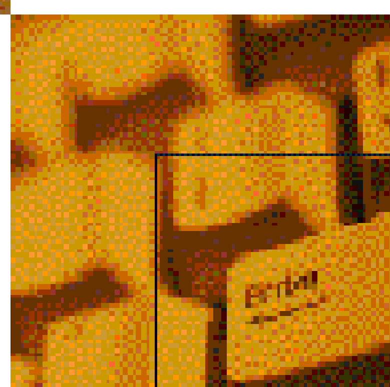
Annual Information Form

Fiscal Year Ended August 31, 1997 - October 31, 1997



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1 - INCORPORATION

1.1 Incorporation and Articles of Issuer

COGECO Inc. (the "Company" or "COGECO") is a diversified Canadian communications company operating for the last 40 years in the field of French-language broadcasting and for the last 25 years in the field of cable television in Quebec and elsewhere in Canada.

COGECO was incorporated under Part I of the *Companies Act* (Quebec) on July 24, 1957 and was continued under the authority of Part IA of the same Act by virtue of a certificate of continuance dated November 8, 1984. Certificates of amendment have been issued thereafter to the Company on July 8, 1985, November 7, 1985, December 19, 1988, August 15, 1989, July 11, 1990 and February 15, 1993 to change the composition of its share capital. Following these various changes, the capital of the Company is comprised of subordinate voting shares, multiple voting shares, and of class A and class B preferred shares which may be issued in series.

The July 8, 1985 amendment created an unlimited number of preferred shares at a par value of $1.00 per share and provided for the convertibility of common shares into preferred shares on a share for share basis at the option of the holder of common shares before the close of business on August 31, 1985.

The November 7, 1985 amendment cancelled the preferred shares created on July 8, 1985 and created an unlimited number of subordinate voting shares, an unlimited number of multiple voting shares, an unlimited number of class A preferred shares and an unlimited number of class B preferred shares, all without par value, and provided for the conversion of all issued and outstanding common shares into subordinate voting shares and multiple voting shares.

The December 19, 1988 amendment created a first series of 800,000 convertible class A preferred shares at an issue price of $25.00 per share.

The August 15, 1989 amendment created a first series of 7,500,000 convertible class B preferred shares at an issue price of $9.00 per share.

The July 11, 1990 amendment created a second series of 29,374 convertible class A preferred shares at an issue price of $25.00 per share.

The February 15, 1993 amendment provided for the mandatory redemption of all the outstanding class B, series 1, preferred shares.

The registered office and the principal executive offices of the Corporation are located at 1 Place Ville Marie, Suite 3636, Montreal, Quebec, H3B 3P2.

1.2 Subsidiaries

As at August 31, 1997, the Company had two direct active subsidiaries. Cogeco Radio-Television Inc. ("CRTI") was constituted under the authority of Part 1A of the *Companies Act* (Quebec). Cogeco Cable Inc. ("Cogeco Cable") was constituted under the authority of the *Canada Business Corporations Act.* CRTI is a wholly-owned subsidiary of the Corporation. Publications Dumont (1988) Inc., also a wholly-owned subsidiary, discontinued its activities on December 2, 1996 following the sale of its assets. With the sale of the publishing assets, the Company has decided to focus its strategic activities in cable distribution and broadcasting.

As at August 31, 1997, the Company held 15,691,100 multiple voting shares of Cogeco Cable, or approximately 93.30% of all the voting rights, and other investors held 11,259,821 subordinate voting shares representing the balance of the voting rights attached to the share capital of Cogeco Cable.

Cogeco Cable controls several corporations active in the Cable Sector. Cogeco Cable Canada Inc. ("Cable Canada"), a Corporation constituted under the authority of the *Canada Business Corporation Act*, is a wholly-owned subsidiary of Cogeco Cable. Cable Canada is the sole owner of Cogeco Cable Systems Inc. ("Cable Systems"), also constituted under the authority of the *Canada Business Corporation Act*, and of Télédiffusion Sainte-Adèle Inc. and Câble Laurentides Ltée, both constituted under the authority of Part 1A of the *Companies Act* (Quebec). Microbec Inc. is a company constituted under the authority of Part 1A of the *Companies Act* (Quebec) the main activities of which are the installation, construction, ownership and operation of head ends. Cable Canada is also the majority owner of Inter-Vision de la Mauricie Inc., a company constituted under the authority of Part 1A of the *Companies Act* (Quebec) and holds investment in the capital of Société d'Edition et de transcodage T.E. Ltee ("sette"). Cable Systems is the sole owner of Cogeco Cable North Bay Limited ("North Bay"), a corporation constituted under the authority of the *Ontario Business Corporations Act*, and of 2846390 Canada Inc. ("2846390"), a corporation constituted under the *Canada Business Corporations Act* the only activity of which consists in holding preference shares without voting rights in the share capital of Cogeco Cable.

CRTI is the sole owner of Les Productions Carrefour Inc. ("Productions Carrefour"), a company constituted under the authority of Part 1A of the *Companies Act* (Quebec).

The Company holds investments in the capital of TQS Inc., Le Groupe Coscient Inc. and Cable Public Affairs Channel Inc. respectively.

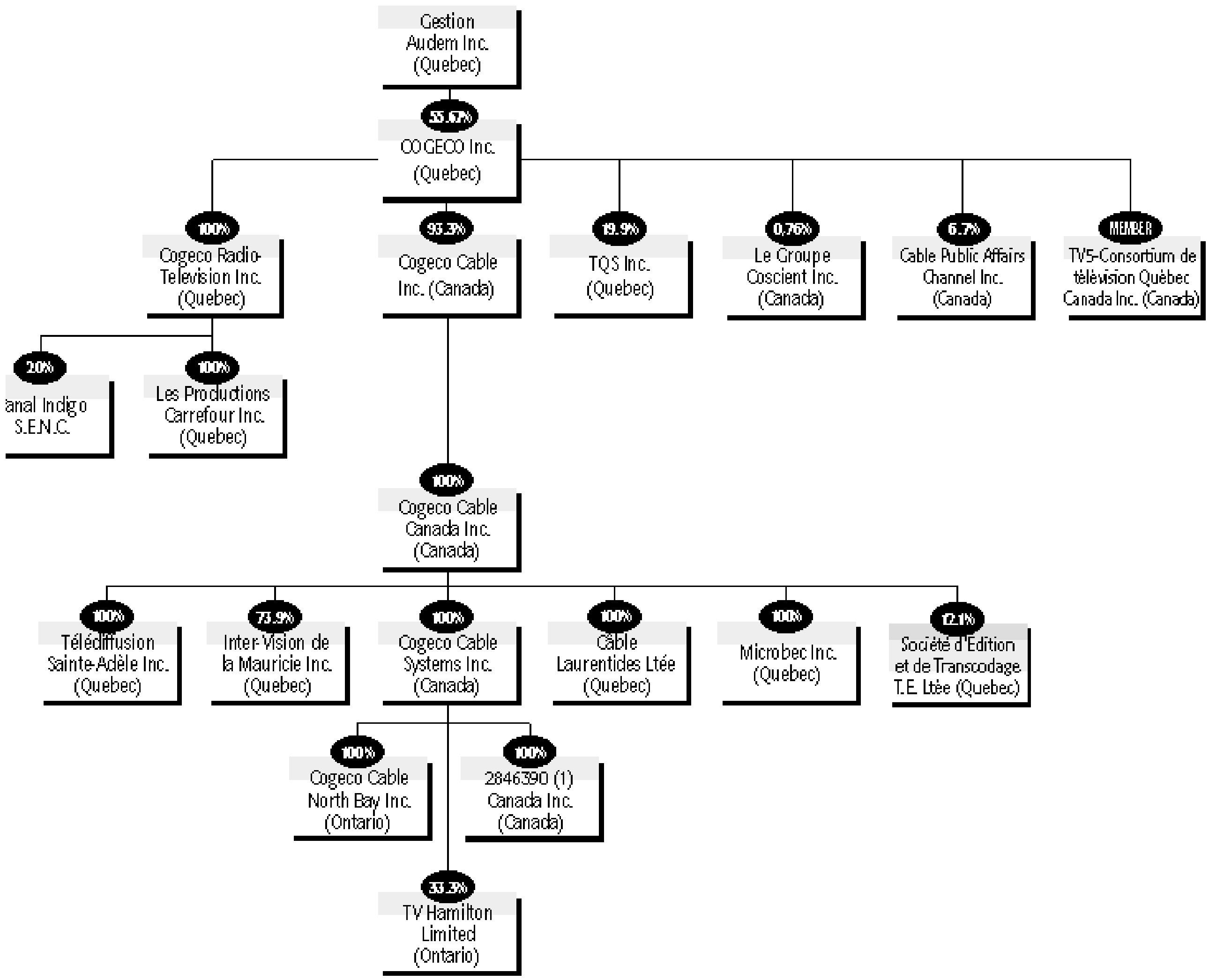
The Company is controlled by Gestion Audem Inc., a holding company constituted under the authority of Part 1A of the *Companies Act* (Quebec), which in turn is controlled by Mr. Henri Audet.

1.3 Restructuring of the Cable Sector

Following approval by the CRTC of the acquisition of 25 cable systems from Rogers Cablesystems Limited and certain of its affiliates located in Ontario, the entity incorporated for the purposes of this acquisition, then named 3305911 Canada Inc., came under the full control of Cogeco Cable through its wholly-owned subsidiary Cable Canada and changed its name to Cogeco Cable Systems Inc. With a view to promoting the complete integration of all the systems located outside Quebec and realizing increased financial and operating efficiency, the systems of the former Cablenet Division located in Burlington/Oakville, Kingston, Weyburn, Estevan, Lethbridge, Kamloops, Chilliwack, Comox and Powell River were transferred by Cable Canada to Cable Systems effective on September 1, 1997. Following this restructuring of the assets of the Cable Sector, all the systems located in Ontario and Western Canada are operated by Cable Systems (except for the North Bay System, which was acquired through a separate entity wholly owned by Cable Systems and now named Cogeco Cable North Bay Limited). All the Quebec systems continue to be operated by Cable Canada (except the Sainte-Adèle and Sainte-Agathe systems, which were acquired through separate entities wholly owned by Cable Canada and respectively named Télédiffusion Sainte-Adèle Inc. and Câble Laurentides Ltée).

1.4 Organization Chart

The following chart shows the various active companies and businesses and certain investments of the COGECO Group together with the percentage of voting rights held therein as at September 1, 1997:



(1) 2846390 Canada Inc. holds 203,261,849 Class A preference shares without voting rights of the share capital of Cogeco Cable Inc.

2 - GENERAL DEVELOPMENT OF THE BUSINESS

The Company's business is to hold and manage various undertakings operating in the field of communications. Operations started in 1957 with the establishment of a television station in Trois-Rivières affiliated to the French network of the Canadian Broadcasting Corporation. The Company expanded its activities into cable television in 1974 and into radio broadcasting in 1987. The Company made its first public share issue on November 8, 1985 and a second public share issue in June 1986.

The salient points of the Company's development during the last five fiscal years were the reorganization of the radio and television undertakings into a single subsidiary under the name of Cogeco Radio-Télévision Inc. (CRTI) in June 1992, the redemption of the outstanding convertible class B, series 1 preferred shares in March 1993, the reorganization of the cable television undertakings into a single subsidiary in the name of Cogeco Cable Inc., the initial public offering of Cogeco Cable Inc. in July 1993, the conversion of all outstanding convertible class A, series 1, preferred shares and convertible debentures in December 1993 pursuant to the notice of redemption of November 1993, the conversion of all outstanding convertible class A, series 2 preferred shares in April 1994 pursuant to the notice of redemption of March 1994 and the sale of the minority interest in Productions S.D.A. Limitée in exchange for 6% of the share capital of the purchaser, Le Groupe Coscient Inc., an independent audio-visual production company, in April 1994, and the purchase for cancellation of 1,764,705 subordinate voting shares in March 1997 pursuant to an issuer bid.

In November and December 1995, Cogeco Cable completed through a subsidiary the acquisition of Télédiffusion Sainte-Adèle Inc. and of Câble Laurentides Ltée, two cable television companies operating in the Laurentians area north of Montreal. In November, 1996, Cogeco Cable acquired from Rogers Cablesystems Limited and certain of its affiliates 25 cable systems in Ontario serving approximately 300,000 basic service customers in Ontario.

In December 1996, Publications Dumont (1988) Inc., a then active publishing subsidiary of the Company, completed the sale to Groupe Transcontinental G.T.C. Ltée of substantially all its operating assets consisting mainly of some thirty (30) weekly newspapers circulating in parts of Quebec and Ontario.

In 1997, COGECO acquired an interest of 19.99% in TQS Inc., the company that purchased, effective on August 31, 1997, the TQS television network with stations in Montreal and Quebec and a retransmitter in Rimouski.

The Company thus controls and manages a number of cable television and media properties. The development of the Cable Sector is handled through Cogeco Cable, itself a reporting issuer. In connection with the initial public offering of Cogeco Cable in July 1993, the Company has entered into an agreement with its cable subsidiary whereby the Company has undertaken not to purchase and/or operate any cable television networks or systems otherwise than through Cogeco Cable. Cogeco Cable is involved in cable system development and acquisition.

The major factors that may cause changes in the future development of the business are reviewed in the 1997 Annual Report of the Company on page 17 under the heading ”Management's Discussion and Analysis“ which is incorporated herein by reference.

3 - NARRATIVE DESCRIPTION OF THE BUSINESS

3.1 Reportable Industry Segments

The name of the Company is an abbreviation of COmpagnie GÉnérale de COmmunications. The activities of the Company and its subsidiaries are presently limited to the field of communications in Canada and no change is being anticipated in the near future in the general orientation of the Company. The Company offers, through its operating subsidiaries, services in two reportable industry segments: the Cable Sector (section 3.2) and the Media Sector (section 3.3).

3.2 Cable Sector

Cogeco Cable is the fourth largest cable operator in Canada based on the number of customers to basic service. As at August 31, 1997, Cogeco Cable's cable television systems served approximately 761,000 basic service subscribers in five Canadian provinces: Ontario, Quebec, Saskatchewan, Alberta and British Columbia. It is anticipated that all its systems will be regrouped in Ontario and Quebec during 1998 following completion of a cable system swap with Shaw Communications Inc., the sale of the Weyburn and Estevan systems in Saskatchewan to Regina Cablevision Cooperative and the anticipated sale of the Chilliwack system in British Columbia. The number of basic service subscribers served by Cogeco Cable is expected to be approximately 757,500 after Cogeco Cable's planned withdrawal from Saskatchewan, Alberta and British Columbia and the takeover of additional systems in Ontario and Quebec is completed, with about 70% of this customer base located in Ontario and the balance in Quebec.

Cogeco Cable's Quebec systems and related facilities are managed as a distinct operating group, referred to herein as «Cable Quebec», from a main office located in the City of Trois-Rivières, Quebec. Cogeco Cable's other systems and related facilities are also managed as a distinct operating group, referred to herein as «Cable Ontario», from a main office located in the City of Burlington (a suburb of Toronto), Ontario. While each operating group manages its systems for the distinctive French-language and English-language markets respectively, certain administrative services which are not of a market-specific nature, notably in the areas of procurement, information systems and accounting, are shared by the two units for greater efficiency.

3.2.1 Customer Base

The following table indicates Cogeco Cable's customer breakdown as of August 31, 1997.

	Basic service Customers	Homes Passed	Penetration Rate %	Allocation per province as a %
Cable Ontario				
Ontario	435,054	557,528	78.0 %	57.2 %
Saskatchewan	8,096	9,131	88.7	1.1
Alberta	21,455	28,776	74.6	2.8
British Columbia	71,262	82,850	86.0	9.4
	535,867	678,285	79.0	70.5
Cable Quebec				
Quebec	225,212	339,179	66.4	29.5
Total	761,079	1,017,464	74.8 %	100.0 %

The following table presents the number of customers subscribing to basic service and the penetration rate of basic service, discretionary services and pay television services from August 31, 1992 to August 31, 1997:

As at August 31	Basic Service Customers	Basic Service Penetration %	Discretionary Services as a % of Basic Service	Pay Television Services as a % of Basic Service
1992	410,622	81.6 %	80.1 %	9.2 %
1993	422,354	82.8	81.2	9.2
1994	432,359	82.1	83.1	9.9
1995	436,655	79.0 (1)	80.6 (2)	10.2
1996	454,947	76.0 (1)	78.1 (2)	10.0
1997	761,079	74.8 (1)	83.9 (2)	9.7

(1) Following a recount of homes passed, performed between fiscal years 1995 and 1997, the number of homes passed was adjusted upward and, as a result, the calculation of basic service penetration rate was adjusted downward.

(2) Taking into account the new specialty service tiers introduced by Cable Ontario and Cable Quebec respectively on January 1, 1995.

Historically, the penetration rate of basic service in Quebec has been significantly lower than the penetration rate of basic service in Western Canada and Ontario. In Quebec, Cogeco Cable operates in areas that are predominantly francophone and where most French-language programming is available directly off-air without cable. In these areas, demand for English programming is low, thereby affecting the demand for cable television.

3.2.2 Service Offering

Cogeco Cable's cable systems provide the distribution or retransmission to the public of numerous local and distant television and radio signals originated from various locations, as well as alphanumeric and other non-programming services.

These services are supplied mostly by way of subscription and may include more than one tier of services. Certain services are offered on an individual or on a user pay basis. In order to subscribe to extended basic service, customers must first subscribe to the basic service.

Cogeco Cable offers a wide selection of services to customers on its cable systems, including the following:

- local and regional television stations broadcasting within, or in proximity to, the area serviced by the system concerned, such as the affiliated stations of Canadian networks and independent Canadian stations;
- affiliated stations of the major U.S. commercial and public television networks;
- educational network services;
- community channels;
- Canadian specialty programming services;
- U.S. specialty programming services;
- Canadian pay television services;
- U.S. superstations;
- provincial legislature and House of Commons proceedings;
- audio programming services that include all the AM and FM radio stations received in the local area of the cable system concerned, in addition to a variety of radio stations; and
- non-programming services that include alphanumeric services, a Canadian home shopping network service and Internet access services.

3.2.2.1 Basic Service

Cogeco Cable offers a basic service comprised mainly of local, regional and distant Canadian and American television signals. The number of channels offered and basic monthly fee charged for this service vary depending on the characteristics of each system and market served. The basic service on Cable Ontario's systems is provided for a basic monthly fee ranging approximately from $13.35 to $25.19, depending on the system. The basic service on Cable Quebec's cable systems is provided for a basic monthly fee ranging from approximately $15.75 to $23.89, depending on the system. Cable Quebec's MDS undertakings offer a basic service of 15 channels for a basic monthly fee of $21.95. Basic monthly fees of cable undertakings are subject to a maximum amount approved by the CRTC consisting of a form of price cap, except for Class 2 undertakings, Part III systems and MDS.

From August 31, 1996 to August 31, 1997, Cogeco Cable has experienced a net positive aggregate increase of 1.2% in the number of customers to the basic service on its existing systems, excluding systems acquired during the fiscal year, or 5,578 additional basic service customers from year to year. Most of the overall increase in the total number of basic service customers from year to year has been derived from the acquisition of 25 cable systems serving over 300,000 customers in Ontario from Rogers Cablesystems Limited and certain of its affiliates, effective in November 1996.

The market for basic service can be characterized as mature, with customer growth mostly tied to the formation of new households and urban development.

3.2.2.2 Specialty Service Tiers

Cogeco Cable offers the available specialty television services mostly by way of discretionary tiers comprising a mix of Canadian and non-Canadian services. The distribution and linkage of these television services is regulated by the CRTC, but retail fees for discretionary tiers are not regulated.

Cable Ontario currently offers to its basic service customers on most of its systems located in Ontario three discretionary specialty television service tiers. Cable Quebec offers to its basic service customers on most of its systems a first discretionary service tier.

Demand for specialty television services continues to increase as more services become available and programming packages improve. A number of additional new services have already been licensed in 1996 and more licences are expected to be issued next year by the CRTC. Also, the CRTC has decided this year to allow the distribution of a much wider selection of American specialty services to be packaged with Canadian specialty services.

3.2.2.3 Pay Television Services

Cogeco Cable offers pay television services on a discretionary monthly subscription basis to its customers subscribing to the basic service on its systems, except for systems with fewer than 2,000 customers. The distribution and linkage of these pay television services is regulated by the CRTC, but fees for pay television tiers are not regulated.

3.2.2.4 Pay-Per-View Services

Pay-Per-View (PPV) is a relatively new line of service that allows customers to select and pay for specific programs. Programs are available on several channels with different start times. As cable systems evolve towards digital video compression, this line of service will include near video-on-demand (NVOD) with even greater choice of programs and start times.

3.2.2.5 Internet Access

In December 1995, Cable Quebec was among the first cable companies in North America to offer high-speed Internet access service by cable modem to the residential, business and institutional markets. In November 1996, Cable Ontario began to market PC and high-speed Internet access service by cable modem on its Burlington/Oakville and Kingston systems in Ontario in cooperation with Rogers, Shaw and Western Co-Axial under the Wave™ brand name under licence from Rogers.

Cogeco Cable charges up to $49.95 per month for high-speed cable modem Internet access (excluding cable modem rental), which includes up to 1.50 Gigabytes of access per month. Cable modems may be rented from Cogeco Cable for an additional monthly charge or be purchased at the option of the customer. As at August 31, 1997, Cogeco Cable had 3,760 customers for the high-speed cable modem service, and approximately 1,655 customers for the conventional speed telephone modem service.

3.2.2.6 Telecommunications Services

Competitive access services are a new and growing line of business for cable companies operating in larger urban markets. Cogeco Cable offers a range of telecommunications services to business and institutional customers as a competitive access provider («CAP»). These services include high-throughput dedicated Internet access gateway services, dedicated transmission circuits for data and voice traffic, and high-capacity synchronous optical network (SONET) OC-12 links with access speeds of up to 622 Mbps.

During the fiscal year ended August 31, 1997, Cogeco Cable has experimented with telephone and other telecommunications service solutions for the residential market. Competitive entry into this market segment and the particular solutions offered will depend however on several factors, including regulatory decisions of the CRTC on issues such as incumbent telephone company local service rates, available contribution in particular rate bands, carrier interface hurdles and the roll-out of telephone number portability.

3.2.3 Customer Service and Satisfaction Level

Cogeco Cable has devoted financial and human resources over the last few years to improve customer service at all points of interface with the customer. Service improvement initiatives include the implementation of specific service quality indicators, objective performance measurements, extended service hours, flexible service call appointments, improved billing systems, and customer sales representative training. Cogeco Cable has two integrated service call centres, one in Burlington for Cable Ontario, and one in Trois-Rivières for Cable Quebec. The Burlington call centre has been completely reorganized and expanded to meet the added customer service needs resulting from the acquisition of over 300,000 new customers in Ontario. The Burlington, Ontario call centre handles on average 6,000 calls per day, while the Trois-Rivières, Quebec call centre handles on average 2,000 calls per day. Further improvements to order processing, billing and customer premises servicing are expected during the current fiscal year with the implementation of the Ubiquinet mobile communications and dispatching system.

Cogeco Cable monitors the level of satisfaction of its customers and compares them with industry benchmarks. Cable Ontario conducted an extensive mail survey in the Spring of 1997 concurrently with the introduction of a new corporate identification and the takeover of customer accounts in the service areas of the systems newly acquired in Ontario. Results of this survey indicate that satisfaction levels are higher in Ontario than in Western Canada, but consistent overall with those of the cable industry in Canada. Cable Quebec completed a customer satisfaction survey in the fall of 1996 followed by focus groups in the spring and summer of 1997.

3.2.4 Systems and Facilities

It is Cogeco Cable's general policy to fully own its cable plant, including head ends, fibre and cable distribution plant, amplifiers and drops. In furtherance to this policy, where Cogeco Cable acquires cable systems that use leased facilities for part of their distribution plant, Cogeco Cable will normally replace such leased facilities with its own upon expiry of the leases. Cogeco Cable has otherwise entered into various lease, licence and other similar agreements for the shared use of support structures and joint use facilities, including cable, strands, poles, ducts and shelters with other telecommunications carriers, utilities and public authorities.

During the past fiscal year, Cogeco Cable has further implemented its comprehensive multi-year system rebuild and upgrade plan started in 1994. As at August 31, 1997, Cogeco Cable had incurred over $ 51 million in capital expenditures for system rebuilds and upgrades involving fibering and two-way amplifiers for return path capability required by high-speed Internet access and other new services. As at August 31, 1997, approximately 50 % of basic customers served by Cogeco Cable's systems, including the newly acquired systems in Ontario, were connected with two-way plants. Cogeco Cable's objective, according to current preliminary estimates, is to serve over 75 % of its overall customer base with two-way plants by the end of the current fiscal year, including all newly acquired systems and the systems to be acquired from Shaw Communications Inc. in Windsor, Chatham, Leamington, Smiths Falls and surrounding areas. As the systems are upgraded to two-way capability, the distribution plant is tightened and filters are placed to ensure optimum use of the return path.

System rebuilds and upgrades with hybrid fiber-coaxial (HFC) plant provide major improvements both in terms of overall capacity and in terms of technical performance and reliability. The upgrade model followed by Cogeco Cable since 1994 has been to deploy fibre optics from the head end to optical nodes serving sectors of approximately 2,000 homes, with the built-in ability to bring fibres further down to smaller sectors of 500 homes or less when traffic and service demand justify the incremental investment. This model ensures a vast improvement in the quality and reliability of service to all customers in upgraded areas while making efficient use of available capital and technical resources. In addition to the effective roll-out of two-way capability, one of the key challenges in cable system upgrades remains the planning of overall capacity requirements to meet future transmission needs.

During the year, Cogeco Cable has completed the construction of several major backbone transmission facilities. The fibre optic link between Montreal and Quebec City built in association with fONOROLA Telecommunications, Hydro-Quebec and Metrix Interlink was activated in April 1997 and is currently used by Cable Quebec for the delivery of distant signals to its cable systems in Central Quebec and Internet-related traffic. Cable Ontario has activated its new SONET ring circling the Golden Horseshoe area from Oakville to Stoney Creek for delivery of distant signals to its cable systems in the area and for competitive access telecommunications traffic.

3.2.5 Cable Ontario

Control of the former Cablenet systems in the Provinces of Ontario, Saskatchewan, Alberta and British Columbia was acquired in 1990. In November 1996, Cogeco Cable acquired 25 additional cable systems located in Ontario from Rogers Cablesystems Limited and certain of its affiliates. The activities related to these cable assets are conducted through a single entity, Cogeco Cable Systems Inc. except for one system operated through Cogeco Cable North Bay Limited, these entities being referred to collectively herein as Cable Ontario. Cable Ontario currently operates 34 cable systems which served, as at August 31, 1997, 535,867 basic service customers for an average basic service penetration rate of 79.0%.

Cable Ontario currently operates 15 Class 1 and 10 Class 2 cable systems which, as at August 31, 1997, served 530,642 basic service customers. Cable Ontario also operates 9 Part III cable systems which, as at August 31, 1997, served 5,225 basic service customers.

Class 1 systems are defined as systems that serve 6,000 or more customers, Class 2 systems are defined as systems that serve fewer than 6,000 customers and do not qualify as Part III systems and Part III systems are located in areas which receive fewer than three Canadian television signals over the air. Part III systems and small Class 2 systems are subject to less restrictive signal carriage rules. This gives Cogeco Cable the opportunity to provide greater variety in the programming offered in the communities served by these systems.

Services

Cable Ontario's services are offered as part of separately-priced service tiers. Basic service includes local, regional and distant Canadian and U.S. conventional television signals, the provincial educational network services, the community channel, provincial legislature and House of Commons proceedings.

Cable Ontario currently offers to its customers subscribing to the basic service three discretionary specialty television service tiers on most of its systems. Variety Pak I is a package of up to 9 specialty and other television services offered for a monthly stand-alone subscription fee of up to $8.75, depending on the system. It includes The Sports Network, MuchMusic, Cable News Network, and Arts & Entertainment Network. As at August 31, 1997, there were 458,173 customers to this first discretionary tier, for a penetration rate of 85.5% of basic service customers having access to the tier. The total increase of 265,019 customers to this first tier from year to year has been mostly derived from the acquisition of new systems. Variety Pak II is a package of up to 11 specialty and other television services offered for a monthly stand-alone subscription fee of up to $6.75, depending on the system. It includes The Discovery Channel, Showcase, Bravo, and The Life Channel. As at August 31, 1997, there were 346,763 customers to this second discretionary tier, for a penetration rate of 64.7% of basic service customers having access to the tier. The total increase of 206,321 customers to this second tier from year to year has also been mostly derived from the acquisition of new systems.

Variety Pak III, which has just recently been launched by several systems on October 17, 1997, is a package of up to 13 specialty and other television services. Effective January 1998, at the end of a free trial period, the monthly subscription fee for the new tier will reach up to $10.99, on a stand-alone basis or $5.99 as an add-on to other Variety Pak tiers, depending on the system. The new package includes The Family Channel, History Television, Outdoor Life, The Comedy Network, Prime TV, Home & Garden Television and Teletoon. TBS, CNBC, Black Entertainment Television, Speedvision and The Golf Channel are included in the package wherever available capacity exists.

Basic service customers may subscribe to any combination of the three specialty tiers, or subscribe to all three for an attractive combined monthly subscription fee. On systems with fewer than 2,000 customers, specialty television services are still distributed as part of the basic service.

The pay television services offered by Cable Ontario include The Movie Network (on a single channel or on several channels providing different movie schedules, depending on the system), Moviepix, and American superstation signals such as WGN-TV. Except for systems with fewer than 2,000 customers, where pay television channels are offered as part of the basic service, basic service customers may subscribe to any pay television service separately, or to packages of pay television services for a combined monthly subscription fee. As at August 31, 1997, Cable Ontario served 51,693 pay television customers, for a penetration rate of 9.6% of basic service customers having access to pay television services as a separate tier.

Cable Ontario offers the Viewers' Choice Canada Inc. pay-per-view service on its Burlington/Oakville, Kingston, Hamilton, Niagara Falls, St.Catherines, Peterborough, Pembroke and Arnprior/Renfrew/Pakenham systems. Individual movie viewings retail for up to $4.95 and special events such as boxing or wrestling matches retail on average for $29.95.

Cable Ontario offers high-speed Cable modem Internet access service on its Burlington/Oakville, Kingston and Hamilton systems using the Wave™ brand name under licence from Rogers Cablesystems Limited for a monthly subscription fee of up to $49.95 (excluding cable modem rental). As at August 31, 1997, after less than a full year of high-speed Internet access service, Cable Ontario had 2,040 Internet customers.

Rate Structure

The CRTC regulates basic monthly fees for all Class 1 systems and may review the basic monthly fees for Class 2 systems serving 2,000 or more customers. Service fees for Class 2 systems with fewer than 2,000 customers and Part III systems are not regulated. Other unregulated rates include the specialty service tiers, pay television, installation fees, additional outlets and cable audio services.

Cable Ontario's cable systems are presently subject to basic cable rate regulation, except for the Estevan and Weyburn Class 2 systems and the Part III systems located in the Ottawa Valley. The basic service monthly rate has increased on average by approximately $0.70 effective March 1, 1997 for the systems recently acquired from Rogers, and on average by approximately $0.40 effective February 1, 1997 for the other Cable Ontario systems. The current monthly rate for basic services are shown in the table on the following page:

Cable systems that Cogeco Cable intends to keep (all in Ontario)

Region	Basic Service Monthly Rate
Greater Toronto Area	
Peterborough	$ 15.52
Burlington/Oakville	16.87
Eastern Ontario	
Cornwall	17.07
Pembroke	15.95
Hawkesbury	20.08
Arnprior	15.43
Renfrew	15.76
Pakenham	15.72
Deep River	17.40
Cobden	24.47
Chalk River	16.15
Beachburg	22.36
Alexandria	24.79
Lancaster	17.07
Maxville	23.49
Alfred/Plantagenet	25.19
Bourget/Clarence Creek	24.24
St.Isidore-de-Prescott	23.49
Limoges	23.49
Kingston	14.38
Southeast and Central Ontario	
Hamilton	15.79
Niagara/Niagara Falls	20.21/15.24
St.Catharines	18.03
Sarnia	17.01
North Bay	17.94
Hamilton West	13.35
Wallaceburg	17.01

Cable systems that Cogeco Cable intends to sell or exchange

Region	Province	Basic Service Monthly Rate
Estevan/Weyburn	Saskatchewan	$ 15.95
Lethbridge	Alberta	15.86
Chilliwack	British Columbia	13.95
Kamloops	British Columbia	15.84
Comox/Powell River	British Columbia	17.21

Cable Ontario offers the discretionary packages of specialty programming services Variety Pak I, Variety Pak II and Variety Pak III for an additional monthly rate of up to $8.75, $6.75 and $10.99 respectively on a stand-alone basis. The Variety Plus combination tier (Variety Pak I and II) retails for a monthly rate of up to $11.75, and the Value Pak combination tier (Variety Pak I, II and III) will retail for a monthly fee of up to $17.74. The monthly rate for Variety Pak I, for Variety Pak II increased by $0.80 effective February 1, 1997 and the monthly rate for the Variety Plus Combination tier increased by $0.85 effective February 1, 1997 for the systems acquired from Rogers. The monthly rate for the discretionary tiers increased by $0.80 effective September 1, 1996 for the other Cable Ontario systems.

Systems and Facilities

The present system channel capacity varies from 50 channels in the smaller systems to 80 channels in the larger systems. Cable Ontario has completed the upgrade of its Burlington/Oakville and Kingston cable systems, representing on a combined basis approximately 134,500 customers as at August 31, 1997, to 80 channels, easily upgradable to 110 channels, and expects to complete the upgrade of most of its other cable systems to 80 channels within the next two years. Several systems not fully upgraded at present already use fibre optic elements for their trunk distribution lines.

Cable Ontario continues to use analogue decoders for discretionary pay services and it anticipates that these devices will be replaced by digital decoders as digital video compression is introduced and digital video services are extended to customers over the next few years.

Each system's facilities include a head end with antenna systems and electronic equipment. Studio facilities and, for most systems, mobile units for the production of community programming are located in the principal communities served by each system.

Cable Ontario's facilities have been recently increased by an additional 27,000 square feet as a result of the acquisition of systems from Rogers Cablesystems Limited and certain of its affiliates. Cable Ontario owns premises that occupy 26,000 square feet, located at 950 Syscon Road, Burlington, Ontario. The customer services, information services, Internet services and community programming functions are carried out through these premises. The 19,000 square feet Oakville/Burlington facilities, which carry out technical operations, are leased and located at 1200 Burloak Drive, Burlington, Ontario. The 8,000 square feet administrative offices are leased and located nearby at 5515 North Service Road, Burlington, Ontario.

Human Resources

As of August 31, 1997, Cable Ontario had 490 full time equivalent employees of which 27 were unionized in the Western Canadian systems and governed by three collective agreements. These collective agreements were recently renewed and will expire by August 31, 1999, subsequent to the anticipated disposition of the systems affected.

Broadcasting Licences

Cable Ontario holds 37 broadcasting licences issued by the CRTC under the authority of the *Broadcasting Act* (Canada). All of Cable Ontario's licences are in good standing. The CRTC has never revoked or failed to renew a licence for an active cable system owned by Cogeco Cable.

3.2.6 Cable Quebec

Cable Quebec currently operates 38 cable systems and two MDS which, as at August 31, 1997, served 225,462 customers, for an average penetration rate of 66.4%. Cable Quebec currently operates 11 Class 1 and 15 Class 2 cable television systems which, as at August 31, 1997, served 211,893 customers. Cable Quebec also operates 12 Part III cable television systems which, as at August 31, 1997, served 13,319 customers. The two MDS served 250 customers as at august 31, 1997.

Services

As part of its basic service, Cable Quebec offers local, regional and distant Canadian and U.S. conventional television signals, the provincial educational network services, the community channel, provincial legislature and House of Commons proceedings, French-language and some English-language specialty services.

Cable Quebec offers to its basic service customers a first discretionary television service tier on most of its systems. This first discretionary tier was originally launched in January 1995 with specialty and other television services such as Le Réseau des Sports, Canal Famille, MusiquePlus and Canal D, and is currently offered for a monthly rate of up to $9.25, depending on the system and the sector within the system service area. The tier was made available during the 1996-1997 fiscal year on the Ste-Adèle and Ste-Agathe systems. As at August 31, 1997, there were 180,278 customers to this first discretionary tier, for a penetration rate of 82.8% of basic service customers having access to the tier, compared to 162,360 customers at the end of the previous fiscal year, an increase of 11.1%. Most of this increase, or 15,943 customers, is attributable to the launch of the specialty tier in Ste-Adèle and Ste-Agathe. On September 6, 1997, the tier was expanded to include four new French-language specialty services, namely Le Canal Nouvelles TVA, Le Canal Vie, Musimax and Télétoon. As available channel capacity allows, the expanded tier offered in Trois-Rivières, Drummondville and Rimouski includes 18 television channels and 14 channels in other cities. In January 1998, at the end of a four-month free trial period for the new added channels, the monthly rate for the tier will reach up to $12.20, depending on the system. On systems with fewer than 2,000 customers, specialty television services are still distributed as part of the basic service.

Cable Quebec offers the Super Écran pay television service as part of a discretionary tier on its larger systems, with or without additional services, or as part of the basic service on its systems with fewer than 2,000 customers. As at August 31, 1997, Cable Quebec served 21,760 pay television customers, for a penetration rate of 9.7% of basic customers having access to pay television services as a separate tier. Cable Quebec plans to launch a French-language pay-per-view service, Canal Indigo, on its Trois-Rivières and Drummondville systems in the second financial quarter of this year.

Cable Quebec offers Internet access services on several of its larger systems under its own RAPIDUS™ brand name, for a residential monthly subscription fee of up to $34.95 (excluding cable modem rental), depending on the system. It also offers conventional Internet access by telephone modem as a lower cost option. The monthly rate for the conventional Internet access service by telephone modem amounts to $9.95 for 10 hours of services and additional hours cost $0.50 per hour. As at August 31, 1997, Cable Quebec had 1,720 high-speed Internet customers and 1,655 conventional Internet customers.

Rate Structure

The basic service monthly rate has increased on average by approximately $0.40 effective January 1, 1997. The current basic service monthly rates of the principal systems in Quebec are shown in the following table:

Region	Location	Basic Service Monthly Rate
Laurentians	Ste-Adèle	$ 15.74
	Ste-Agathe	16.45
	Morin Heights	21.82
Mauricie	Trois-Rivières/Shawinigan	16.27
	Montmagny	17.80
Eastern Townships	St-Hyacinthe	16.00
	Drummondville	16.23
	Magog	18.77
Beauce and Asbestos	Thetford-Mines	17.98
	Disraeli/Coleraine	17.73
	St-Georges-de-Beauce	19.17
Côte-Nord and Lower St-Lawrence	Rimouski	21.53
	Ste-Anne-des-Monts	21.82
	Baie-Comeau	18.34
	Sept-Iles	19.46
	Forestville	23.89
Lac St-Jean	Alma	18.17
	Roberval	16.30
	Chambord	18.51

In addition to basic cable television service, Cable Quebec offers a discretionary service tier of programming services for an additional monthly rate currently varying from $6.95 to $ 9.25 depending on the system. The monthly rate for the discretionary service tier increased by $1.30 effective September 1, 1997.

Systems and Facilities

As at August 31, 1997, system channel capacity varied from 36 to 80 channels depending on the system. Cable Quebec has upgraded its major Quebec systems in the Mauricie and Eastern Townships to 80 channels, easily upgradable to 110 channels, and plans to complete the upgrade of most of its remaining systems by the end of 1999.

Each system's facilities include a head end with antenna systems and electronic equipment. Studio facilities and, for most systems, mobile units for the production of community programming are located in the principal communities served.

The principal offices of Cable Quebec are located at 1630, 6th Street, Trois-Rivières, Quebec. These facilities are leased and occupy approximately 30,000 square feet. The lease expired in 2002 with an option to renew to the year 2007.

Human Resources

As at August 31, 1997, Cable Quebec had 238 full-time equivalent employees of which approximately 165 were unionized through eleven collective agreements. Currently, five collective agreements are being renegotiated, representing 119 full-time equivalent employees. Management currently does not anticipate any problems in renewing the expired agreements. The other collective agreements expire at various dates through April 1999.

Broadcasting Licences

Cable Quebec holds 38 cable and two MDS broadcasting distribution licences issued by the CRTC, all of which are in good standing. The CRTC has never revoked or failed to renew a licence for an active cable system owned by Cogeco Cable.

3.2.7 Acquisition and Disposal of Shares or Assets

3.2.7.1 Acquisition of Télédiffusion Sainte-Adèle Inc. and Câble Laurentides Ltée

Through Cogeco Cable Canada, Cogeco Cable acquired on November 7, 1995, all the shares of Télédiffusion Sainte-Adèle Inc., a company licensed to operate a cable system in Ste-Adèle and surrounding area serving approximately 9,000 basic service customers at the time of the acquisition, for an aggregate consideration of approximately $9 million, with a remaining instalment of $1,910,000 to be paid in November 1997. Also through Cable Canada, Cogeco Cable acquired on December 22, 1995, all the shares of Câble Laurentides Ltée, a company licensed to operate a cable system in Ste-Agathe and surrounding area serving approximately 7,000 basic service customers at the time of the acquisition, for an aggregate consideration of approximately $5.6 million with a remaining instalment of $1 million to be paid in December 1997. The cable systems concerned in these two acquisitions have since been fully integrated with the other systems of Cable Quebec and have contributed positively to consolidate operating results of Cogeco Cable.

3.2.7.2 Acquisition and Disposal of Shares in the Capital of CFCF Inc.

In 1995, Cogeco Cable acquired, through various market transactions, 1,184,900 subordinate voting shares of the capital of CFCF Inc. On May 24, 1996, Cogeco Cable tendered 1,184,800 of these shares in a takeover bid for all the outstanding shares of CFCF Inc. The remaining 100 shares were converted into preferred shares and purchased for cancellation by CFCF. Cogeco Cable realized a net gain of $8,396,000 on the disposal of the CFCF shares. Following this unusual gain, Cogeco Cable paid on August 16, 1996 a special dividend of $0.25 per subordinate and multiple voting share of its capital. The acquisition and disposal of the CFCF shares had no effect on consolidated on-going operating results of Cogeco Cable.

3.2.7.3 Acquisition of Systems from Rogers Cablesystems Limited

Under an agreement effective in November 1996, Cogeco Cable acquired 25 cable systems located in Ontario from Rogers Cablesystems Limited and certain of its affiliates («Rogers Systems»). The closing of this transaction took place on November 25, 1996. The Rogers Systems have since been integrated with the other systems of Cable Ontario. The Rogers Systems have contributed positively to consolidated operating results of Cogeco Cable since the acquisition in November 1996.

The systems, which service approximately 300,000 basic service customers, are located in Hamilton (two systems), Niagara Falls, St.Catharines, Sarnia, Wallaceburg, Peterborough, North Bay, Cornwall and 16 communities along the Ottawa Valley. Management believes that the Rogers acquisition is a strategic fit in that the majority of the customers are contiguous to

Cogeco Cable's Burlington/Oakville and Kingston systems. The Rogers acquisition has increased Cogeco Cable's total customer base by approximately 65% and more than tripled Cogeco Cable's Ontario customer base to over 434,000 with large system clusters serving customers in key urban areas of this province.

The purchase price was $368.6 million of which: (i) $313.9 million was paid in cash (which amount was drawn from its $700 million Senior Secured Revolving Term Facility); (ii) $36.5 million was paid by issuing a secured deeply subordinated interest-free note payable in two instalments on the first and second anniversary of the note; and (iii) $18.2 million was paid through the issue, on April 24, 1997, of 1,919,789 subordinate voting shares of Cogeco Cable at an issue price of $9.50 per share.

3.2.7.4 Acquisition of Câblodistribution Le Rocher Inc.

On July 10, 1997, Cogeco Cable agreed, subject to the requisite securities and broadcasting regulatory approvals, to purchase all the outstanding shares of Câblodistribution Le Rocher Inc., a company licensed to operate a cable system in Grand-Mère, Quebec and surrounding area serving some 6,300 basic service customers, for an aggregate consideration of approximately $5 million to be satisfied at closing by a cash payment of approximately $4 million and the issue of 78,125 subordinate voting shares of the capital of Cogeco Cable at an issue price of $12.80 per share.

3.2.7.5 Cable System Swap with Shaw Communications Inc.

On July 8, 1997, Cogeco Cable agreed, subject to Board of Directors and broadcasting regulatory approvals, to a cable system swap with Shaw Communications Inc. («Shaw») consisting of the acquisition by Cogeco Cable of Shaw's cable systems serving Windsor, Chatham, Leamington, Smiths Falls and surrounding areas in the Province of Ontario (the «Shaw Systems») in exchange for the acquisition by Shaw of Cogeco Cable's cable systems serving Lethbridge in the Province of Alberta and Kamloops, Courtney/Comox and Powell River in the Province of British Columbia. Board of Directors approvals have since been obtained. The Shaw Systems serve approximately 91,000 basic service customers, whereas Cogeco Cable's systems to be acquired by Shaw serve approximately 71,200 basic cable television customers. The difference of value between the systems to be exchanged by the parties will result in a cash payment by Cogeco Cable to Shaw of approximately $50 million at closing.

Assuming that this proposed transaction with Shaw had been effective at the date hereof, Cogeco Cable's customer base in Ontario would be over 525,000. This proposed transaction would greatly extend its cable systems cluster in the populated South East region of the Province of Ontario extending from Oakville to Windsor, and also in the Ottawa Valley where it has recently acquired a number of systems from Rogers.

3.2.7.6 Disposal of Remaining Western Cable Systems

On July 17, 1997, Cogeco Cable agreed, subject to broadcasting regulatory approval, to sell its cable systems serving approximately 8,100 basic service customers in Weyburn and Estevan in the Province of Saskatchewan to Regina Cablevision Cooperative for an aggregate consideration of approximately $10 million payable in cash at closing. Cogeco Cable is currently considering the disposal of its remaining cable system in Western Canada serving approximately 21,600 basic cable television customers in Chilliwack in the Province of British Columbia.

The overall effect of the acquisition of the Shaw Systems and the disposal of all of Cogeco Cable's systems in Western Canada is expected to be essentially neutral in terms of operating income, while allowing greater operating efficiency and value enhancement as a result of system clustering in the Province of Ontario.

3.2.8 Management Strategy and Future Growth Prospects

3.2.8.1 Growth Opportunities

For several years, Cogeco Cable has pursued a cable television development strategy with two main thrusts: the acquisition of cable businesses generating external growth and the supply of new value-added services on cable generating internal growth.

External Growth

Cogeco Cable has historically grown through acquisitions that typically add strategic focus at reasonable prices. Cogeco Cable's recent acquisition of approximately 300,000 basic service customers from Rogers Cablesystems Limited and certain of its affiliates, is an example of implementation of its strategic plan. The acquisition will give Cogeco Cable the needed critical mass to efficiently deploy new services and technology in the face of a new competitive framework.

Cogeco Cable intends to continue acquiring cable and other terrestrial distribution systems serving localities in the vicinity of those already served at acceptable prices, giving due consideration to the rapidly evolving competitive environment. Cogeco Cable could also consider the acquisition of appropriately-sized systems that would enable Cogeco Cable to build a sufficient mass of customers in new regions. Cogeco intends to focus on well-defined geographic markets, to operate its cable systems predominantly in large urban clusters with growth potential, and to interconnect most of these systems through a network of high-capacity inter-city fibre links, thus generating efficiencies, improving existing services, creating opportunities for the offering of new services and generally enhancing its competitive position.

As the market for the distribution of broadcasting and telecommunications services becomes increasingly integrated, Cogeco Cable may also consider the strategic acquisition at acceptable prices of broadcasting and telecommunications properties likely to enhance its competitive position in the markets where it operates or create opportunities for differentiated or value-added service offering.

Internal Growth

Over the longer term, Cogeco Cable intends to continue building its customer base and improving penetration levels for both its current services and an expanded range of additional services which it will provide to its customers. In particular, the Burlington/Oakville franchise covers extensive licensed territory that is subject to further urban development.

The combination of advanced technological design and enhanced delivery capability together with the already extensive reach of Cogeco Cable's broadband hybrid fibre coaxial systems provides a unique opportunity to offer a wide range of communications services to and from customer premises. As convergence and digitization of business and consumer services accelerate, it is expected that Cogeco Cable's business, while still predominantly focused in the more traditional core market activity of broadcast information and entertainment distribution, will shift progressively towards the provision of a range of innovative video, voice and data communications services for residential and business users. These new services, which will be offered in cooperation with a wide variety of suppliers and through interconnection with other carriers, are intended to exploit the convenience and affordability of the single two-way, high-speed broadband connection offered by cable networks.

Management is dedicated to capitalizing on additional technical enhancements which will create growth opportunities in the sale of new distribution services such as access to a variety of data banks. It is expected that new interactive services will also be made available such as video catalogues leading to interactive shopping, interactive games, access to movie and television archives, classified ad placement and perusal, financial services and home banking. Cogeco Cable has also recently commenced to offer high-speed Internet access services through several of its cable systems. The increased reliability of cable systems may attract customers seeking alternative communications solutions, to the extent permitted by regulations. Cogeco Cable is continuing to prepare its business plans for the supply of telephone services that reflect the progress and price of new technologies and the constantly evolving regulatory context. Cogeco Cable is studying the possibility of launching certain telephone services in 1998.

3.2.8.2 Improved Operating Efficiency

Cogeco Cable is constantly monitoring its operations to enhance operating efficiencies. In August 1995, the Corporation streamlined its operations by creating two larger cost-efficient administrative centers, thus eliminating approximately 100 full-time equivalent positions.

3.2.8.3 Enhanced Customer Service

Cogeco Cable has devoted effort and expense over the last few years to improving customer service at all points of interface with the customer. Service improvement initiatives include the implementation of specific service quality indicators, objective performance measurements, extended service hours, flexible service call appointments, improved billing systems, and customer sales representative training. Further improvements to order processing, billing and customer residence servicing are expected during the current fiscal year with the implementation of the Ubiquinet mobile communications and dispatching system.

3.2.8.4 Systems Upgrade

Cogeco Cable continues to vigorously pursue the upgrading of its cable plant. Since the start of its system rebuild and upgrade plan in 1994, the cumulative amount of capital expenditures made to deploy fiber optics and two-way amplifiers required for new services, such as high-speed Internet access, reached $51 million as at August 31, 1997.

In addition to the effective roll-out of two-way capability, one of the key challenges in cable system upgrades remains the planning of overall capacity requirements to meet future transmission needs. Estimated capacity requirements vary from one system to another, depending on the market served. While past system upgrades have been to 550MHz plant allowing for up to 80 analog channels, with potential for a further upgrade to 750MHz allowing for up to 110 analog channels, Cogeco Cable is currently considering the opportunity of going directly to 750MHz for some of its larger systems in Southern Ontario which need further rebuilding.

3.2.9 Industry Outlook, Regulatory Environment and Competition

Operation of a Cable System

Cable service involves the reception, processing, modulation and distribution of a range of video, audio and data signals in analogue or digital form to residential and business users within a licensed area. Services are offered on a subscription or user-pay basis, and in various service package configurations known as tiers.

A cable television system consists of three principal operating components:

1. The head end facility, which receives signals over the air or by satellite or microwave relay stations or fibre optic cable. Certain signals may also be generated locally: for example, the cable system may originate a local community channel or advertising channel.

2. The distribution network, which distributes signals from the head-end through the system on coaxial and/or fibre optic cable. This cable is generally attached to existing telephone or hydro poles and other existing support structures pursuant to agreements with public utilities but can also be placed underground or in conduits.

3. The house drop, which extends from the distribution network to the customer's home via coaxial cable.

Customers generally pay initial connection charges and monthly service fees for cable service. Customers may discontinue the cable service or any tier of services at any time, without additional charges; however, they are charged a reconnection fee should they wish to resume discontinued services.

Cable operators pay program suppliers for signals not available directly over the air. Off-air broadcast signals are generally available at no cost to cable operators but cable operators must pay copyright fees for the distribution of some of those signals. The other primary components of operating expenses are the costs to maintain the distribution system, utility support structure and rights-of-way rentals, marketing and sales expenses, community channel programming expenses and administrative expenses.

A cable distribution system is capital intensive. The cable facilities are usually in place before service is available to customers. Capital expenditures are typically low after the initial construction period, but are more expensive as service is extended to new areas, new services are offered and periodic system improvements and replacements are undertaken.

Current Regulatory Environment for Broadcasting Distribution Undertakings

Canadian cable undertakings are licensed by the CRTC under the *Broadcasting Act* (Canada) and the Department of Industry («Industry Canada») regulates their technical operations under the *Radiocommunication Act* (Canada). Licences to operate cable television systems may be issued for periods of up to seven years. Historically, licences issued by the CRTC have been consistently renewed unless there have been serious breaches of licence conditions or CRTC regulations. The CRTC has never revoked or failed to renew a licence for an active cable system owned by the Company.

By Order in Council under the *Broadcasting Act*, the Canadian government has directed the CRTC not to issue, amend or renew broadcasting licences to applicants who are not Canadian. The Order in Council defines "Canadian" to include Canadian citizens ordinarily resident in Canada, Canadian governments and corporations incorporated in Canada or a province where (i) the chief executive officer and at least 80% of the board of directors are Canadians; (ii) at least 80% of the voting shares are owned and controlled by Canadians; and (iii) if the corporation is a subsidiary of the parent corporation incorporated in Canada or a province, at least 66 2/3% of the voting shares of that corporation are owned and controlled by Canadians. Cogeco Cable currently meets the requirements of the Order in Council.

Licences issued by the CRTC may not be transferred or assigned without CRTC approval. In addition, the prior approval of the CRTC is required for any transaction that results in a change of the effective control of a licencee or that results in the acquisition of 30% or more of the voting shares of a licensed broadcasting undertaking, or of a person which has effective control of a licensed broadcasting undertaking.

Proposed New Distribution Regulations

On July 2, 1997, the CRTC issued Public Notice CRTC 1997-84 setting forth new proposed distribution regulations (the "proposed regulations") which would apply to all regulated broadcasting distribution undertakings. The proposed regulations are intended to replace the existing Cable Television Regulations, 1986. They give effect to the new regulatory framework for broadcasting distribution undertakings outlined earlier this year by the Commission in Public Notice CRTC 1997-25. Interested parties filed comments on the proposed regulations on August 29, 1997. The new regulations will soon be finalized by the CRTC, after consideration of comments received, and they should come into force sometime in 1998.

The following is a brief summary of the draft regulations relating to broadcasting distribution undertakings if they were to be adopted without change:

The new distribution regulations will apply to cable distribution undertakings, direct-to-home ("DTH") satellite distribution undertakings and radiocommunication distribution undertakings that provide a broadband, subscription based service comparable to that provided by cable distribution undertakings. Terrestrial undertakings will be divided in the three following classes of licences:

- Terrestrial undertakings with 6,000 or more customers will be Class 1;
- Undertakings with 2,000 or more but fewer than 6,000 customers will be Class 2;
- Undertakings with fewer than 2,000 customers and all former Part III licensees will be Class 3.

New competitive terrestrial entrants, regardless of size, will be regulated according to the class of licence held by the cable distribution undertaking already serving the market concerned. Where the area to be served by a new entrant includes the service area of more than one existing cable licence, and where these existing licensees are of different classes, the class of licence of the new entrant will generally be that of the existing cable undertaking with the largest number of customers. Existing distributors and new entrants will have the option of submitting applications for regional licences to serve a territory consisting of more than one market area. DTH satellite distribution undertakings are licensed as a separate class of undertaking with the right to serve throughout Canada.

The customer fees of new entrants will not be regulated. The basic monthly fee of a Class 1 cable distribution undertaking, which is currently subject to a maximum amount approved by the CRTC constituting a form of price cap, would become deregulated as the cable undertaking concerned provides documentary evidence satisfactory to the Commission that the basic service package of one or more licensed DTH or terrestrial distributors is available to 30% or more of the existing households in its licensed service area, and that the number of its basic service customers has decreased by at least 5% from the date that the basic service of a licensed competitor became available in its licensed area. Rate-regulated cable undertakings will remain free to charge basic monthly fees that are less than the maximum approved rate. Other fees, such as fees for specialty service tiers, pay TV, pay-per-view, video-on-demand, cable audio and installation are not currently and would not be subject to price caps. The capital expenditure increase mechanism has been eliminated by the CRTC. A basic monthly fee increase mechanism based on economic need will continue to be available to cable distribution undertakings. Previously approved capex fee increases, which were subject to sunset provisions, will be embedded in the base portion of approved basic monthly fee on a going-forward basis.

The CRTC has not imposed in the proposed regulations any obligation to serve on new entrants. Existing cable licensees will be relieved of their current obligation to serve within their licensed service area when the test resting on the availability of competition and loss of market share mentioned earlier is fulfilled.

The proposed regulations will prohibit a distribution undertaking, in relation to the acquisition or distribution of programming services, from conferring an undue preference upon itself or another person, or from subjecting another person to an undue disadvantage. This prohibition will not prevent however acquisition of programming services at different prices reflecting economies of scale, cost savings or other direct and legitimate economic benefits reasonably attributable to the number of customers served by the distributor, or the conclusion of exclusive agreements of the distribution of licence-exempt programming services (i.e. video game and shopping services).

The CRTC has eliminated in the proposed regulations the current requirement that cable undertakings own their local head end, amplifiers and customer drops, which will allow for such facilities to be leased. The CRTC has not provided for mandatory resale of cable services and facilities but will allow cable undertakings to enter into resale arrangements and negotiate the terms thereof at their option.

Cable customers will have the option to own the inside wiring located within their premises, which is currently owned by cable undertakings, and will be free to use such inside wiring in connection with the system of the distributor that they choose. The proposed regulations actually require cable distribution undertakings to offer to transfer ownership of the inside wire to a customer, at the time the customer terminates service, at a price not to exceed $0.33 per meter. If the customer were to decline to purchase the inside wire, the cable licencee would have seven working days to remove such inside wire, or else the customer would be free to use it in connection with the service provided by the distributor of his or her choice. The inside wire is defined in the proposed regulation as the part of the customer drop running inside the customer's premises from a demarcation point located 30 centimeters outside the exterior wall of the subscriber's premises for single-unit dwellings, or from a demarcation point located inside the building where the wire is diverted to the exclusive use and benefit of a particular customer in a particular unit for multi-unit dwellings. The CRTC has not however mandated access to competitive distribution undertakings to customers in multi-unit dwellings.

The CRTC has determined that all licensed broadcasting distribution undertakings, with the exception of the smaller Class 3 terrestrial distribution undertakings, should contribute at least 5% of their gross annual revenues derived from broadcasting activities (the "subjected revenues") to support Canadian programming. According to the new proposed regulations, the DTH distributors would be obliged to allocate the entire 5% to the Canada Television and Cable Production Fund. («CTCPF»). In the case of cable undertakings, this requirement would include contribution to the local community channel and contributions to the CTCPF. The contribution formula in the proposed regulations provides for an allocation of up to 2% of subjected revenues of the large Class 1 undertakings (60,000 or more customers) to community programming and the balance to the CTCPF. Other Class 1 undertakings can allocate up to 2.5% and Class 2 undertakings up to the entire 5%, of their subjected revenues to community programming. There is to be a phasing in of the maximum allocation of the contribution toward community programming for Class 1 cable systems having less than 60,000 customers, with a allowable maximum rate of 3% of subjected revenue for the reporting year ending August 31, 1998, 2.5% for the reporting year ending August 31, 1999 and 2% for the reporting year ending August 31, 2000 being applied to community programming. On July 22, 1997, the CRTC has determined in Public Notice 1997-98 that all programming contribution by broadcasting distribution undertakings will not have to go exclusively to the CTCPF. Broadcasting distribution undertakings will have to direct a minimum of 80% of their programming contribution to the CTCPF but will be authorized to direct up to 20% to other independently administered funds.

The CRTC has incorporated into the proposed regulations existing access policy requirements requiring broadcasting distributors to carry all licensed Canadian specialty and pay television services, subject to available channel capacity. No specific access obligations related to the distribution of video-on-demand services are imposed on broadcasting distribution undertakings. Current priority carriage rules for Class 1 undertakings and Class 2 cable undertakings with 2,000 or more subscribers will apply to all Class 1 and Class 2 terrestrial undertakings. Priority rules applicable to Part III undertakings and Class 2 undertakings with less than 2,000 customers will be extended to all Class 3 terrestrial undertakings. Priority carriage rules for radio services will apply only to terrestrial wireline distributors.

Subject to applicable priority carriage requirements being met, the proposed regulations allow carriage of a number of optional services without prior CRTC approval, including distribution of US network signals as part of the basic service tier. Furthermore, they allow all cable undertakings, to distribute an eligible US superstation signal together with a package of Canadian specialty and/or pay television services receivable by subscribers through the use of addressable digital decoders. All broadcasting distribution undertakings, with the exception of Class 3 undertakings, will be required to ensure that a preponderance of channels is devoted to the distribution of Canadian programming services. Broadcasting distributors will be allowed to offer pay-per-view, video-on-demand and exempt programming services without a mandatory buy-through of the basic service.

The proposed regulations extend simultaneous substitution requirements to all Class 1 and Class 2 undertakings, whether they are incumbents or new entrants. However, they do not extend the benefit of such substitution to extra-regional television broadcasting stations or to Canadian pay services, or allow substitution against non-Canadian specialty services. Current restrictions on the use of local advertising availabilities on US specialty services are maintained.

The CRTC has not modified in the proposed regulations any of its current requirements concerning the ownership of distribution undertakings and will continue to require notification and prior approval of transactions whereby a person acquires 30% or more of the voting interests in a distribution undertaking.

Competition in the Broadcasting Distribution Market

Cable undertakings currently face competition in their territories from two of the five DTH satellite distribution operators that have been granted national licences by the CRTC, as well as persistent competition from American direct broadcasting satellite (DBS) operators not authorized in Canada.

During the next fiscal year, Cogeco Cable expects to face direct competition from MDS in some of its authorized territories in Ontario and Quebec. The CRTC licensed a MDS digital service in southern Ontario on August 6, 1997 and held a hearing in the Fall to study the MDS applications filed for Quebec and the national capital region.

The three local multipoint communication system (LMCS) companies operating in the 28 GHz band, which were authorized in 1996 by Industry Canada, still have not disclosed their broadcasting launch plans.

Cogeco Cable also expects competition from telephone companies. Two telephone companies, Bell Canada and Telus Communications Inc., are actually operating cable distribution systems, for experimental purposes, in certain communities within their territories. Since June 16, 1997, they can also apply for licences to operate broadcasting distribution undertakings, which will be issued and come into force once the obstacles to competition in the local telephone market have been removed, possibly in early 1998. It is difficult to foresee accurately when and how the telephone companies will begin to compete in Cogeco Cable's authorized service areas.

For the year 1997-1998, Cogeco Cable foresees a slowdown in the growth of customers to broadcasting distribution services, following the arrival of new competitors in the territories it serves. Cogeco Cable projects however significant growth of its revenue from the launch of a third discretionary tier of specialty services in Ontario and from the expansion of the first discretionary tier in Quebec, as well as from telecommunication services and new non-programming services such as high-speed cable modem Internet access service. However, it is currently impossible to accurately quantify the cumulative effects of these changes on Cogeco Cable's revenue, cash flow and net income.

Opening up to competition in the Local Telephone Market

On May 1, 1997, the CRTC released Telecom Decision 97-8 opening up to competition the local telephone services market. Local competition will be authorized in January 1998 in the territories of six Stentor Owner Companies. This decision provides for the basic level playing field and key regulatory safeguards for entry into the local telephone market.

The CRTC decided that cable companies and other new entrants (or the competitive local exchange carriers ("CLECs")), are carriers to be considered equal in stature to the incumbent telephone companies (or the incumbent local exchange carriers («ILECs»)). Consequently, CLECs will have to be treated equally to ILECs, for example with regards to interconnection and revenue sharing for exchanged traffic.

The CRTC ordered the ILECs to unbundle and make available to competitors on a stand-alone basis some essential local service components, such as central office codes, customers listings and certain local loops in high cost areas. These essential components must be priced at incremental costs plus a mark-up of 25%. Other facilities classified as non-essential, such as local loops in low cost areas and local traffic transiting, will also be made available for a five-year period at a price determined as if they were essential.

The CRTC decided that the local exchange carriers (LECs) in a local area should be interconnected with each other's facilities in order to create fully interoperable networks and mandated that there be interconnection agreements among them. The CRTC decided to apply a bill and keep mechanism when the traffic of one carrier will terminate in a local exchange area on the network of another carrier.

The CLECs will have access to the contribution that is now being paid to the ILECs in order to subsidize the offering of the basic local residential service at rates below costs. The Commission adopted a portable contribution approach whereby contribution payments will be paid from a central fund to any LEC serving residential customers in high cost and rural areas.

The CRTC ordered the ILECs to make local residential service available for resale and to file resale tariffs. However, the CRTC has not mandated the telephone companies to make local residential service available to resellers at a discounted wholesale rate.

The ILECs will continue to be regulated as long as they exercise market power in the local market. In return, the regulatory framework for new entrants is minimal and raises no particular concerns for Cogeco Cable. CLECs are not required to file tariffs with respect to rates charged to end users. However, they will have to meet some specified consumer protection obligations when providing local telephone services.

The CRTC has set in Decision 97-8 regulatory safeguards against potential anti-competitive practices of the incumbent telephone companies. It concluded that a service-specific imputation test was appropriate and maintained an imputation test for forborne and regulated services offered on a bundled basis by the telephone companies.

In Decision 97-8, the CRTC referred to the CRTC interconnection steering committee (CISC) a number of technical issues surrounding the implementation of local competition, such as local number portability and terms of interconnection. In a relatively short period of a time, the CISC sub-committees have realized a considerable amount of work but many important issues are still outstanding. The CRTC has initiated on September 16, 1997 a follow-up process on local competition to resolve some of these issues pertaining to local number portability, CCS7 signaling and unbundled loops.

Cogeco Cable plans to eventually offer telephone and other telecommunication services in light of these decisions on local competition. A cable telephony test is already under way in Trois-Rivières, Quebec, and its results will be carefully assessed before definitive plans are drawn and incremental investments committed for that purpose. Meanwhile, Cogeco Cable will continue to develop its customer base for business telecommunication services in some of the larger urban areas served.

However, there is no guarantee that the CRTC decisions on local competition will allow effective entry by cable companies into the local telephony as of January 1, 1998, as the regulator foresaw last May 1. In addition, the time frame for opening up competition for local telephone markets in certain territories served by so-called independent telephone companies, such as Télébec and QuébecTel, is not yet established by the CRTC.

Vision.com

The federal government's adoption in 1994 of its pro-competition policy on the information highway allowing cable and telephone companies to compete in each other's markets has opened up a new source of revenue for cable companies. In mid-1996, the cable industry announced the formation of a new consortium called vision.com which regroups the largest cable companies. This consortium, through its participants, plans to invest heavely over the next five years to develop new products and services in the areas of digital television, Internet access and telecommunications. Vision.com, run by a board of cable executives, sets common standards and forms new ventures with a view to developing technology for individual cable companies and dealing with competition from the large telephone companies.

One of the first initiatives of vision.com was to offer a high-speed Internet access service by cable modem. With the use of cable modems, the industry can offer service up to 20 times faster than the telephone companies, due to the large cable bandwidth. This link was officially launched in November 1996, under the trademark name the Wave[mc]. Cogeco Cable is one of the founders of Wave[mc.]

On May 21, 1997, the members of vision.com signed an agreement that will allow them to provide dedicated local telecommunication services across Canada. The cable industry takes advantage, through this initiative, of the CRTC's recent decision to open up for competition the local telephone services market.

Cogeco Cable has agreed to act as subcontractor for vision.com for the purposes of testing voice transmission telephone equipment on a hybrid fiber-coaxial network proposed by four manufacturers with promising technologies. Some 200 telephone sets will therefore be installed free of charge with volunteer customers, to test network robustness, service quality and customer receptivity. This technical test is the only one of its kind in Canada.

3.3 Media sector

3.3.1 Television Stations

The media sector has four television stations, two of which are located in Sherbrooke (CKSH-TV, CFKS-TV) and two in Trois-Rivières (CKTM-TV, CFKM-TV). Two stations are affiliated to the french network of Canadian Broadcasting Corporation ("CBC") while the other two stations are affiliated to the network of Television Quatre Saisons ("TQS"). Each of the business unit located in the City of Trois-Rivières and Sherbrooke has respectively one station affiliated to the CBC network and one station affiliated to the TQS network. The television stations depend to a large extent on the programming of the television networks to which they are affiliated.

COGECO strengthened in 1997 its position in broadcasting with a nearly 20% investment in the capital stock of the TQS Inc. which owns the network, the station CFJP-TV in Montreal, the station CFAP-TV in Quebec and a transmitter CJPC-TV in Rimouski. This investment gives the Corporation the opportunity to participate, albeit as a minority shareholder, in the orientations of this network, in which it has long believed. The Corporation believes that the arrival of a new ownership group should contribute to the TQS network's recovery over the next year. However, a significant recovery is more likely to occur in 1998/1999, once the new management team has been able to instil the network with new orientations, particularly in programming and marketing.

COGECO is a member of TV5, and holds through CRTI, a minority interest in Canal Indigo, a french-language pay-per-view service.

3.2.2 Radio stations

The media sector has two FM radio stations which are situated in Laval/Montreal (CFGL-FM) and Quebec (CJMF-FM). The FM radio stations are independent stations and are not affiliated to any network. Radio stations produce locally most of their own programming.

3.3.3 Production Company

Les Productions Carrefour Inc. (”Productions Carrefour“) a wholly-owned subsidiary of CRTI, produces programming under contract for conventional and specialty television networks and various audio-visual content for more specialized purposes. Program production contracts usually provide for the production of program series for broadcast during a broadcast season or year.

Since 1994, Productions Carrefour has produced television programming broadcast by the French-language network of the CBC, Réseau de Télévision Quatre Saisons, Réseau de l'information (RDI), Réseau des sports (RDS) and Canal D. The productions of Productions Carrefour have garnered an enviable position in the daytime programming schedule of the French-language networks with programs such as ”Figures de proue: Jean Grimaldi“, ”Les P'tits bonheurs de Clémence“ and ”Pas si bête que ça“.

Two of these programs, ”Les p'tits bonheurs de Clémence“ and ”Pas si bête que ça“, were in nomination this year for the Gemini of best public service series. This year, Production Carrefour's order book includes several new productions for French-language television, including programs in hitherto untapped content niches, mainly for specialized networks such as RDI, Canal D and Canal Vie. Productions Carrefour uses regional production facilities to produce shows for conventional and specialty television, with efficient production schedules and at very competitive rates.

3.3.4 Geographic Distribution

The Media Sector serves a number of markets in Quebec. The television stations are located in Trois-Rivières and Sherbrooke, and the radio stations are located in the Laval/Montreal and Quebec City markets in the Province of Quebec.

3.3.5 Supply Sources

As mentioned previously, the main programming source of television stations is the network to which they are respectively affiliated. The radio stations basically produce their own content.

3.3.6 Licences and Permits

The television and radio stations must hold a valid broadcasting licence pursuant to the *Broadcasting Act* (Canada) as well as a broadcasting certificate pursuant to the *Radiocommunication Act* (Canada). Broadcasting licences are issued for a maximum term of seven years, and are generally renewed upon application by the licensee except in case of serious breach. The operation of broadcasting undertakings is subject to detailed regulation and such undertakings are supervised by the CRTC under the authority of the *Broadcasting Act* (Canada).

The following table shows the broadcasting licences for each television and radio station comprising the Media Sector.

Call Letters	City	Licence Number	Expiration Date
• *Television Stations*			
CKSH-TV	Sherbrooke	92-550-97	August 31, 1998
CFKS-TV	Sherbrooke	92-563-97	August 31, 1998
CKTM-TV	Trois-Rivières	92-557-97	August 31, 1998
CFKM-TV	Trois-Rivières	92-564-97	August 31, 1998
• *Radio Stations*			
CFGL-FM	Laval/Montréal	92-288-99	August 31, 1999
CJMF-FM	Quebec	1996-0467-01-2002	August 31, 2002

3.3.7 Audience and Market Share

Television stations

Viewers in the distribution area represent the target group that the advertisers wish to reach. Audience shares and hours tuned of the television stations have remained relatively stable during the last two fiscal year, as shown in the following comparative table:

A. Audience share, Extended Market – 2 years + (BBM)
Monday-Sunday - 6 a.m. - 2 a.m.

		Spring 97	Fall 96	Spring 96	Fall 95	Spring 95
Trois Rivières						
	CKTM-TV	346,600	367,900	390,800	378,000	401,700
	CFKM-TV	195,500	175,700	228,500	190,800	181,700
Sherbrooke						
	CKSH-TV	561,500	490,400	529,500	518,800	494,100
	CFKS-TV	292,400	286,100	347,400	342,400	326,600

B. Hours tuned (000) Extended Market – 2 years + (BBM)
Monday-Sunday - 6 a.m. - 2 a.m.

		Spring 97	Fall 96	Spring 96	Fall 95	Spring 95
Trois Rivières						
	CKTM-TV	2,126	1,925	2,139	2,199	2,196
	CFKM-TV	825	619	917	749	780
Sherbrooke						
	CKSH-TV	2,590	2,858	2,822	2,628	2,526
	CFKS-TV	1,000	1,353	1,168	912	1,300

The following table shows the corresponding market share for each television station comprising the Media Sector.

C. Market Share (%) Extended Market – 2 years + (BBM)
Monday-Sunday - 6 a.m. -2 a.m.

		Spring 97	Fall 96	Spring 96	Fall 95	Spring 95
Trois-Rivières						
	CKTM-TV	22	22	23	25	26
	CFKM-TV	9	6	10	9	9
Sherbrooke						
	CKSH-TV	19	19	21	19	19
	CFKS-TV	7	10	9	7	10

Radio stations

Audience shares and hours tuned of the radio stations have varied more significantly than for the television stations, as shown in the following comparative table:

A. Audience share, Contour – (BBM) 12 years +
Monday-Sunday - 5 a.m. - 1 a.m.

		Summer 97	Spring 97	Fall 96	Summer 96	Spring 96	Fall 95	Spring 95
Montréal								
	CFGL-FM	570,700	486,500	533,000	527,300	499,100	561,700	562,200
Quebec								
	CJMF-FM	169,200	167,600	163,900	152,900	164,200	172,700	194,600

B. Hours tuned (000), Contour – (BBM) 12 years +
Monday-Sunday - 5 a.m. - 1 a.m.

		Summer 97	Spring 97	Fall 96	Summer 96	Spring 96	Fall 95	Spring 95
Montréal								
	CFGL-FM	6,169	5,247	5,949	5,918	5,871	6,370	6,710
Quebec								
	CJMF-FM	1,443	1,463	1,444	1,205	1,392	872	1,060

In the last fiscal year, CJMF-FM's audience rating continued to rack up progress in the provincial capital, mainly due to the strength of the morning show. According to last summer's BBM (Bureau of Broadcast Measurement) sweeps, the Quebec City station obtained some 1,443,000 listening hours per week and attracted about 170,000 listeners. The CFGL-FM audience in the Montreal market suffered an erosion, according to the BBM survey of last spring. Following this survey, changes were made to the station's music programming and last summer's BBM sweeps confirmed substantial increases in listening hours, which increased to 6,169,000 per week, as well as in the number of listeners, which returned to over 570,000, the highest level reached by the station since the Fall of 1994.

The following table shows the corresponding market share for each radio station comprising the Media Sector.

C. Market Share (%) Central French Market – (BBM) 12 years +
Monday-Sunday - 5 a.m. - 1 a.m.

		Summer 97	Spring 97	Fall 96	Summer 96	Spring 96	Fall 95	Spring 95
Montréal								
	CFGL-FM	9	8.4	9.9	9.4	9.4	9.2	9.3
Québec								
	CJMF-FM	7.7	8.6	9.3	7.2	8.3	6.2	7.3

3.3.8 Advertisers

The Media Sector provides broadcast information and entertainment programs through its television and radio stations and networks. The programs involve advertising and promotions paid by local, regional and national advertisers. Each station has an extensive list of commercial clients. Advertising contracts are entered into with these clients mostly on a short term basis as required by the clients' needs at the time of booking. The stations and networks also offer commercial production services to advertisers.

3.3.9 Seasonal Variations

The revenue from the Media Sector, which is derived mainly from commercial advertising, may be subject to significant seasonal variations.

3.3.10 Main Facilities and Properties

The television and radio stations own their own studios, their transmitters and their antennas located in their respective markets. The studios of CKTM-TV and CFKM-TV are located in a building owned by CRTI and located in the City of Trois-Rivières-Ouest. The transmitting antennas of these stations are located on land also owned by CRTI and located on Mont Carmel. The studios of CKSH-TV and CFKS-TV are located in a building owned by CRTI and located in the City of Sherbrooke. The transmitting antennas of these stations are located on land owned by the Government of Quebec on top of Mont Orford.

The studios of CFGL-FM are located in a building owned by CRTI and located in the City of Laval, while the transmitting antenna of the stations is located on a tower on top of Mont Royal. The studios of CJMF-FM are located in rented premises in the City of Sainte-Foy, and its transmitting antenna is located on land owned by the Government of Quebec on top of Mont Bélair. The installations of CFGL and CJMF have both converted to digital technology for studio operations. Digital microwave transmission will undergo trials in Montreal in 1998.

The administration offices of the Media Sector are located in CRTI's building in the City of Laval.

3.3.11 Future Development and Growth Prospects

The last fiscal year was a turning point in the corporate strategy of COGECO. Management came to the conclusion that the publishing activities had not generated the anticipated revenue growth and synergies with the broadcasting activities of the Media Sector. The decision was therefore made to divest from all the weekly newspapers of the publishing subsidiary and to refocus capital and management resources of the Media Sector entirely in the area of broadcasting, which includes French-language television and radio, as well as television program production. The Company also seized the opportunity to take a minority position in the new owner of the TQS network, which provides network programming to two of the four television stations of the Media Sector.

The development of the Media Sector in the near future will build on the new strategic focus for this sector. In the area of radio broadcasting, management will continue to build the audience of its two FM stations serving the major francophone radio markets of Montreal and Quebec City and to enhance their advertising sales to national as well as local advertisers. CRTI has joined its sales resources and expertise with those of another broadcaster with radio stations in the Montreal market in a joint sales enterprise in order to consolidate their national sales and offer a competitive alternative to the competing Radio + package, representing the stations of Radiomutuel, Télémédia et Radiomédia offered in the same market. The review of commercial radio policy conducted by the CRTC may lead to further opportunities for additional radio station combinations in the market served by CFGL-FM and CJMF-FM or expanded joint sales and promotional activities.

In the area of television broadcasting, management will focus on improving the terms of its affiliation arrangement with the French-language network of the CBC and building on the improved terms already successfully negotiated this year with the TQS network. While the uncertainty about the future role, ownership and financing of TQS has finally been lifted with the new ownership structure lead by Communications Quebecor Inc., a large Quebec-based media group, the improvement of the programming and audience of TQS will not start to show until the Fall 1998 season due to existing commitments. Management considers that TQS has considerable upside potential, even with fairly modest gains in market share.

In the area of television program production, management intends to build on the niche that it has successfully developed over the last two years as a cost-effective producer of conventional and specialty network program series in the service category. The addition of four new French-language specialty services on cable in September 1997 and a number of licence applications now pending before the CRTC for additional specialty services will increase the opportunities for production contracts.

3.3.12 Industry Outlook, Regulatory Environment and Competition

Television

The Media Sector competes with all other advertising media in the markets where it operates its business activities. The allocation of advertising revenue between the various media is influenced by many factors, including general economic conditions, specific characteristics and the evolution of individual markets, advertiser preferences, market penetration, interest in the product offered, and regulatory constraints.

Conventional television stations have faced increased competition over the last few years from a number of new programming service suppliers. In 1997, the television scene in Quebec changed significantly with the advent of new conventional television stations and several new specialty services. The CKMI-TV station (Global), jointly owned by CanWest Global and Télé-Métropole, commenced its operation in September 1997. The CTEQ multicultural service also commenced its operation in 1997.

Several specialty services licensed by the CRTC in 1996 launched their service in September 1997, including the four French-language services Le Canal Vie, Le Canal Nouvelles TVA, Télétoon and Musimax. Some seventy applications for additional specialty services are under consideration by the CRTC, including twenty-two for French-language specialty services.

Finally, the CRTC issued in July 1997 five licences for video-on-demand (VOD) services, including a licence for a French-language VOD service to the partners of Canal Indigo, in which CRTI holds a 20% interest. These new services have not disclosed their launch and marketing plans as yet.

The Company believes that its television and radio stations should continue to benefit from the favourable economic climate, which has helped to firm up their advertising sales in the past operating year. However, the start-up in Quebec of

CKMI-TV and several French-language and English-language specialty services distributed by cable on a high-penetration tier is likely to divert part of the advertising revenue that had normally gone to conventional television stations operating in these markets.

Radio

The regulatory framework applicable to radio stations is currently under review by the CRTC. The CRTC initiated in 1997 a review of its policy concerning commercial radio (Public Notice CRTC 1997-104). The main issues of this proceeding are French-language vocal music quotas, Canadian music content quotas and multiple station ownership in the same radio market. CRTI has supported the position of the Canadian Association of Broadcasting (CAB) in that proceeding suggesting that the ownership of up to two AM and two FM licences by the same owner in the same market be allowed. CRTI also supports the proposal of the CAB that the same owner be allowed to own up to three FM and two AM stations in the same market for francophone markets with more than seven radio stations.

CRTI has asked however the CRTC to set certain safeguards in connection with the new ownership rules with a view to ensuring effective and fair competition in major markets and a diversity of expression in those markets. Thus, CRTI is of the view that the new ownership rules should not permit a company or group of companies to own several radio stations in a major radio market, if such company or group of company would as a result control over 50% of the radio advertising revenue in that market. Moreover, CRTI considers that companies operating commercial radio stations should not be allowed to act as partners for the sale of national or local radio advertising in a major market when they control on a combined basis over 50% of advertising revenue in that market.

The CRTC will hold a public hearing in the matter of this proceeding, starting on December 1, 1997 and will likely issue its new commercial radio policy sometime next year.

3.4 Other Business Aspects

3.4.1 Human Resources

At the end of the last fiscal year, the number of employees of the Company and its subsidiaries totalled approximately 979 equivalent full-time employees, including 728 for the Cable Sector and 234 for the Media Sector and 17 at the head office in Montreal. 26% of the employees of the Cable Sector and 67% of the employees of the Media Sector are subject to collective agreements. The Cable Sector is involved in 14 collective agreements, of which 5 are currently under negotiation. The Media Sector is involved in 6 collective agreements, of which 4 are currently under negotiation. An initial collective agreement is under negotiation with the bargaining unit certified for the employees of CFGL-FM. Management considers that its labour relations are normal in the Media Sector.

3.4.2 Impact of Renegotiation or Termination of Contracts

The Company periodically negotiates the renewal of agreements concerning the use of support structures owned by public utilities. The Company anticipates that renewals will continue to be secured in due course as required. When an agreement cannot be reached, the respective parties can bring the matter to the CRTC under the Telecommunications Act. The jurisdiction of the CRTC on those matters is currently being challenged by certain public utilities in Ontario.

The Media Sector periodically renegotiates the renewal of the affiliation agreements for its television stations with the CBC and TQS French-language television networks. Over the past year, the TQS affiliation contracts of CFKM-TV and CFKS-TV were renewed for a four year period on terms that allow for substantial revenue increase based on the growth of the network's audience share.

However, the CBC cancelled the current network contracts with its affiliates, including CKTM-TV and CKSH-TV and has reduced its payments to affiliates by 25% since April 1997, with additional reductions in these payments foreseen by the CBC in 1998. The negotiations initiated by the affiliates to conclude an equitable and lasting affiliation agreement with the CBC to the satisfaction of all parties are continuing. It is currently impossible to evaluate the impact of this new agreement on the affiliates' future revenue.

3.4.3 Research and Development

Considering the nature of its activities and the size of its various undertakings, the Company does not allocate a fixed budget for research and development and does not carry on basic research activities. The research and development activities are aimed mainly at the efficient operation and marketing of services by way of adapting the new technologies available on the market.

3.4.4 Environmental Protection Requirements

The nature of the activities is such that the Company is not subject to a significant impact from environmental protection requirements.

3.4.5 Foreign Operations

The Company is not currently involved in any foreign operations and is therefore not directly affected by currency exchange rates, international political factors and other international risks.

4 - SELECTED CONSOLIDATED FINANCIAL INFORMATION

4.1 Selected Financial Information for the Last Five Completed Fiscal Years

The relevant financial information concerning the Company is found in the 1997 Annual Report of the Company on page 44 under the heading "Ten Years in Review" which is incorporated herein by reference.

4.2 Selected Financial Information for the Last Eight Quarters

The relevant financial information for each of the eight consecutive quarters ended August 31, 1997 is found in the 1997 Annual Report of the Company on page 43 under the heading ”Selected Quarterly Information“ which is incorporated herein by reference.

4.3 Dividends

The Company currently has a quarterly dividend policy for dividends payable on subordinate voting shares and multiple voting shares and has paid dividends on participating shares since 1986. In October 1997, the Board of Directors has decided to raise the quarterly dividend from 0,04 $ to 0,05 $ for participating shares.

5 - MANAGEMENT'S REVIEW OF FINANCIAL SITUATION AND OPERATING RESULTS

The heading ”Management Discussion and Analysis“ contained on pages 17 to 26 of the 1997 Annual Report of the Company, is incorporated herein by reference.

6 - MARKET FOR SECURITIES

The Company's subordinate voting shares are listed on The Montreal Exchange and on The Toronto Stock Exchange under the trading symbol "CGO".

7 - DIRECTORS AND OFFICERS

The relevant information on directors and officers of the Company elected during the last annual general meeting of the shareholders held on December 17, 1996 is provided in the information circular attached as Schedule 1. The term of office of the directors of the Company will expire at the next annual general meeting of the shareholders, or when their successors are elected or appointed.

8 - ADDITIONAL INFORMATION

8.1 Statement on Availability of AIF and Related Documents

The Company shall provide any person or company, upon request to the secretary of the Company:

8.1.1 when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus or a short form prospectus has been filed in respect of a proposed distribution of its securities,

8.1.1.1 one copy of the Company's latest annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;

8.1.1.2 one copy of the comparative financial statements of the Company for the Company's most recently completed financial year together with the report of the auditors thereon and one copy of any interim financial statements issued by the Company subsequent to such annual audited financial statements;

8.1.1.3 one copy of the information circular of the Company in respect of the most recent annual meeting of shareholders of the Company which involved the election of directors; and

8.1.1.4 one copy of any other documents filed pursuant to securities legislation which are incorporated by reference into the preliminary short form prospectus or the short form prospectus not mentioned under 8.1.1.1 to 8.1.1.3 above; or

8.1.2 at any other time, the documents referred to in clauses 8.1.1.1, 8.1.1.2 and 8.1.1.3 above, provided that the Company may require the payment of a reasonable charge from such person or company who is not a security holder of the Company.

8.2 Statement on Content of Information Circular and Comparative Financial Statements

Additional information is provided in the latest information circular of the Company dated October 31, 1997, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and options to purchase the Company's securities. Additional financial information is provided in the comparative financial statements included in the 1997 Annual Report of the Company. A copy of such documents may be obtained upon request from the secretary of the Company.

SCHEDULE 1

TO COGECO INC.

ANNUAL INFORMATION FORM FOR THE 1996-97 FISCAL YEAR

COGECO INC

DIRECTORS AND OFFICERS

(as at October 31, 1997)

Name and Office with the Company	Principal Occupation	Director Since	Municipality of Residence
HENRI AUDET, Eng. D. Sc. C.M. (E) (HR) Director, Chairman Emeritus	Director	1957	Outremont, Quebec
LOUIS AUDET, Eng., M.B.A. (E) Director, President and Chief Executive Officer	President and Chief Executive Officer, COGECO Inc.	1984	Westmount, Quebec
MICHEL BÉLANGER, C.C. (HR) Director	Corporate Director	1992	Outremont, Quebec
ROBERT BONNEAU, ENG. (A) Director	Director	1967	Longueuil, Quebec
JACQUELINE L. BOUTET, C.M. (A) Director	President, CB Commercial Quebec Inc. (Real Estate Company)	1991	Montréal, Quebec
ANDRÉ BROUSSEAU (A) Director	Corporate Director	1996	Trois-Rivières Quebec
DANIEL DAMOV (HR) Director	Corporate Director	1992	Don Mills, Ontario
GUY LABELLE (E) Director	Secretary COGECO inc.	1957	St-Laurent, Quebec
HENRI P. LABELLE (A) Director	Partner, Labelle & Labelle (Architects)	1964	Montréal, Quebec
MAURICE MYRAND, F.C.A. (E) (HR) Director and Chairman of the Board	Chairman of the Board, COGECO Inc.	1993	Outremont, Ouébec
PIERRE CHAMPAGNE, C.A. Internal Auditor	Internal Auditor COGECO Inc.	n/a	Verdun, Quebec
PIERRE GAGNE, M.B.A., C.A. Vice-President, Finance and Chief Financial Officer	Vice-President,Finance and Chief Financial Officer COGECO Inc.	n/a	St-Bruno, Quebec

Name and Office with the Company	Principal Occupation	Director Since	Municipality of Residence
CHRISTIAN JOLIVET, L.L.B., L.L.M. Director, Legal Affairs	Director, Legal Affairs, COGECO Inc.	n/a	Montreal, Quebec
YVES MAYRAND, LL.L., M.B.A. Vice-President, Legal Affairs and Assistant Secretary	Vice-President, Legal Affairs and Assistant Secretary COGECO Inc.	n/a	Town of Mount Royal, Quebec
ANDRÉE PINARD, M.B.A., C.A. Director of Financial Planning	Director of Financial Planning COGECO Inc.	n/a	Outremont, Quebec

(E) Member of the Executive Committee

(A) Member of the Audit Committee

(HR) Member of the Human Resources Committee

NOTES

COBECO