIBOR Loans in US dollars, British Pounds or Euros, Prime Rate Loans or Base Rate Loans in US dollars or British Pounds, plus the applicable margin. The UK Revolving Facility is available in British Pounds and interest rates are based on British Pounds Base Rate Loans or British Pounds LIBOR Loans. Starting on August 31, 2013, the Canadian and US Term Facilities are subject to quarterly amortization of 1.25% in the first year, 1.875% in the second year, 3.125% in the third year and 3.75% in the fourth year, payable on the last business day of each fiscal quarter. The Secured Credit Facilities will mature on January 27, 2017. The Secured Credit Facilities 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 Cogeco Cable and most of its subsidiaries excluding ABB and 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 provides for restrictions on the operations and activities of Cogeco Cable but does not cover ABB. Generally, the most significant restrictions relate to permitted investments and dividends on multiple and subordinate voting shares, as well as incurrence and maintenance of certain financial ratios primarily linked to operating income before amortization, financial expense and total indebtedness.

b) In connection with the acquisition of ABB by the Corporation's subsidiary, Cogeco Cable Inc., on November 30, 2012, Cogeco Cable Inc., concluded through two of its US subsidiaries, First Lien Credit Facilities totalling US$710 million with a syndicate of banks and other institutional lenders in three tranches for a net proceed of US$641.5 million net of transaction costs of US$18.5 million . The first tranche, a Term Loan A Facility amounting to US$240 million , which will mature on November 30, 2017, the second tranche, a Term Loan B Facility amounting to US$420 million which will mature on November 30, 2019 and the third tranche, a Revolving Credit Facility of US$50 million, including a swingline of US$15 million , which will mature 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 1.00% for the Term Loan B Facility. Starting on December 31, 2013, the Term Loan A Facility is subject to quarterly amortization of 1.25% in the first year, 2.5% in the second year and 3.0% in the third and fourth years. Starting on December 31, 2012, the Term Loan B Facility is subject to quarterly amortization of 0.25% until its maturity date. In addition to the fixed amortization schedule and commencing in 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 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 Cable and its Canadian subsidiaries and PEER 1's 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 ABB and its subsidiaries. The provisions under these facilities provide for restrictions on the operations and activities of ABB and its subsidiaries. Generally, the most significant restrictions relate to permitted indebtedness and investments, distributions and maintenance of certain financial ratios.

10. Share Capital

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.

Issued and paid

	February 28, 2013	August 31, 2012
	$	$
1,842,860 multiple voting shares	**12**	12
14,989,338 subordinate voting shares	**121,976**	121,976
	121,988	121,988
107,124 subordinate voting shares held in trust under the Incentive Share Unit Plan (112,471 at August 31, 2012)	**(4,219)**	(4,052)
	117,769	117,936

During the first six months of fiscal 2013, subordinate voting shares held in trust under the Incentive Share Unit Plan transactions were as follows:

	Number of shares	**Amount**
		$
Balance at August 31, 2012	**112,471**	**4,052**
Subordinate voting shares acquired	**35,630**	**1,201**
Subordinate voting shares distributed to employees	**(40,977)**	**(1,034)**
Balance at February 28, 2013	**107,124**	**4,219**

Dividends

For the six-month period ended February 28, 2013, quarterly dividends of $0.19 per share, for a total of $0.38 per share, were paid to the holders of multiple and subordinate voting shares, totaling $6.4 million, compared to quarterly dividends of $0.18 per share, for a total of $0.36 per share or $6 million for the six-month period ended February 29, 2012.

Share-based payment plans

The Corporation and its subsidiary, Cogeco Cable Inc., offer for certain executives a Stock Option Plan, which is described in the Corporation's annual consolidated financial statements. During the six-month periods ended February 28, 2013 and February 29, 2012, no stock options were granted to employees by COGECO. Under the Stock Option Plan of the Corporation, no options were outstanding at February 28, 2013 and August 31, 2012. However, for the six-month period ended February 28, 2013, the Corporation's subsidiary, Cogeco Cable Inc., granted 201,442 stock options (91,961 in 2012) with an exercise price of $38.08 to $40.45 ($48.02 to $48.15 in 2012) of which 71,233 stock options (47,729 in 2012) were granted to COGECO's employees. These options vest equally over a period of five years beginning one year after the day such options are granted and are exercisable over ten years. During the three and six-month periods ended February 28, 2013, Cogeco Cable Inc. charged COGECO an amount of $86,000 and $176,000 ($75,000 and $149,000 in 2012) with respect to the Corporation's options granted to COGECO's employees. As a result, a compensation expense of $177,000 and $349,000 ($153,000 and $315,000 in 2012) was recorded for the three and six-month periods ended February 28, 2013.

The weighted average fair value of stock options granted by Cogeco Cable for the six-month period ended February 28, 2013 was $7.75 ($11.30 in 2012) per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining stock-based compensation expense using the Black-Scholes option pricing model based on the following assumptions:

	2013	2012
	%	%
Expected dividend yield	**2.60**	1.66
Expected volatility	**26.60**	26.85
Risk-free interest rate	**1.50**	1.74
Expected life in years	**6.2**	6.1

Under the Stock Option Plan of Cogeco Cable, the following options were granted and are outstanding at February 28, 2013:

	Options	**Weighted average exercise price**
		$
Outstanding at August 31, 2012	**609,686**	**34.80**
Granted	**201,442**	**39.03**
Exercised[(1)]	**(28,688)**	**20.46**
Balance at February 28, 2013	**782,440**	**36.41**
Exercisable at February 28, 2013	**443,063**	**33.36**

(1) The weighted average share price for options exercised during the period was $41.66.

The Corporation and its subsidiary, Cogeco Cable Inc., also offer a senior executive and designated employee Incentive Share Unit Plan ("ISU Plan"), which is described in the Corporation's annual consolidated financial statements. For the six-month period ended February 28, 2013, 35,630 (35,542 in 2012) and 101,047 (60,479 in 2012) incentive share units ("ISUs") were granted by the Corporation and its subsidiary, respectively. The Corporation and its subsidiary establish the value of the compensation related to the ISUs granted based on the fair value of the subordinate voting shares at the date of grant and a compensation expense is recognized over the vesting period, which is three years less one day. Two trusts were created for the purpose of purchasing these shares on the stock market in order to protect against stock price fluctuation. The Corporation and its subsidiary instructed the trustee to purchase 35,630 (35,542 in 2012) and 101,047 (61,815 in 2012) subordinate voting shares on the stock market. These shares were purchased for cash consideration aggregating $1,201,000 ($1,740,000 in 2012) and $4,076,000 ($3,049,000 in 2012) and are held in trust for the participants until they are fully vested. The trusts, considered as a special purpose entities, are consolidated in the Corporation's financial statements with the value of the acquired shares presented as subordinate voting shares held in trust under the ISU Plan in reduction of share capital or non-controlling interest. A compensation expense of $975,000 and $1,826,000 ($585,000 and $1,252,000 in 2012) was recorded for the three and six-month periods ended February 28, 2013, respectively, related to these plans. During the three and six-month periods ended February 28, 2013, Cogeco Cable Inc. charged COGECO Inc. an amount of $112,000 and $219,000 ($104,000 and $180,000 in 2012), respectively, with respect to ISUs granted to COGECO's employees.

Under the ISU Plan of the Corporation, the following ISUs were granted and are outstanding at February 28, 2013:

Outstanding at August 31, 2012	**112,471**
Granted	**35,630**
Distributed	**(40,977)**
Outstanding at February 28, 2013	**107,124**

Under the ISU Plan of Cogeco Cable Inc., the following ISUs were granted and are outstanding at February 28, 2013:

Outstanding at August 31, 2012	**149,802**
Granted	**101,047**
Distributed	**(42,603)**
Outstanding at February 28, 2013	**208,246**

The Corporation and its subsidiary, Cogeco Cable Inc., offer a Deferred Share Unit Plan ("DSU Plan") for members of the Board of directors which is described in the Corporation's annual consolidated financial statements. For the six-month period ended February 28, 2013, the Corporation and its subsidiary issued respectively 8,139 and 5,573 deferred share units ("DSUs") (6,435 and 4,446 in 2012) to the participants in connection with the DSU Plan. A compensation expense of $83,000 and $281,000 (a reduction expense of $37,000 and compensation expense of $148,000 in 2012) was recorded for the three and six-month periods ended February 28, 2013, respectively, for the increase in liability related to this plan.

Under the DSU Plan of the Corporation, the following DSUs were issued and are outstanding at February 28, 2013:

Outstanding at August 31, 2012	**29,312**
Granted	**8,139**
Redeemed	**(7,174)**
Dividend equivalents	**319**
Outstanding at February 28, 2013	**30,596**

Under the DSU Plan of Cogeco Cable Inc., the following DSUs were issued and are outstanding at February 28, 2013:

Outstanding at August 31, 2012	**20,491**
Issued	**5,573**
Redeemed	**(2,868)**
Dividend equivalents	**284**
Outstanding at February 28, 2013	**23,480**

11. Statements of Cash Flows

a) Changes in non-cash operating activities

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Trade and other receivables	**(588)**	8,632	**(3,107)**	(2,620)
Prepaid expenses and other	**588**	750	**805**	(507)
Trade and other payables	**10,389**	(757)	**(76,860)**	(67,102)
Provisions	**309**	3,893	**(1,082)**	8,497
Deferred and prepaid revenue and other liabilities	**2,059**	(2,613)	**5,493**	(3,049)
	12,757	9,905	**(74,751)**	(64,781)

b) Cash and cash equivalents

	February 28, 2013	August 31, 2012
	$	$
Cash	**42,265**	65,574
Cash equivalents[(1)]	**—**	149,949
	42,265	215,523

(1) At August 31, 2012, Banker's acceptances for a total of $149.9 million, bearing interest of 1.10% with maturity dates ranging from September 4, 2012 to September 17, 2012.

12. Employee Benefits

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

	Three months ended		Six months ended	
	February 28, 2013	February 29, 2012	**February 28, 2013**	February 29, 2012
	$	$	**$**	$
Contributory defined benefit pension plans	**1,189**	966	**2,373**	3,039
Defined contribution pension plans and collective registered retirement savings plans	**1,971**	1,288	**3,626**	2,674
	3,160	2,254	**5,999**	5,713

13. Financial instruments

a) Financial risk management

Management's objectives are to protect COGECO Inc. and its subsidiaries against material economic exposures and variability of results, and against certain financial risks including credit, 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 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 cross-currency swaps 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 February 28, 2013, 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 "BBB+" by Standard & Poor's rating services ("S&P") and "A (high)" by Dominion Bond Rating Services ("DBRS").

Cash and cash equivalents consist mainly of highly liquid money market short-term investments. The Corporation has deposited the cash and cash equivalents with reputable financial institutions, for which management believes the risk of loss to be remote. At February 28, 2013, management believes that the credit risk relating to its short-term investments is minimal, since the credit rating related to such investment is "AAA" by S&P.

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. At February 28, 2013 and August 31, 2012, no customer balance represented a significant portion of the Corporation's consolidated trade accounts receivable. 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 the US and in Europe, there is no significant concentration of credit risk.

The following table provides further details on the Corporation's trade accounts receivable, net of allowance for doubtful accounts:

	February 28, 2013	August 31, 2012
	$	$
Trade accounts receivable	**117,085**	95,170
Allowance for doubtful accounts	**(5,778)**	(4,156)
	111,307	91,014
Other accounts receivable	**13,307**	7,613
	124,614	98,627

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 their services are rendered. The Corporation considers 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 February 28, 2013 and August 31, 2012:

	February 28, 2013	August 31, 2012
	$	$
Less than 60 days overdue	**28,351**	23,906
60 to 90 days overdue	**4,395**	2,828
More than 90 days overdue	**2,566**	1,745
	35,312	28,479

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 February 28, 2013, the available amount of the Corporation's revolving credit facilities was $166.2 million. Management believes that the committed revolving credit facilities will, until their maturities in January, February and November 2017, provide sufficient liquidity to manage its long-term debt maturities and support working capital requirements. The Corporation's subsidiary, Cogeco Cable Inc., also benefits from a Revolving Credit Facility of US$50 million related to its acquisition of ABB, of which US$3.5 million ($3.6 million) was used at February 28, 2013.

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

		Contractual cash flows						
	Carrying amount $	2013 $	2014 $	2015 $	2016 $	2017 $	Thereafter $	Total $
Bank indebtedness	**3,993**	**3,993**	**—**	**—**	**—**	**—**	**—**	**3,993**
Trade and other payables[1]	**208,837**	**208,837**	**—**	**—**	**—**	**—**	**—**	**208,837**
Long-term debt[2]	**3,095,172**	**2,166**	**313,614**	**25,991**	**228,765**	**761,336**	**1,790,076**	**3,121,948**
Balance due on business combinations	**2,875**	**2,000**	**875**	**—**	**—**	**—**	**—**	**2,875**
Other liabilities	**3,103**	**—**	**1,263**	**1,253**	**1,253**	**1,253**	**44**	**5,066**
Derivative financial instruments	**3,723**	**—**	**—**	**—**	**5,909**	**—**	**—**	**5,909**
Finance leases[3]	**3,055**	**978**	**1,340**	**804**	**29**	**10**	**—**	**3,161**
	3,320,758	**217,974**	**317,092**	**28,048**	**235,956**	**762,599**	**1,790,120**	**3,351,789**

(1) Excluding accrued interest.
(2) Principal excluding finance leases.
(3) Including interest.

The following table is a summary of interest payable on long-term debt (excluding interest on finance leases) that is due for each of the next five years and thereafter, based on the principal amount and interest rate prevailing on the outstanding debt at February 28, 2013 and their respective maturities:

	2013	2014	2015	2016	2017	Thereafter	Total
	$	$	$	$	$	$	$
Interest payments on long-term debt	**59,273**	**124,513**	**106,016**	**98,157**	**77,767**	**153,334**	**619,060**
Interest receipts on derivative financial instruments	**(6,859)**	**(13,718)**	**(13,718)**	**(6,859)**	**—**	**—**	**(41,154)**
Interest payments on derivative financial instruments	**7,306**	**14,614**	**14,614**	**7,307**	**—**	**—**	**43,841**
	59,720	**125,409**	**106,912**	**98,605**	**77,767**	**153,334**	**621,747**

Interest rate risk

The Corporation is exposed to interest rate risks for both fixed interest rate and floating interest rate instruments. Fluctuations in interest rates will have an effect on the valuation and collection or repayment of these instruments. At February 28, 2013, all of the Corporation's long-term debt was at fixed rate, except for the Corporation's term and revolving facilities. The sensitivity of the Corporation's annual financial expense to a variation of 1% in the interest rate applicable to term and revolving facilities is approximately $16.9 million based on the current debt at February 28, 2013.

Foreign exchange risk

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

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

	February 28, 2013			August 31, 2012	
	US	**Euro**	**British Pound**	US	Euro
	$	**$**	**$**	$	$
Financial assets (liabilities)					
Cash and cash equivalents	**2,786**	**1,347**	**156**	3,630	1,243
Trade and other payables and provisions	**(8,031)**	**(6,297)**	**—**	(21,569)	(7,068)
	(5,245)	**(4,950)**	**156**	(17,939)	(5,825)

Due to their short-term nature, the risk arising from fluctuations in foreign exchange rates is usually not significant. The impact of a 10% fluctuation in the foreign exchange rates (US dollar, Euro and British Pound) would change financial expense by approximately $1 million.

Furthermore, Cogeco Cable's net investment 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 was mitigated since the major part of the purchase price for ABB and PEER 1 were borrowed directly in US dollars and British Pounds. These debts were designated as hedges of net investments in foreign operations. At February 28, 2013, the net investment for ABB amounted to US$472.6 million while long-term debt was of US$323 million. At February 28, 2013, the net investment for PEER 1 amounted to US$368 million and £69.1 million while long-term debts was of $US245 million and £69.1 million.The exchange rate used to convert the US dollar currency and British Pound currency into Canadian dollars for the statement of financial position accounts at February 28, 2013 was $1.0314 per US dollar and $1.5645 per British Pound. The impact of a 10% change in the exchange rate of the US dollar and British Pound into Canadian dollars would change other comprehensive income by approximately $28.1 million.

b) Fair value of financial instruments

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

a) The carrying amount of cash and cash equivalents, trade and other receivables, bank indebtedness, trade and other payables and balance due on business combinations approximates fair value because of the short-term nature of these instruments.

b) Interest rates under the terms of the Corporation's term and revolving facilities are based on Bankers' acceptance, LIBOR, EURIBOR, bank prime rate loan or US or British Pounds base rate loan plus applicable margin. Therefore, the carrying value approximates fair value for the term and revolving facilities, since these facilities have conditions similar to those currently available to the Corporation.

c) The fair value of the Senior Secured Debentures Series 1, 2 and 3, Senior Secured Notes Series A and B, Senior Unsecured Debenture and Unsecured Notes are based upon current trading values for similar financial instruments.

d) 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:

	February 28, 2013		August 31, 2012	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Long-term debt	**3,098,227**	**3,203,361**	1,145,669	1,228,324

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 are estimated using valuation models that reflect projected future cash flows over contractual terms of the derivative financial instruments and observable market data, such as interest and currency exchange rate curves.

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 debts 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, bank indebtedness, long-term debt, balance due on business combinations and assets or liabilities related to derivative financial instruments.

The provisions of the Term Revolving Facility, Secured Credit Facilities and First Lien Credit Facilities provide for restrictions on the operations and activities of the Corporation. 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 operating income before depreciation and amortization, financial expense and total indebtedness. At February 28, 2013 and August 31, 2012 the Corporation was in compliance with all of its debt covenants and was not subject to any other externally imposed capital requirements.

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

	February 28, 2013	August 31, 2012
Net senior indebtedness[1][2] / operating income before depreciation and amortization[3]	**3.6**	1.3
Net indebtedness[2][4] / operating income before depreciation and amortization[3]	**3.8**	1.6
Operating income before depreciation and amortization[3] / financial expense[3]	**8.5**	8.8

(1) Net secured indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents and principal on Senior Unsecured Debenture and Unsecured Notes.
(2) Excluding ABB's cash and cash equivalents and non-recourse First Lien Credit Facilities at February 28, 2013.
(3) Calculation based on operating income before depreciation and amortization and financial expense for the twelve-month period ended February 28, 2013 and August 31, 2012 excluding ABB and including PEER 1 results for the one-month period ended February 28, 2013.
(4) Net indebtedness is defined as the total of bank indebtedness, principal on long-term debt, balance due on business combinations and obligations under derivative financial instruments, less cash and cash equivalents.

14. Disposal of Subsidiary and Discontinued Operations

On February 29, 2012, the Corporation's subsidiary, Cogeco Cable Inc., completed the sale of its Portuguese subsidiary, Cabovisão – Televisão por Cabo, S.A. As a result of the sale and in accordance with *IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations*, the Corporation reclassified the prior year results and cash flows of these operations, up to the date of disposal, as discontinued operations.

The profit or loss of the discontinued operations for the three and six-month periods ended February 29, 2012 were as follows:

	Three months ended	Six months ended
	$	$
Revenue	39,031	80,546
Operating expenses	33,480	70,247
Depreciation and amortization	1,526	2,814
Operating income	4,025	7,485
Financial income	44	155
Gain on disposal	48,215	48,215
Profit before income taxes	52,284	55,855
Income taxes	237	409
Profit for the period	52,047	55,446

The cash flows of the discontinued operations for the three and six-month periods ended February 29, 2012 were as follows:

	Three months ended	Six months ended
	$	$
Net cash flows from operating activities	7,505	13,637
Net cash flows from investing activities	40,260	36,826
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	(528)	(866)
Net increase in cash and cash equivalents	47,237	49,597

15. Subsequent Event

On April 3, 2013, the Corporation's subsidiary, Cogeco Cable Inc., completed the acquisition of the remaining 3.43% of the issued and outstanding shares of PEER 1 pursuant to the compulsory acquisition provisions in Section 300 of the Business Corporations Act ("British Columbia") for a cash consideration of $17 million.

CABLE SEGMENT CUSTOMER STATISTICS

	February 28, 2013	November 30, 2012	August 31, 2012	May 31, 2012	February 29, 2012
Primary service units[1]	**2,486,350**	**2,478,887**	1,969,133	1,962,174	1,955,928
CANADA	**1,984,555**	**1,984,213**	1,969,133	1,962,174	1,955,928
US	**501,795**	**494,674**	–	–	–
Television service customers	**1,100,547**	**1,105,443**	863,115	868,873	873,326
CANADA	**852,707**	**861,039**	863,115	868,873	873,326
Penetration as a percentage of homes passed	**51.4%**	**52.1%**	52.4%	52.9%	53.5%
US	**247,840**	**244,404**	–	–	–
Penetration as a percentage of homes passed	**48.0%**	**47.4%**	–	–	–
Digital Television service customers	**922,703**	**922,623**	771,503	765,585	752,642
CANADA	**778,728**	**780,724**	771,503	765,585	752,642
Penetration as a percentage of homes passed	**46.9%**	**47.2%**	46.8%	46.6%	46.1%
US	**143,975**	**141,899**	–	–	–
Penetration as a percentage of homes passed	**27.9%**	**27.5%**	–	–	–
Analogue Television service customers	**177,844**	**182,820**	91,612	103,288	120,684
CANADA	**73,979**	**80,315**	91,612	103,288	120,684
Penetration as a percentage of homes passed	**4.5%**	**4.9%**	5.6%	6.3%	7.4%
US	**103,865**	**102,505**	–	–	–
Penetration as a percentage of homes passed	**20.1%**	**19.9%**	–	–	–
High Speed Internet service customers	**824,144**	**817,019**	634,534	628,852	626,017
CANADA	**649,165**	**645,379**	634,534	628,852	626,017
Penetration as a percentage of homes passed	**39.1%**	**39.0%**	38.5%	38.3%	38.3%
US	**174,979**	**171,640**	–	–	–
Penetration as a percentage of homes passed	**33.9%**	**33.3%**	–	–	–
Telephony service customers	**561,659**	**556,425**	471,484	464,449	456,585
CANADA	**482,683**	**477,795**	471,484	464,449	456,585
Penetration as a percentage of homes passed	**29.1%**	**28.9%**	28.6%	28.3%	27.9%
US	**78,976**	**78,630**	–	–	–
Penetration as a percentage of homes passed	**15.3%**	**15.2%**	–	–	–

(1) Represents the sum of Television, High Speed Internet (“HSI”) and Telephony service customer.