

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

MD&A			
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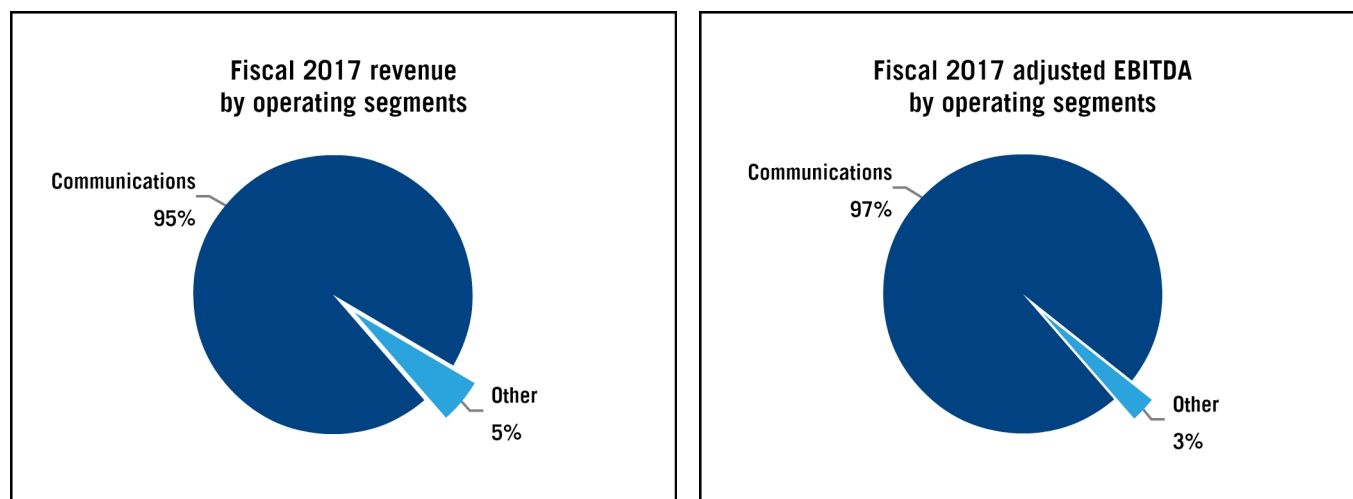
1. FORWARD-LOOKING STATEMENTS

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

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

2. OVERVIEW OF THE BUSINESS

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



2.1 COMMUNICATIONS SEGMENT

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

2.2 OTHER

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

2.3 COMMUNICATIONS SEGMENT NETWORKS AND INFRASTRUCTURE

BROADBAND OPERATIONS

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

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

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

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

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

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

- (a) conversion of video services from analogue to digital. The deployment of digital to analogue ("DTA") converters to its customers having older analogue equipment was completed in all its systems in fiscal 2016. This significant capacity enhancement replaces each analogue channel by up to four high definition ("HD") channels or sixteen standard definition ("SD") channels; and
- (b) conversion to switched digital video ("SDV") technology. This technology allows Cogeco Connexion to selectively broadcast the channels that are currently being viewed by customers, effectively allowing it to offer a greater selection of digital channels over the same network infrastructure. The conversion was completed in all Cogeco Connexion's systems in fiscal 2017.

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

- (a) in markets where overall bandwidth is below 750 MHz, Atlantic Broadband has completed the conversion of video services from analogue to digital with the deployment of DTA converters to its customers having older analogue equipment;
- (b) in 750 MHz markets where Atlantic Broadband has a larger customer base, it has begun the conversion to all digital, which it anticipates will be completed in 2018.

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

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

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

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

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

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

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

2.4 BUSINESS DEVELOPMENTS AND OTHER

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

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

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

2.5 CORPORATE OBJECTIVES AND STRATEGIES

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

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

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

COMMUNICATIONS SEGMENT

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

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

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

MEDIA ACTIVITIES

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

ANTICIPATED RESULTS OF THE CORPORATION'S STRATEGIES

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

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

2.6 KEY PERFORMANCE INDICATORS AND PERFORMANCE HIGHLIGHTS

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

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

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

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

REVENUE

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

ADJUSTED EBITDA

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

FREE CASH FLOW

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

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

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

2.7 THREE-YEAR ANNUAL FINANCIAL HIGHLIGHTS

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

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

(2) Per multiple and subordinate voting shares.

3. OPERATING AND FINANCIAL RESULTS

3.1 OPERATING RESULTS

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

REVENUE

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

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

OPERATING EXPENSES

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

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

ADJUSTED EBITDA

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

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

3.2 FIXED CHARGES

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

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

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

3.3 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

As part of a process initiated in fiscal 2015, Cogeco Communications performed a thorough review of its Business ICT services segment operations, organizational structure and portfolio of products and services. The review resulted in several initiatives primarily focused on profitable sales generation, the streamlining of the product offering, the simplification of operational processes and the announcement, on May 5, 2015, of the combination of its two business units Cogeco Data Services and Peer 1 Hosting to form Cogeco Peer 1 with a structure and capacity in place to serve its various customers across its cloud and hosting, colocation and network connectivity services.

Despite continuous efforts to align Cogeco Peer 1's sales structure on its streamlined product offering, the sales performance did not achieve expected growth in the United States, Europe and Canada.

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

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

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

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

3.4 CLAIMS AND LITIGATIONS

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

3.5 GAIN ON DISPOSAL OF A SUBSIDIARY

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

3.6 INCOME TAXES

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

On March 26, 2015, in its 2015 budget, the Quebec government announced that the corporate tax rate would be gradually reduced by 0.1% per year from 11.9% in 2017 to 11.5% in 2020. These rate reductions were substantively enacted on November 15, 2016 and have reduced the deferred tax liabilities and the deferred income taxes by approximately \$1.8 million for the year ended August 31, 2017. In addition, on July 8, 2015, the United Kingdom government announced corporate tax rate reductions from 20% to 19% on April 1, 2017 and to 18% on April 1, 2020. These rate reductions were substantively enacted on October 26, 2015 and have reduced the deferred tax assets and increased the deferred income taxes by \$1.2 million for fiscal 2016.

3.7 PROFIT (LOSS) FOR THE YEAR

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

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

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

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

4. RELATED PARTY TRANSACTIONS

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

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

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

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

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

5. CASH FLOW ANALYSIS

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

5.1 OPERATING ACTIVITIES

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

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

5.2 INVESTING ACTIVITIES

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

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

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

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

BUSINESS COMBINATION IN FISCAL 2017

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

DISPOSAL OF A SUBSIDIARY IN FISCAL 2016

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

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

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

5.3 FREE CASH FLOW AND FINANCING ACTIVITIES

FREE CASH FLOW

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

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

FINANCING ACTIVITIES

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

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

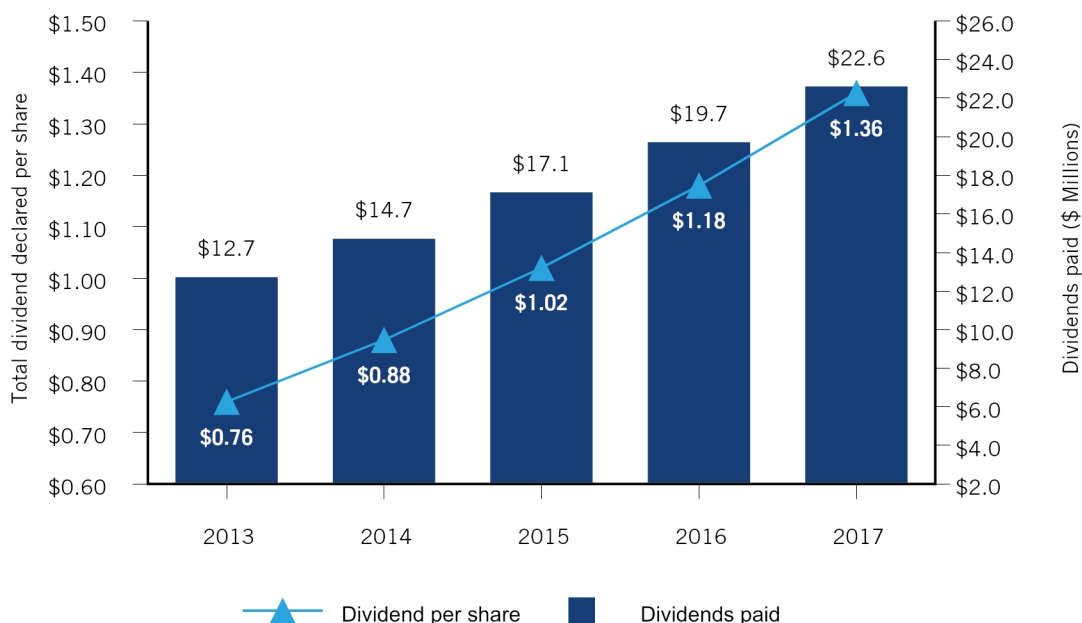
DIVIDENDS

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

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

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

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



NORMAL COURSE ISSUER BID

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

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

The normal course issuer bid purchases were as follows:

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

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

6. COMMUNICATIONS SEGMENT

6.1 OPERATING RESULTS

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

REVENUE

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

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

OPERATING EXPENSES AND MANAGEMENT FEES

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

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

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

ADJUSTED EBITDA AND OPERATING MARGIN

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

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

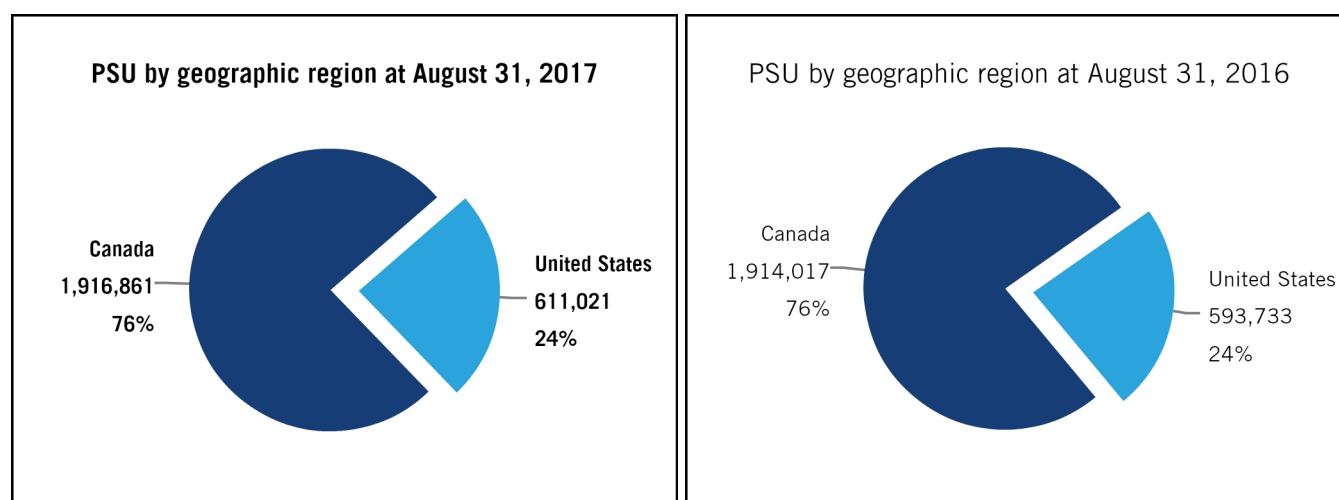
ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE AND OTHER ASSETS

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

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

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

6.2 CUSTOMER STATISTICS



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

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

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

(3) As a percentage of homes passed.

INTERNET

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

VIDEO

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

TELEPHONY

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

7. FINANCIAL POSITION

7.1 WORKING CAPITAL

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

The variations are as follows:

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

7.2 OTHER SIGNIFICANT CHANGES

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

8. CAPITAL RESOURCES AND LIQUIDITY

8.1 CAPITAL STRUCTURE

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

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

(1) Based on mid-range guidelines.

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

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

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

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

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

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

COMMUNICATIONS SEGMENT

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

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

(1) Based on mid-range guidelines.

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

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

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

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

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

8.2 OUTSTANDING SHARE DATA

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

<i>(in thousands of dollars, except number of shares)</i>	Number of shares	Amount \$
Common shares		
Multiple voting shares	1,842,860	12
Subordinate voting shares	14,712,053	119,720

8.3 FINANCING

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

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

8.4 COGECO COMMUNICATIONS CREDIT RATINGS

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

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

NR : Not rated

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

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

8.5 FINANCIAL MANAGEMENT

Interest rate risk

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

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

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

The sensitivity of the Corporation's annual financial expense to an increase of 1% in the interest rate applicable to the unhedged portion of these facilities is approximately \$5.6 million based on the outstanding debt at August 31, 2017.

Foreign exchange risk

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

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

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

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

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

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

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

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

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

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

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

8.6 COMMITMENTS AND GUARANTEES

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

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

(1) Includes principal.

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

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

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

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

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

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

BUSINESS COMBINATIONS AND ASSET DISPOSALS

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

LONG-TERM DEBT

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

EMPLOYEES AND CONTRACTUALS INDEMNIFICATION AGREEMENTS

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

SALE OF SERVICES

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

PURCHASE AND DEVELOPMENT OF ASSETS

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

9. QUARTERLY OPERATING RESULTS

9.1 QUARTERLY FINANCIAL HIGHLIGHTS

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

(1) The addition of quarterly information may not correspond to the annual total due to rounding.

(2) Per multiple and subordinate voting share.

9.2 SEASONAL VARIATIONS

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

9.3 FOURTH-QUARTER OPERATIONAL AND FINANCIAL RESULTS

CONSOLIDATED

OPERATING AND FINANCIAL RESULTS

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

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

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

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

COMMUNICATIONS SEGMENT

OPERATING AND FINANCIAL RESULTS

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

Revenue

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

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

Operating expenses and management fees

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

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

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

Adjusted EBITDA and operating margin

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

CUSTOMER STATISTICS

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

INTERNET

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

VIDEO

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

TELEPHONY

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

CASH FLOW ANALYSIS

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

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

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

INVESTING ACTIVITIES

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

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

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

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

FREE CASH FLOW AND FINANCING ACTIVITIES

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

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

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

DIVIDENDS

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

NORMAL COURSE ISSUER BID

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

10. FISCAL 2018 FINANCIAL GUIDELINES

10.1 CONSOLIDATED

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

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

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

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

10.2 COMMUNICATIONS SEGMENT

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

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

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

Free cash flow should reach between \$345 million and \$375 million as a result of the improvement of the adjusted EBITDA, partly offset by increases in capital expenditures and in current income taxes. As a result, generated free cash flow should reduce Indebtedness, net of cash and cash equivalents, thus improving the Corporation's net leverage ratios.

The capital intensity ratio should increase compared to fiscal 2017 mainly as a result of significantly higher capital expenditures for the American broadband services segment as a result of a continued expansion in high growth segments in Florida.

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

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

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

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

11. UNCERTAINTIES AND MAIN RISK FACTORS

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

ENTERPRISE RISK MANAGEMENT

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

11.1 COMPETITIVE RISKS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11.2 BUSINESS RISKS

STRATEGIC PLAN AND BUSINESS STRATEGIES

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

PROGRAMMING COSTS

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

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

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

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

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

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

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

CUSTOMER LOYALTY AND RETENTION

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

MEETING CUSTOMER DEMANDS

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

MARKETING AND SALES

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

RELIANCE ON THIRD PARTIES

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

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

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

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

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

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

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

We lease facilities from third parties.

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

MERGERS/ACQUISITIONS, DIVESTITURES AND REORGANIZATIONS

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

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

ECONOMIC DEPENDENCE

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

FOREIGN OPERATIONS

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

TALENT MANAGEMENT AND SUCCESSION PLANNING

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

LABOUR RELATIONS

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

11.3 REGULATORY RISKS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As part of these policy changes, the CRTC issued on September 24, 2015, a Wholesale Code to govern the commercial arrangements between BDUs and programming services. The Wholesale Code imposes a number of negotiation parameters with respect to affiliation agreements between programming services and cable and satellite distributors in Canada, including dealing with dispute resolution. In prior regulatory proceedings before the CRTC, Cogeco Communications and other independent distributors advocated the adoption of a Wholesale Code so as to ensure that vertically integrated entities such as Bell cannot abuse their market power and impose anticompetitive terms for the distribution of their programming services. On October 23, 2015, Bell filed a motion to the Federal Court of Appeal, seeking leave to appeal the Wholesale Code on the basis that it would be conflicting with the *Copyright Act* and not authorized by the *Broadcasting Act*. Bell argues that the Wholesale Code wrongly interferes with their intellectual property rights in programs under the *Copyright Act* and that the CRTC lacks jurisdiction to issue the Wholesale Code under the *Broadcasting Act*. On December 22, 2015, the Federal Court of Appeal granted Bell leave to appeal the Wholesale Code. Cogeco Communications is challenging Bell's appeal. The Wholesale Code came into force on January 22, 2016 and is applicable to all licensed programming and distribution undertakings.

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

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

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

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

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

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

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

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

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

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

REGULATORY RISKS - BUSINESS ICT SERVICES SEGMENT OF COGECO COMMUNICATIONS

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

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

11.4 TECHNOLOGY RISKS

NETWORK FAILURE

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

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

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

MAINTENANCE OF OUR NETWORK, INFRASTRUCTURE AND IT SYSTEMS

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

DEPENDENCE ON TECHNOLOGY SYSTEMS

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

CYBER THREATS

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

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

DATA PROTECTION

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

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

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

11.5 FINANCIAL RISKS

CAPITAL COMMITMENTS, LIQUIDITY AND DEBT

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

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

CURRENCY AND INTEREST RATES

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

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

CREDIT RATINGS

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

TAXATION MATTERS

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

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

11.6 ECONOMIC CONDITIONS

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

11.7 OWNERSHIP RISKS

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

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

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

11.9 LITIGATION RISKS

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

12. CORPORATE SOCIAL RESPONSIBILITY PROGRAM

12.1 OVERVIEW

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

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



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

12.2 FISCAL 2017 ACTIVITIES AND ACHIEVEMENTS

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

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

- we celebrated our 60th Anniversary as a Corporation dedicated to excellence in customer service with an internal contest in which over 1,500 employees from all our business units across two continents participated;
- each business unit made significant progress on their three-year action plan created to integrate the CSR principles into their activities and operations;
- we continued to measure and track our Greenhouse Gas Emissions ("GHG") reductions and now integrate all Cogeco business units into the calculations, as well as emissions from refrigerant gases;
- we published our sixth Carbon Disclosure Project ("CDP") report and completed the Information and Communications Technology additional module;
- we implemented a Supplier Code of Conduct to address supply chain risks related to CSR, and progressed towards our objective of getting our most critical suppliers to acknowledge it. The Code is available in the CSR section of our Corporate website;
- we published Cogeco's Statement against Slavery, Forced Labor and Human Trafficking, in line with the UK Modern Slavery Act;
- approximately 20% of Cogeco's facilities underwent environmental assessments conducted by a third party. No significant adverse impact on the environment was identified during that exercise;
- Cogeco Connexion voluntarily purchased carbon offsets to cover the GHG from its business travel from fiscal 2017 (301 tons of CO₂e). The offsets purchased are Gold Standard and Gold Standard Transition, and will fund emissions reduction projects located in Québec and in China;
- we contributed over \$3 million to donations and sponsorships and offered air time for fund raising purposes. Our principal focus areas are the health, culture and education sectors;
- we participated in the finalization of the Canadian Energy Efficiency Voluntary Agreement ("CEEVA"), effective since January 2017. This agreement, developed by Canadian telecommunications companies together with Natural Resources Canada, intends to limit the energy consumption of set top-boxes provided to our customers. With this agreement in place, it is expected that the total annual energy consumption in Canada, with the telecommunications companies' contribution, including Cogeco Connexion, will be reduced and annual carbon dioxide emissions will be cut by over 100,000 tonnes. This is equivalent to the emissions of over 44,000 sub-compact new vehicles driving 15,000 km/year;

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

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

RECOGNITIONS

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

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

12.3 FISCAL 2018 CORPORATE SOCIAL RESPONSIBILITY FOCUS

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

13. CONTROLS AND PROCEDURES

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

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

14. ACCOUNTING POLICIES

14.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

REVENUE RECOGNITION

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

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

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

BUSINESS COMBINATIONS

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

CAPITALIZATION OF PROPERTY, PLANT AND EQUIPMENT

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

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

CAPITALIZATION OF INTANGIBLE ASSETS

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

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

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

PROVISIONS

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

CONTINGENCIES

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

FAIR VALUE MEASUREMENT OF DERIVATIVE FINANCIAL INSTRUMENTS

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

HEDGE ACCOUNTING

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

MEASUREMENT OF DEFINED BENEFIT OBLIGATION

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

SHARE-BASED PAYMENT

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

MEASUREMENT OF NON-FINANCIAL ASSETS

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

DEFERRED TAXES

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

14.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

14.3 FUTURE ACCOUNTING DEVELOPMENT IN CANADA

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

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

IFRS 9

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

IFRS 15

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

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

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

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

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

IFRS 16

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

15. NON-IFRS FINANCIAL MEASURES

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

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

15.1 FREE CASH FLOW RECONCILIATION

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

15.2 ADJUSTED EBITDA RECONCILIATION

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

16. ADDITIONAL INFORMATION

This MD&A was prepared on November 2, 2017. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.