BUSINESS ACQUISITION REPORT

COGECO INC.
Form 51-102F4
BUSINESS ACQUISITION REPORT

1. Identity of the Company

1.1 Name and address of the Company

Cogeco Inc. (“Cogeco” or the “Corporation”)
5 Place Ville-Marie, Suite 1700
Montréal, (Québec)
H3B 0B3

1.2 Executive officer

Mr. Patrice Ouimet, Senior Vice President and Chief Financial Officer of Cogeco is knowledgeable about the significant acquisition and this business acquisition report and may be contacted at (514) 764-4700.

2. Details of acquisition

2.1 Nature of the business acquired

On January 4, 2018, a subsidiary of the Corporation, Cogeco Communications Inc. (“Cogeco Communications”) completed the acquisition of substantially all the assets of MetroCast Cablevision of New Hampshire, LLC and Gans Communications, L.P., which operate under the MetroCast brand name (“MetroCast”), and are subsidiaries of Harron Entertainment Company, LLC. MetroCast is an independent operator of digital cable and communications networks, serving about 130,000 Internet, 88,000 video and 33,000 telephony customers. This acquisition extends Atlantic Broadband's footprint across 11 states on the East Coast of the United States from Maine to Florida.

2.2 Acquisition date

The acquisition was completed on January 4, 2018.

2.3 Consideration

The consideration for the acquisition of MetroCast is approximately $1.8 billion (US$1.4 billion), subject to additional post-closing working capital adjustments. In connection with the acquisition, financing transaction costs amounting to $50.9 million (US$40.6 million) and integration, restructuring and acquisition costs amounting to $19.6 million (US$15.7 million) were incurred. The acquisition of MetroCast was financed as follows:

a) First Lien Credit Facilities

A new $2.1 billion (US$1.7 billion) Senior Secured Term Loan B maturing January 2025, and a $188 million (US$150 million) Senior Secured Revolving Credit Facility maturing January 2023 were entered into by two of Cogeco Communications’ US subsidiaries, whereby $733 million (US$583 million) was used to refinance the existing First Lien Credit Facilities. The interest rate on the First Lien Credit Facilities is based on LIBOR plus an applicable margin. Commencing in August 2018, the Senior Secured Term Loan B is subject to quarterly amortization of 0.25% until its maturity date. In addition to the quarterly amortization, the loan shall be prepaid according to a prepayment percentage of excess cash flow generated during the prior fiscal year defined below. The first payment will be based on excess cash flows generated in fiscal year 2019.

(i) 50% if the Consolidated Senior Secured Leverage Ratio is greater than or equal to 5.1 to 1.0;
(ii) 25% if the Consolidated Senior Secured Leverage Ratio is greater than or equal to 4.6 to 1.0 but less than 5.1 to 1.0; and
(iii) 0% if the Consolidated Senior Secured Leverage Ratio is less than 4.6 to 1.00.

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

b) A $395 million (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.

2.4 Effect on financial position and financial performance

The effect of the acquisition on the Corporation's financial position and financial performance is outlined in the unaudited pro forma condensed consolidated financial statements of Cogeco as at November 30, 2017 and for the year ended August 31, 2017 and three-month period ended November 30, 2017, which are referred to in Schedule A.

Except as otherwise discussed herein or publicly disclosed and in the ordinary course of business, the Corporation, including its subsidiaries does not presently have any plans or proposal for any other material changes in its business affairs or the affairs relating to the acquisition which may have a significant effect on its results of operations and financial position of the Corporation.

2.5 Prior valuation

Not applicable.

2.6 Parties to transaction

The agreement was not concluded with any "informed persons", "associates" or "affiliates" of the Corporation as such terms are defined in securities legislation.

2.7 Date of the report

April 4, 2018.

3. Financial statements and other information

The following financial statements and other information required under Part 8 of National Instrument 51-102 are attached hereto and form part of this Business Acquisition Report:

3.1 The unaudited pro forma condensed consolidated financial statements of Cogeco consisting of pro forma unaudited consolidated statements of profit or loss for the year ended August 31, 2017 and the three months ended November 30, 2017 and unaudited pro forma consolidated statement of financial position as at November 30, 2017, together with the notes thereto are attached in Schedule A

a) The unaudited pro forma consolidated statement of profit or loss for the year ended August 31, 2017 that combines the Corporation's audited consolidated statements of profit or loss for the year ended August 31, 2017 with MetroCast's unaudited statement of profit or loss for the twelve-month period ended August 31, 2017 adjusted to give effect as if the acquisition had been completed on September 1, 2016;

b) The unaudited pro forma consolidated statement of profit or loss for the three-month period ended November 30, 2017 that combines the Corporation's unaudited consolidated statement of profit or loss for the three-month period ended November 30, 2017 with MetroCast's unaudited statement of profit or loss for the three-month period ended November 30, 2017 adjusted to give effect as if the acquisition had been completed on September 1, 2016;

c) The unaudited pro forma consolidated statement of financial position as at November 30, 2017 that combines the Corporation's unaudited consolidated statement of financial position as at November 30, 2017 with MetroCast's audited consolidated statement of financial position as at December 31, 2017, adjusted for assets and liabilities excluded from the acquisition and to give effect as if the acquisition had been completed on November 30, 2017.

The accounting policies used in the preparation of the unaudited pro forma condensed consolidated financial statements are consistent with those described in Note 2 of the Corporation's audited consolidated financial statements for the year ended August 31, 2017 that are available on the SEDAR website at www.sedar.com and on the Corporation's website at corpo.cogeco.com.

3.2 Historical financial statements of MetroCast

a) The combined financial statements of MetroCast are attached in Schedule B.

The audited combined financial statements and notes thereto of MetroCast as of and for the year ended December 31, 2017 together with the Independent Auditors' Report thereon and the unaudited comparative figures for the year ended December 31, 2016. These financial statements were prepared in accordance with US Generally Accepted Accounting Principles ("US GAAP") and are presented in US dollars.

4. Forward looking information, risks and uncertainties

The unaudited pro forma consolidated statements of profit or loss for the year ended August 31, 2017 and the three-month period ended November 30, 2017 presented in this document do not necessarily reflect the results that would have been achieved had the transaction been completed on September 1, 2016 and are not necessarily representative of the future financial results and financial position of the Corporation following the acquisition.

The unaudited pro forma condensed consolidated financial statements, presented in this document, include integration and acquisition costs incurred in relation to the acquisition.

Certain statements in this Business Acquisition Report may constitute forward looking information within the meaning of securities laws, which is based on expectations, estimates and projections as of the date of this Business Acquisition Report. These statements are subject to significant risks and uncertainties, and the Corporation cautions that a number of important factors could cause actual results to differ materially from those contained in any such forward-looking statements. The forward-looking statements are based on assumptions regarding current plans and estimates. Management believes these assumptions to be reasonable but there is no assurance that they will prove to be accurate.

Factors that could cause actual results to differ materially from those described in this Business Acquisition Report include, among other things, the Corporation's ability to realize the expected benefits of the MetroCast acquisition, integration difficulties and other similar challenges, the effectiveness of MetroCast's internal controls over financial reporting, and changes in customer preferences for existing products and services. The actual results may also be affected by factors such as technological changes, changes in market and competition, governmental and regulatory developments, general economic conditions, development of new products and services, the enhancement of existing products and services and the introduction of competing products having technological or other advantages, many of which are beyond the Corporation's control.

While the Corporation's management anticipates that subsequent events and developments may cause our views to change, the Corporation has no intention to update this forward looking information, except to the extent required by applicable securities regulations or laws. This forward looking information should not be relied upon as representing the Corporation's views as of any date subsequent to the date of this Business Acquisition Report. This report has attempted to identify significant factors that could cause actual actions, events or results to differ materially from the current expectations described in forward looking information. In addition, there may be other factors that could cause actions, events or results not to be as anticipated, estimated or intended and that could cause actual actions, events or results to differ materially from current expectations. There can be no assurance that forward looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking information. These factors are not intended to represent a complete list of the factors that could affect the Corporation or its opportunities to create growth opportunities and economies of scale. Please see the risk factors outlined in materials filed with the securities regulatory authorities in Canada from time to time, including the Corporation's Annual Information Form and annual and quarterly Management's Discussion and Analysis.

In addition, adjustments to the purchase price allocation, which at the date of this report, was preliminary, may affect fair values assigned to the assets acquired and liabilities assumed and may cause results to differ significantly from the pro forma consolidated statements of profit or loss presented in this document.

SCHEDULE A – UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF COGECO

COGECO INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT NOVEMBER 30, 2017 AND FOR THE YEAR ENDED AUGUST 31, 2017 AND THE THREE-MONTH PERIOD ENDED NOVEMBER 30, 2017

COGECO INC.
PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(unaudited)
(in thousands of Canadian dollars, except per share data)

Year ended August 31, 2017	Cogeco Inc.	MetroCast (1)	Pro Forma Adjustments	Note	Pro Forma Consolidated
	$	$	$		$
Revenue	2,347,678	292,700	-		2,640,378
Operating expenses	1,312,133	140,163	3,962	4.3 a)	1,456,258
Integration, restucturing and acquisition costs	3,191	-	18,843	4.3 b)	22,034
Depreciation and amortization	478,451	43,171	28,456	4.3 c)	550,078
Financial expenses	136,779	25,030	60,940	4.3 d)	222,749
Income tax expenses	103,757	1,144	(31,913)	4.3 e)	72,988
Profit (loss) for the year	313,367	83,192	(80,288)		316,271
Profit (loss) for the year attributable to:					
Owners of the Corporation	108,985	83,192	(86,402)		105,775
Non-controlling interest	204,382	-	6,114		210,496
	313,367	83,192	(80,288)		316,271
Earnings per share					
Basic	6.56				6.36
Diluted	6.52				6.32

(1) The MetroCast statement of profit or loss was adjusted to align with the Corporation's accounting policies under IFRS, and to translate the amounts to Canadian dollars using the average foreign exchange rate for the year ended August 31, 2017. See Note 3 for details on the adjustments.

COGECO INC.
PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(unaudited)
(in thousands of Canadian dollars, except per share data)

Three months ended November 30, 2017	Cogeco Inc.	MetroCast [1]	Pro Forma Adjustments	Note	Pro Forma Consolidated
	$	$	$		$
Revenue	586,072	71,313	-		657,385
Operating expenses	329,702	33,474	941	4.3 a)	364,117
Integration, restucturing and acquisition costs	392	-	-		392
Depreciation and amortization	117,097	10,093	6,929	4.3 c)	134,119
Financial expenses	30,126	6,474	11,940	4.3 d)	48,540
Income tax expenses	26,977	288	(4,659)	4.3 e)	22,606
Profit (loss) for the period	81,778	20,984	(15,151)		87,611
Profit (loss) for the period attributable to:					
Owners of the Corporation	29,525	20,984	(20,035)		30,474
Non-controlling interest	52,253	-	4,884		57,137
	81,778	20,984	(15,151)		87,611
Earnings per share					
Basic	1.80				1.85
Diluted	1.78				1.84

(1) The MetroCast statement of profit or loss was adjusted to align with the Corporation's accounting policies under IFRS, and to translate the amounts to Canadian dollars using the average foreign exchange rate for the three-month period ended November 30, 2017. See Note 3 for details on the adjustments.

COGECO INC.
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited)
(in thousands of Canadian dollars)

At November 30, 2017	Cogeco Inc.	MetroCast (1)	Pro Forma Adjustments	Note	Pro Forma Consolidated
	$	$	$		$
Assets					
Current					
Cash and cash equivalents	122,754	6	-		122,760
Short-term investments	34,000	-	-		34,000
Trade and other receivables	118,994	5,218	-		124,212
Income taxes receivable	11,577	-	-		11,577
Prepaid expenses and other	36,632	2,045	-		38,677
Derivative financial instrument	105	-	-		105
	324,062	7,269	-		331,331
Non-current					
Other assets	3,818	-	2,806	4.3 f)	6,624
Property, plant and equipment	1,966,541	190,766	114,807	4.3 g)	2,272,114
Intangible assets	2,074,043	199,254	700,071	4.3 h)	2,973,368
Goodwill	1,065,196	17,934	587,164	4.3 i)	1,670,294
Derivative financial instrument	4,567	-	-		4,567
Deferred tax assets	25,903	-	-		25,903
	5,464,130	**415,223**	**1,404,848**		**7,284,201**
Liabilities and Shareholders' equity					
Liabilities					
Current					
Bank indebtedness	31,356	-	-		31,356
Trade and other payables	226,533	5,189	-		231,722
Provisions	24,023	-	-		24,023
Income tax liabilities	37,628	-	-		37,628
Deferred and prepaid revenue	78,668	-	-		78,668
Current portion of long-term debt	190,547	-	10,955	4.3 j)	201,502
	588,755	5,189	10,955		604,899
Non-current					
Long-term debt	2,468,350	-	1,430,377	4.3 j)	3,898,727
Deferred and prepaid revenue and other liabilities	41,199	-	-		41,199
Pension plan liabilities and accrued employee benefits	4,627	-	-		4,627
Deferred tax liabilities	636,092	-	-		636,092
	3,739,023	5,189	1,441,332		5,185,544
Shareholders' equity					
Equity attributable to owners Corporation					
Share capital	109,758	-	-		109,758
Share-based payment reserve	5,544	-	-		5,544
Accumulated other comprehensive income	27,709	-	-		27,709
Retained earnings	450,358	410,034	(340,390)	4.3 k)	520,002
	593,369	410,034	(340,390)		663,013
Equity attributable to non-controlling interest	1,131,738	-	303,906	4.3 l)	1,435,644
	1,725,107	410,034	(36,484)		2,098,657
	5,464,130	**415,223**	**1,404,848**		**7,284,201**

(1) The MetroCast statement of financial position was adjusted to align with the Corporation's accounting policies under IFRS, to adjust for assets and liabilities excluded from the acquisition and to translate the balances to Canadian dollars at the end of day foreign exchange rate at November 30, 2017. See Note 3 for details on the adjustments.

1. The Corporation

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

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

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

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

On January 4, 2018, Cogeco Communications' subsidiary, Atlantic Broadband, completed the acquisition of substantially all of the assets of MetroCast Cablevision of New Hampshire, LLC and Gans Communications, L.P., which operates under the MetroCast brand name ("MetroCast"). The acquisition was effective January 1, 2018 and extends Atlantic Broadband's footprint across 11 states on the East Coast of the United States from Maine to Florida. The transaction valued at $1.8 billion (US$1.4 billion) is subject to post-closing adjustments. This acquisition was financed through a combination of $2.1 billion (US$1.7 billion) under a new Senior Secured Term Loan B, whereby $730.7 million (US$583 million) was used to refinance the existing First Lien Credit Facilities, and $50.6 million (US$40.4 million) drawn under a new $188 million (US$150 million) Senior Secured Revolving Credit facility, combined with a $395 million (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.

2. Basis of pro forma presentation

The unaudited pro forma condensed consolidated financial statements as at November 30, 2017 and for the year ended August 31, 2017 and the three-month period ended November 30, 2017 were prepared by the Corporation's management to give effect to the acquisition of MetroCast, taking into consideration the new financing and the harmonization of MetroCast's accounting policies to the Corporation's significant accounting policies as presented in Note 2 of the Corporation's audited consolidated financial statements for the year ended August 31, 2017, and include all material adjustments. The unaudited pro forma condensed consolidated financial statements also include the assumptions and adjustments described in Notes 3 and 4, hereafter.

The unaudited pro forma consolidated statement of profit or loss for the year ended August 31, 2017 was prepared based on: (i) the Corporation's audited consolidated statement of profit or loss for the year ended August 31, 2017; and (ii) MetroCast's unaudited statement of profit or loss for the twelve-month period ended August 31, 2017. The unaudited pro forma consolidated statement of profit or loss for the three-month period ended November 30, 2017 was prepared based on: (i) the Corporation's unaudited consolidated statement of profit or loss for the three-month period ended November 30, 2017; and (ii) MetroCast's unaudited statement of profit or loss for the three-month period ended November 30, 2017.

(in thousands of Canadian dollars, except as indicated otherwise)

The unaudited pro forma consolidated statement of financial position as at November 30, 2017 was prepared based on: (i) the Corporation's unaudited consolidated statement of financial position as at November 30, 2017; and (ii) MetroCast's audited statement of financial position at December 31, 2017.

The statements of profit or loss of MetroCast were adjusted to meet the requirements of this report. As a result, the statements of profit or loss of MetroCast, for the twelve-month period ended August 31, 2017 and for the three-month period ended November 30, 2017 were constructed using the MetroCast internally prepared statements of profit or loss. In addition, the MetroCast unaudited statements of profit or loss were initially prepared in accordance with US GAAP and presented in US dollars. They have been adjusted to conform to the Corporation's accounting policies and translated into Canadian dollars using the average exchange rates for the periods reported.

The statement of financial position of MetroCast was adjusted to meet the requirements of this report while giving effect to the acquisition as if it occurred on November 30, 2017, and to adjust for assets and liabilities excluded from the acquisition. In addition, the MetroCast audited statement of financial position for the year ended December 31, 2017 was initially prepared in accordance with US GAAP and presented in US dollars. It has been translated into Canadian dollars using the foreign exchange rate at November 30, 2017 (see Note 3 for the MetroCast statement of financial position at November 30, 2017).

For the purpose of preparing the unaudited pro forma consolidated statements of profit or loss for the year ended August 31, 2017 and for the three-month period ended November 30, 2017, the Corporation's management assumed that the acquisition was completed on September 1, 2016, and made the necessary adjustments to reflect this assumption.

3. Alignment of MetroCast's financial information with the Corporation's accounting policies and reporting currency and adjustments for assets and liabilities excluded from the acquisition

The MetroCast financial information was aligned with the Corporation's accounting policies under IFRS.

MetroCast Statement of Profit or Loss Twelve months ended August 31, 2017	US GAAP US$	Accounting policy adjustments US$	Note	IFRS US$	IFRS $
Revenue	224,780	(3,119)	3 a)	221,661	292,700
Operating expenses	106,718 [(1)]	(573)	3 b)	106,145	140,163
Depreciation and amortization	32,654	39	3 b)	32,693	43,171
Financial expenses	18,955	-		18,955	25,030
Income tax expenses	901	(35)		866	1,144
Profit (loss) for the year	65,552	(2,550)		63,002	83,192

[(1)] Excludes management fees of approximately US$9.1 million paid to Harron Entertainment Company, LLC, and corporate expenses of approximately US$4.7 million that are excluded from the business combination.

(in thousands of Canadian dollars, except as indicated otherwise)

MetroCast Statement of Profit or Loss Three months ended November 30, 2017	US GAAP US$	Accounting policy adjustments US$	Note	IFRS US$	IFRS $
Revenue	57,411	(597)	3 a)	56,814	71,313
Operating expenses	26,811 (1)	(143)	3 b)	26,668	33,474
Depreciation and amortization	8,020	21	3 b)	8,041	10,093
Financial expenses	5,158	-		5,158	6,474
Income tax expenses	236	(6)		230	288
Profit (loss) for the period	17,186	(469)		16,717	20,984

(1) Excludes management fees of approximately US$2.3 million paid to Harron Entertainment Company, LLC, and corporate expenses of approximately US$1.2 million that are excluded from the business combination.

a) Revenue

The Corporation considers that installation and activation fees are not separate revenue components because they have no stand-alone value. In accordance with IFRS, the Corporation defers and amortizes the revenue at the same pace as the revenue from the related services is earned, which is the average life of a customer's subscription or the term of the agreement, while they are fully recognized as revenue when services are provided under US GAAP. In connection with the acquisition of substantially all the assets of MetroCast, the Corporation determined, based on its preliminary allocation of the purchase price that the value of MetroCast's deferred installation and activation revenue, following the purchase accounting method, is nil since the service was already provided and MetroCast has no obligation to reimburse the customers. Subsequent to the acquisition, installation and activation revenue generated by MetroCast will be deferred and amortized as revenue as per the Corporation's accounting policies over an eight year period, in accordance with IFRS.

The unaudited pro forma consolidated statements of profit or loss for the year ended August 31, 2017 and the three months ended November 30, 2017 reflect an adjustment to reverse the net deferred portion of the installation and activation revenue that were fully recognized as revenue by MetroCast when service was provided.

	Three months ended November 30, 2017	Year ended August 31, 2017
Deferred installation and activation revenue fully recognized as revenue by MetroCast	(717)	(3,350)
Portion of deferred installation and activation revenue amortized as revenue in the period (1)	120	231
Net revenue adjustment	(597)	(3,119)

(1) Installation and activation revenue charged are cumulated and deferred, such that the monthly portion amortized as revenue represents 1/96 of the deferred revenue of the current month and of each of the preceding months.

(in thousands of Canadian dollars, except as indicated otherwise)

b) Operating expenses and Depreciation and amortization

Reconnect and additional service activation costs ("reconnect costs") incurred by the Corporation are capitalized as intangible assets and amortized over the average life of a customer's subscription, not exceeding eight years, while they are fully recognized as operating expenses when services are provided under US GAAP. The unaudited pro forma consolidated statement of profit or loss for the year ended August 31, 2017 and the three months ended November 30, 2017 reflects an adjustment to reverse the reconnect costs which were fully expensed as incurred by MetroCast, and to amortize them over the average life of the customer's subscription, which is eight years.

	Three months ended November 30, 2017	Year ended August 31, 2017
Reversal of reconnect costs fully expensed as incurred	(143)	(573)
Amortization of reconnect costs over the average life of the customers subscription.	21	39

MetroCast Statement of Financial Position At December 31, 2017	US GAAP US$	Adjustments US$	Note	IFRS US$	IFRS $
Assets					
Current					
Cash and cash equivalents	7,303	(7,298)	i	5	6
Trade and other receivables	12,614	(8,565)	i	4,049	5,218
Prepaid expenses and other	1,475	112	i	1,587	2,045
	21,392	(15,751)		5,641	7,269
Non-current					
Property, plant and equipment	148,018	-		148,018	190,766
Intangible assets	154,604	-		154,604	199,254
Goodwill	13,915	-		13,915	17,934
Derivative financial instrument	355	(355)	i	-	-
	338,284	**(16,106)**		**322,178**	**415,223**
Liabilities and Shareholders' equity					
Liabilities					
Current					
Trade and other payables	25,703	(21,677)	i	4,026	5,189
Current portion of long-term debt	22,500	(22,500)	i	-	-
	48,203	(44,177)		4,026	5,189
Non-current					
Long-term debt	423,089	(423,089)	i	-	-
Deferred tax liabilities	4,261	(4,261)	i	-	-
	475,553	(471,527)		4,026	5,189
Shareholders' equity					
Equity attributable to owners Corporation					
Retained earnings	(137,269)	455,421	i	318,152	410,034
	(137,269)	455,421		318,152	410,034
	338,284	**(16,106)**		**322,178**	**415,223**

(i) Comprise amounts of assets and liabilities which are excluded from the business combination. Adjustments to convert the statement of financial position from US GAAP to IFRS are negligible.

(in thousands of Canadian dollars, except as indicated otherwise)

4. Assumptions and adjustments

4.1 Currency translation

The following exchange rates were used in the preparation of the pro forma condensed consolidated financial statements:

	Exchange rate per US$
Opening rate at September 1, 2016	1.3116
Closing rate at August 31, 2017	1.2536
Closing rate at November 30, 2017	1.2888
Closing rate at January 4, 2018	1.2533
Average rate for the year ended August 31, 2017	1.3205
Average rate for the three-month period ended November 30, 2017	1.2552

4.2 Preliminary purchase price allocation

The acquisition is accounted for using the acquisition method in accordance with IFRS 3, Business Combinations. The following table represents the preliminary allocation of the purchase consideration to reflect the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition, with any excess allocated to goodwill:

	$
Net Assets Acquired (1)	
Cash	6
Trade and receivables	5,218
Prepaid expenses and other	2,045
Property, plant and equipment	305,573
Intangible assets	899,325
Goodwill	605,098
Trade and other payables assumed	(5,189)
	1,812,076

(1) Net assets have been translated to Canadian dollars using the November 30, 2017 foreign exchange rate.

The above table represents management's preliminary assessment of the fair values of assets acquired and liabilities assumed based on best estimates taking into account all relevant information available. Because the Corporation acquired MetroCast very recently, it is not possible to finalize the purchase price allocation. The accounting for the business combination is expected to be completed as soon as the Corporation's management has gathered all of the significant information available and considered necessary in order to finalize this allocation, and such period will not exceed one year from the acquisition date. In addition, since the Corporation has not completed the valuation of the assets acquired and liabilities assumed at the date of acquisition, the final allocation of the purchase price may vary significantly from the amounts used above. The effect may be to re-allocate amounts between the assets acquired, liabilities assumed and goodwill. The amounts, if any, are not presently determinable.

(in thousands of Canadian dollars, except as indicated otherwise)

4.3 Adjustments

a) Operating expenses

The unaudited pro forma consolidated statements of profit or loss for the year ended August 31, 2017 and for the three-month period ended November 30, 2017 reflect an adjustment to include additional corporate expenses, comprised mainly of salary and administrative expenses.

b) Integration and acquisition costs

The unaudited pro forma consolidated statement of profit or loss for the year ended August 31, 2017 reflects an adjustment to include all acquisition and integration costs incurred in relation to the acquisition.

c) Depreciation and amortization

The Corporation has appointed a third party to assist in determining the fair value of the acquired property, plant and equipment ("PP&E") and intangible assets.

Assuming the acquired PP&E and intangible assets had been recognized at fair value on September 1, 2016 and depreciated over their respective remaining useful life, the unaudited pro forma consolidated statement of profit or loss reflects an increase in depreciation and amortization expense of $28.5 million (US$21.6 million) for the year ended August 31, 2017, and $6.9 million (US$5.5 million) for the three-month period ended November 30, 2017.

d) Financial expense

Adjustments to financial expense to reflect the settlement of pre-existing debt issued under the First Lien Credit Facilities, the issuance of a new Senior Secured Term Loan B and Senior Secured Revolving Credit Facility are as follows, assuming the pre-existing First Lien Credit Facilities had been settled and the new financing structure had been in place on September 1, 2016:

	Three months ended November 30, 2017	Year ended August 31, 2017
	$	$
Directly attributable transaction costs on pre-existing debt (1)	-	7,691
Interest expense on pre-existing debt (2)	(6,607)	(26,909)
Amortization of directly attributable transaction costs on new borrowings (3)	1,655	6,861
Interest expense on new borrowings (4)	23,366	98,327
MetroCast's financial expense excluded from the business combination	(6,474)	(25,030)
	11,940	60,940

1) Expense the unamortized deferred transaction costs, in connection with the pre-existing debt (US$5.9 million)
2) Interest expense in connection with the pre-existing debt
3) Amortization of directly attributable transactions costs incurred in connection with the new borrowings
4) Interest expense for the period in connection with the new borrowings

e) Income taxes

The adjustments to income taxes reflect changes to taxable income relating to adjustments explained above at the statutory rate for each specific entity, and to reflect the impact of the tax structure put in place by the Corporation for the acquisition. The Canadian and US statutory rates used in the determination of the adjustments were 26.5% and 40%, respectively.

f) Other assets

The pro forma adjustment is made to present the deferred financing costs in connection with the Senior Secured Revolving Credit Facility.

(in thousands of Canadian dollars, except as indicated otherwise)

g) Property, plant and equipment

The pro forma adjustment for PP&E of $114.8 million (US$89.1 million) was made in order to adjust the MetroCast historical book value of PP&E to their estimated fair values. The estimated fair value of PP&E acquired was $305.6 million (US$237.1 million), whereby the historical MetroCast PP&E was $190.8 million (US$148 million).

h) Intangible assets

Intangible assets acquired represent Franchises and Customer Relationships. The estimated fair value of these intangible assets is $899.3 million (US$697.8 million). The pro forma adjustment for Intangible assets of $700.1 million (US$543.2 million) was made in order to adjust the MetroCast historical book value of Intangible assets of $199.3 million (US$154.6 million) to their estimated fair values.

i) Goodwill

The preliminary estimate of goodwill related to the MetroCast acquisition is $605.1 million (US$469.5 million) (see Note 4.2). The pro forma adjustment to Goodwill of $587.2 million (US$455.6 million) was made in order to eliminate the MetroCast historical book value of Goodwill of $17.9 million (US$13.9 million) and adjust to the estimated fair value.

j) Long-term debt

Long-term debt has been adjusted to reflect the issuance of the new Senior Secured Term Loan B and Senior Secured Revolving Credit Facility, net of the reimbursements of the pre-existing debt under the First Lien Credit Facilities and related unamortized financing costs.

	$
Issuance of new debt	1,462,345
Unamortized defered financing costs	(49,567)
Acquisition costs	21,198
Expense of unamortized deferred transaction costs in connection with the pre-existing debt	7,356
	1,441,332
Current	10,955
Non-Current	1,430,377
	1,441,332

k) Retained Earnings

Retained earnings of MetroCast are eliminated in the pro forma adjustments, as well as the recognition of acquisition costs, expense of unamortized financing fees in connection with the pre-existing debt under the First Lien Credit Facilities and the effect of changes in ownership of a subsidiary on non-controlling interest.

	$
Acquisition costs	21,198
Expense of unamortized deferred transaction costs in connection with the pre-existing debt	7,356
Effect of changes in ownership of a subsidiary on non-controlling interest	(98,198)
MetroCast retained earnings	410,034
	340,390

l) Equity attributable to non-controlling interest

Equity attributable to non-controlling interest represents the 21% equity interest by CDPQ in the Atlantic Broadband subsidiary, taking into consideration the effect of changes in ownership of a subsidiary on non-controlling interest.

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SCHEDULE B - COMBINED CONSOLIDATED FINANCIAL STATEMENTS OF METROCAST

MetroCast Cablevision of New Hampshire, LLC and Gans Communications, L.P.

Combined Financial Statements as of and for the Years Ended December 31, 2017 and 2016 (unaudited) and Independent Auditors’ Report

METROCAST CABLEVISION OF NEW HAMPSHIRE, LLC AND GANS COMMUNICATIONS, L.P.

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers
Harron Communications, LLC
Frazer, Pennsylvania

We have audited the accompanying combined financial statements of MetroCast Cablevision of New Hampshire, LLC and Gans Communications, L.P. (together, the "Company"), which comprise the combined balance sheet as of December 31, 2017, and the related combined statements of operations and changes in partners' deficiency, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of MetroCast Cablevision of New Hampshire, LLC and Gans Communications, L.P. as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the combined entities comprising the Company have historically operated as subsidiaries of Harron Communications, L.P. and not as stand-alone companies. Financial statements representing the operations of the Company have been derived from Harron Communications, L.P.'s accounting records and are presented on a carve-out basis. All revenues and costs as well as assets and liabilities directly associated with the business activity of the Company are included in the combined financial statements. However, amounts recognized by the Company are not necessarily representative of the amounts that would have been reflected in the combined financial statements had the Company operated independently of Harron Communications, L.P. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying combined balance sheet as of December 31, 2016, and the related combined statements of operations and changes in partners' deficiency, and cash flows for the year then ended, and the related notes to the combined financial statements were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Deloitte & Touche LLP

April 4, 2018

METROCAST CABLEVISION OF NEW HAMPSHIRE, LLC AND GANS COMMUNICATIONS, L.P.

COMBINED BALANCE SHEETS

(in thousands)

	December 31, 2017	December 31, 2016 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,303	$ 13,404
Cash held in escrow		5,008
Accounts receivable, less allowance for doubtful accounts of $114 and $126	12,614	12,593
Other current assets	1,475	1,178
Total current assets	21,392	32,183
NONCURRENT ASSETS		
Interest rate swaps	355	
Property, plant and equipment	426,679	406,771
Accumulated depreciation	(278,661)	(253,296)
Property, plant and equipment — net	148,018	153,475
Franchise costs	154,334	154,334
Goodwill — net of accumulated amortization of $9,277 and $6,958	13,915	16,234
Franchise renewal costs — net of accumulated amortization of $1,492 and $1,405	270	327
Total noncurrent assets	316,892	324,370
TOTAL ASSETS	$ 338,284	$ 356,553
LIABILITIES AND PARTNERS' DEFICIENCY		
LIABILITIES		
Current liabilities		
Accounts payable	$ 8,011	$ 8,421
Accrued expenses	17,692	17,370
Current portion of long-term debt	22,500	16,875
Total current liabilities	48,203	42,666
Long-term debt — net of unamortized debt issuance costs of $6,536 and $5,923	423,089	410,327
Deferred income taxes	4,261	4,594
Total liabilities	475,553	457,587
COMMITMENTS AND CONTINGENCIES (Note 9)		
PARTNERS' DEFICIENCY	(137,269)	(101,034)
TOTAL LIABILITIES AND PARTNERS' DEFICIENCY	$ 338,284	$ 356,553

See notes to combined financial statements.

METROCAST CABLEVISION OF NEW HAMPSHIRE, LLC
AND GANS COMMUNICATIONS, L.P.

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN PARTNERS' DEFICIENCY

(in thousands)

	Year Ended December 31, 2017	2016 (unaudited)
REVENUES	$ 227,496	$ 218,411
COSTS AND EXPENSES		
Operating	86,736	84,445
General and administrative	34,529	34,272
Depreciation and amortization	32,841	34,018
Loss on asset disposals, net	97	124
Total costs and expenses	154,203	152,859
OPERATING INCOME	73,293	65,552
OTHER (EXPENSES) INCOME		
Interest expense	(18,173)	(17,336)
Amortization of debt issuance costs	(1,611)	(1,725)
Senior Notes redemption premium		(8,511)
Financing costs	(947)	(1,027)
Write-off of debt issuance costs		(9,978)
Interest income	64	23
Derivative gain	355	151
Total other expenses	(20,312)	(38,403)
INCOME BEFORE STATE INCOME TAX (EXPENSE) BENEFIT	52,981	27,149
STATE INCOME TAX (EXPENSE) BENEFIT	(718)	2,257
NET INCOME	52,263	29,406
PARTNERS' DEFICIENCY		
Beginning of year	(101,034)	(50,716)
Distributions to partner	(88,498)	(79,724)
End of year	$ (137,269)	$ (101,034)

See notes to combined financial statements.

METROCAST CABLEVISION OF NEW HAMPSHIRE, LLC
AND GANS COMMUNICATIONS, L.P.

COMBINED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31, 2017	Year Ended December 31, 2016 (unaudited)
OPERATING ACTIVITIES		
Net income	$ 52,263	$ 29,406
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	32,841	34,018
Loss on asset disposals, net	97	124
Amortization of Senior Notes premium		(241)
Amortization of debt issuance costs	1,611	1,725
Senior Notes redemption premium		8,511
Write-off of debt issuance costs		9,978
Derivative gain	(355)	(151)
Non-cash state income tax benefit	(333)	(1,995)
Changes in assets and liabilities which (used) provided cash:		
Accounts receivable	(21)	(916)
Other current assets	(297)	4
Accounts payable and accrued expenses	280	(7,132)
Net cash provided by operating activities	86,086	73,331
INVESTING ACTIVITIES		
Cash paid for property, plant and equipment	(25,808)	(29,851)
Franchise renewal costs	(30)	(45)
Proceeds from asset disposals, net	365	214
Receipts of cash held in escrow	5,008	15,006
Net cash used in investing activities	(20,465)	(14,676)
FINANCING ACTIVITIES		
Borrowings	61,875	450,000
Debt repayments	(42,875)	(416,833)
Debt issuance costs	(2,224)	(7,046)
Distributions to partner	(88,498)	(79,724)
Net cash used in financing activities	(71,722)	(53,603)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,101)	5,052
CASH AND CASH EQUIVALENTS — beginning of year	13,404	8,352
CASH AND CASH EQUIVALENTS — end of year	$ 7,303	$ 13,404
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 18,099	$ 24,451
Cash paid for state income taxes	$ 1,550	$ 410
Capital expenditures purchased on account - non-cash investing activity	$ 867	$ 1,235

See notes to combined financial statements.

1. OPERATIONS AND ORGANIZATION

MetroCast Cablevision of New Hampshire, LLC and Gans Communications, L.P. (together, the "Company") are subsidiaries of Harron Communications, L.P. ("HCLP"). Through December 31, 2017, the Company managed and operated cable systems serving residential and business customers in five states. As of December 31, 2017, the Company's systems served approximately 74,000 video customers, 125,000 high-speed Internet customers and 36,000 telephone customers.

Effective January 1, 2018, the Company sold substantially all of its assets to Atlantic Broadband Finance, LLC, a subsidiary of Cogeco Communications, Inc., for $1.4 billion (the "Sale Transaction"). The asset purchase agreement relating to the Sale Transaction stipulates customary post-closing purchase price adjustments relating to the closing asset and liability balances. Such post-closing purchase price adjustments are expected to be settled in 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The combined entities comprising the Company have historically operated as subsidiaries of HCLP and not as stand-alone companies. Financial statements representing the historical operations of the Company have been derived from HCLP's consolidated accounting records and are presented on a carve-out basis. All revenues and costs as well as assets and liabilities directly associated with the business activity of the Company are included in the combined financial statements. However, amounts recognized by the Company are not necessarily representative of the amounts that would have been reflected in the combined financial statements had the Company operated independently of HCLP. All intercompany accounts and transactions among the combined entities have been eliminated.

The 2016 information presented in these combined financial statements is unaudited.

Use of Estimates — The combined financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP"), which requires management to make estimates that affect the reported amounts and disclosures. Actual results could differ from these estimates. Estimates are used when accounting for various items, such as allowances for doubtful accounts, asset impairments, derivative financial instruments, programming-related liabilities and expenses, revenue recognition, depreciation and amortization expense, and income taxes.

Cash and Cash Equivalents — The Company considers all highly liquid financial instruments with maturities of less than three months when purchased to be cash equivalents. The carrying amounts of the Company's cash equivalents approximate their fair value.

Property, Plant and Equipment — Property, plant and equipment are stated at cost and include the cost of material, labor, and certain indirect costs incurred in construction and customer installations. Expenditures which extend asset lives are capitalized and normal maintenance and repairs are charged to operating expenses as incurred. For assets that are sold or retired, the applicable cost and accumulated depreciation are removed and any gain or loss is recognized in the Company's combined statement of operations. The costs associated with the construction of and improvements to cable transmission and distribution facilities and service installations are capitalized. Costs include all direct labor and materials, as well as certain indirect costs. Depreciation expense is recorded using the straight-line method over the asset's estimated useful life. See Note 3 for the components of property, plant and equipment.

Intangible Assets — Franchise costs represent the cost of acquired cable franchise rights. Franchise costs are not amortized because they are considered indefinite life intangible assets and, for each franchise, such determination is reassessed periodically or whenever events or substantive changes in circumstances occur. Goodwill is the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Goodwill is amortized on a straight-line basis over 10 years and goodwill amortization expense was $2.3 million in each of the years ended December 31, 2017 and 2016. Franchise renewal costs, which include costs incurred to negotiate and renew franchise agreements, are amortized on a straight-line basis over 10 years. Debt issuance costs are amortized over the term of the related debt.

Carrying Value of Long-Lived Assets — The Company evaluates the recoverability and estimated lives of property, plant and equipment and other intangible assets whenever events or substantive changes in circumstances indicate that the carrying value may not be recoverable or the useful life has changed. Such evaluation is based upon current anticipated undiscounted cash flows and profitability information. The Company would recognize an impairment charge when it is probable that such estimated cash flows are less than the carrying value of the asset. The amount of the impairment, if any, is based upon the difference between the carrying value and the fair value.

The Company evaluates the recoverability of its goodwill only when a triggering event occurs. Upon the occurrence of such an event, the Company would test goodwill for impairment by comparing the fair value of the Company to its carrying value, using a combination of a multiple of operating income before depreciation and amortization ("EBITDA") generated by the underlying assets and discounted cash flow analyses. The EBITDA multiple used in the Company's evaluation would be determined based on the Company's analyses of current market transactions, profitability information, including estimated future operating results, trends, or other determinants of fair value. If the value of the Company determined by these evaluations is less than its carrying amount, an impairment charge would be recognized for the difference between the estimated fair value and the carrying value of the assets, limited to the amount of goodwill.

The Company evaluates the recoverability of its franchise costs annually or more frequently whenever events or changes in circumstances indicate that the assets might be impaired. The assessment of recoverability may first consider qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a unit of account is less than its carrying amount or if an indefinite life intangible asset is impaired. A quantitative assessment is performed if the qualitative assessment results in a more likely than not determination or if a qualitative assessment is not performed. The quantitative estimate of the fair value of franchise costs is primarily based on a discounted cash flow analysis. If the value of the Company's cable franchise costs is less than its carrying amount, an impairment charge is recognized for the difference between the estimated fair value and the carrying value of the assets.

Asset Retirement Obligations — The Company recognizes a liability for asset retirement obligations in the period in which it is incurred if a reasonable estimate of fair value can be made. Certain of the Company's franchise and lease agreements contain provisions requiring the Company to restore facilities or remove property in the event that the franchise or lease agreement is not renewed. The Company expects to continually renew its franchise agreements and therefore cannot estimate any liability associated with such agreements. A remote possibility exists that such franchise agreements could terminate unexpectedly, which could result in the Company incurring significant expense in complying with the restoration or removal provisions. The obligations related to the Company's lease agreements are not material to the Company's combined financial statements or cannot be reasonably estimated. No such liabilities have been recorded in the combined financial statements.

Revenue Recognition — Revenues are principally generated from subscriptions to the Company's video, high-speed Internet and telephone services ("cable services") and from the sale of advertising. The Company recognizes revenues from cable services as the service is provided. Customers are typically billed in advance on a monthly basis. The Company manages credit risk by screening applicants through the use of internal customer information and credit bureau data. If a customer's account is delinquent, various measures are used to collect outstanding amounts, including termination of the customer's cable service. Since installation revenue obtained from the connection of customers to the Company's cable systems is less than the related direct selling costs, such revenues are recognized as connections are completed. The Company recognizes advertising revenue at estimated realizable values when the advertising is aired. Revenues earned from other sources are recognized when services are provided or events occur.

Under the terms of its franchise agreements, the Company is generally required to pay to the local franchise authority an amount based on its gross video revenues earned within the local franchise area. The Company normally passes these fees through to its cable customers and classifies the fees as a component of revenue with the corresponding costs included in general and administrative expenses. In 2017 and 2016, the Company collected franchise fees of $3.1 million and $3.2 million, respectively. The Company presents other taxes imposed on a revenue-producing transaction as revenue if it acts as a principal or a reduction in operating expenses if it acts as an agent.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 updates the accounting guidance related to revenue recognition. The updated accounting guidance provides a single, contract-based revenue recognition model to help improve financial reporting by providing clearer guidance on when an entity should recognize revenue and by reducing the number of standards to which entities have to refer. The updated accounting guidance is effective for the Company as of January 1, 2019, with early adoption permitted two years earlier. The updated accounting guidance provides companies with alternative methods of adoption. The Company is in the process of determining the impact that the updated accounting guidance will have on its combined financial statements and its method of adoption.

Programming Expenses — Programming expenses, which are included in operating expenses in the Company's combined statements of operations, are the fees the Company pays to license the programming distributed to the Company's video customers. Programming is generally acquired under multiyear distribution agreements, with rates typically based on the number of customers that receive the programming, adjusted for channel positioning and the extent of distribution. From time to time these contracts expire and programming continues to be provided based on interim arrangements while the parties negotiate new contractual terms, sometimes with effective dates that affect prior periods. While payments are typically made under the prior contract's terms, the amount of the Company's programming expenses recorded during these interim arrangements is based on estimates of the ultimate contractual terms expected to be negotiated. Differences between actual amounts determined upon resolution of negotiations and amounts recorded during these interim arrangements are recorded in the period of resolution.

Advertising Expenses — Advertising costs are expensed as incurred. Advertising expenses of $2.1 million and $2.3 million are included in operating expenses in the Company's combined statements of operations for the years ended December 31, 2017 and 2016, respectively.

Leases — In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 updates the accounting guidance related to leases. The updated accounting guidance requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. The asset and liability are initially measured based on the present value of lease payments. For a lessee, the recognition, measurement and presentation of expenses and cash flows arising from an operating lease do not significantly change from previous guidance. The updated guidance is effective for the Company on January 1, 2020 and early adoption is permitted. The updated accounting guidance must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is in the process of determining the impact that the updated accounting guidance will have on its combined financial statements. See Note 9 for a summary of the Company's undiscounted minimal rental commitments under operating leases as of December 31, 2017.

Income Taxes — For federal and most state income tax purposes, the taxable income and losses of the Company flow through to its partners. In jurisdictions where the Company is treated as a taxable entity, a provision for state income taxes is reflected in the combined financial statements. No provision for federal or other state income taxes is included in the accompanying combined financial statements. See Note 8 for further information.

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities relating to jurisdictions in which the Company is subject to state income taxes. The impact on deferred taxes of changes in tax rates and laws, if any, applied to the periods during which temporary differences are expected to be settled, is reflected in the combined financial statements in the period of enactment.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company determines that it is not more likely than not that it will be able to realize its deferred tax assets in the future, the Company would record a valuation allowance. The Company evaluates income tax reserves annually to determine if any adjustments are required.

The Company records income tax liabilities and/or assets in accordance with Accounting Standards Codification Topic No. 740, "Income Taxes" ("ASC 740"). ASC 740 requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. In addition, ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold for each tax position to meet prior to being recognized in the financial statements. ASC 740 requires a two-step approach when evaluating a tax position based on recognition and measurement. When applicable, the Company recognizes interest related to uncertain tax positions as a component of interest expense and penalties related to uncertain tax positions as a component of income tax expense.

Derivative Financial Instruments — The Company uses interest rate swap agreements to manage its exposure to risks associated with fluctuations in interest rates.

The Company records interest rate swaps at fair value in its combined balance sheets. The Company's interest rate swaps are not designated as hedges and, accordingly, changes in the fair value of the swaps are recorded in derivative gain in the Company's combined statements of operations. Amounts paid or received under the Company's interest rate swap agreements are recorded as interest expense in the Company's combined statements of operations.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (in thousands):

	Useful Life (years)	December 31, 2017	December 31, 2016 (unaudited)
Central reception facilities, distribution systems, and technical equipment	7–15	$ 359,987	$ 343,960
Vehicles, office and other equipment, and leasehold improvements	3–10	53,022	49,580
Buildings	25	9,714	9,447
Land		2,404	2,404
Parts and supplies		1,552	1,380
Total property, plant and equipment		426,679	406,771
Accumulated depreciation		(278,661)	(253,296)
Total property, plant and equipment — net		$ 148,018	$ 153,475

Depreciation expense in 2017 and 2016 was $30.5 million and $31.6 million, respectively.

4. INTANGIBLE ASSETS

Amortization expense, including amortization of debt issuance costs, in 2017 and 2016 was $4.0 million and $4.1 million, respectively.

Estimated amortization expense, including amortization of debt issuance costs, for each of the next five years is as follows (in thousands):

Year Ending December 31,	
2018	$ 4,001
2019	3,933
2020	3,881
2021	3,830
2022	2,707

5. DEBT

Debt consists of the following (in thousands):

	December 31, 2017	December 31, 2016 (unaudited)
Term Loan	$ 283,125	$ 283,125
Revolving Credit Loan	169,000	150,000
Total	452,125	433,125
Current portion	22,500	16,875
Debt issuance costs (net of accumulated amortization of of $2,734 and $1,123)	6,536	5,923
Long-term debt, net	$ 423,089	$ 410,327

In March 2016, the Company entered into a Credit Agreement (the "Credit Agreement") that provided for an initial term loan of $300 million (the "Term Loan") and borrowings of up to $200 million under a revolving credit loan (the "Revolving Credit Loan"), of which $150 million was borrowed at closing. Of the $450 million in proceeds from borrowings under the Credit Agreement, $412.9 million was used to retire then outstanding debt, including accrued interest and an early redemption premium. The remaining proceeds were used to pay debt issuance costs of $7.0 million and for general corporate purposes.

In connection with entering into the Credit Agreement, the Company paid HEC (as defined in Note 10) a transaction fee of $1.0 million, which is recorded in financing costs in the Company's combined statement of operations for the year ended December 31, 2016. In addition, the Company recorded a write-off of unamortized debt issuance costs of $10.0 million.

In March 2017, the Company entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement"). Under the Amended Credit Agreement, the Company increased its borrowing under the Term Loan by $16.9 million resulting in an outstanding Term Loan balance of $300.0 million. In addition, available borrowings under the Revolving Credit Loan increased to $245.1 million, of which an additional $45.0 million was drawn at closing resulting in an outstanding Revolving Credit Loan balance of $195.0 million. Total proceeds from the incremental borrowings of $61.9 million were used to pay transaction costs of $3.1 million and to fund, in part, a distribution to partner. In connection with entering into the Amended Credit Agreement, the Company paid HEC (as defined in Note 10) a transaction fee of $0.8 million, which is recorded in financing costs in the Company's combined statement of operations for the year ended December 31, 2017.

Borrowings on the Revolving Credit Loan were due in 2022 and borrowings under the Term Loan were due on various dates through 2022. Annual debt maturities for the five years after December 31, 2017 under the Amended Credit Agreement were as follows (in thousands):

Year Ending December 31,	
2018	$ 22,500
2019	28,125
2020	30,000
2021	41,250
2022	330,250

In January 2018, all balances outstanding under the Term Loan and the Revolving Credit Loan were repaid with a portion of the proceeds from the Sale Transaction and the Amended Credit Agreement was terminated.

Under the Amended Credit Agreement, variable interest rates were based upon various rates at the option of the Company and were also dependent on the leverage ratio of the Company. On a quarterly basis, the Company paid a commitment fee of 0.500% or 0.375%, dependent on the leverage ratio of the Company, on the unused portion of the Revolving Credit Loan. The weighted average interest rate for the Company's outstanding debt in 2017 and 2016, after considering the effect of the interest rate swaps discussed below, was 3.88% and 4.12%, respectively.

The Amended Credit Agreement was collateralized by substantially all assets of the Company and required the Company to maintain certain financial ratios and stipulated, among other things, limitations on additional borrowings, investments, transactions with affiliates, and distributions.

The Company was exposed to the market risk of adverse changes in interest rates. To manage its interest rate risk, the Company entered into interest rate swap ("Interest Rate Swaps") agreements. As of December 31, 2017, the aggregate fair value asset of the Company's Interest Rate Swaps was $0.4 million. The net change in the fair value of the Interest Rate Swaps in 2017 and 2016 of $0.4 million and $0.2 million, respectively, has been recorded as derivative gain in the Company's combined statements of operations.

As of December 31, 2017, the total notional amount of the Company's Interest Rate Swaps was $50.0 million, with an effective average interest rate of 1.71%. The Interest Rate Swaps outstanding as of December 31, 2017 matured in 2020. Settlement dates were the last business day of each quarterly period for swaps with 3-month LIBOR receive rates and the last business day of each month for swaps with 1-month LIBOR receive rates. The receive rate for notional amount of $25.0 million was equal to the 3-month LIBOR rate, which was 1.69% as of December 31, 2017. The receive rate for notional amount of $25.0 million was equal to the 1-month LIBOR rate, which was 1.57% as of December 31, 2017.

In January 2018, the Interest Rate Swaps outstanding as of December 31, 2017 were terminated by the Company. In connection with such terminations, the Company received $0.4 million.

6. FAIR VALUE MEASUREMENTS

U.S. GAAP related to financial assets and financial liabilities ("financial instruments") establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach). The levels of the hierarchy are described below:

Level 1 — consists of financial instruments whose value is based on quoted market prices for identical financial instruments in an active market.

Level 2 — consists of financial instruments that are valued using models or other valuation methodologies. These models use inputs that are observable either directly or indirectly. Level 2 inputs include (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) pricing models whose inputs are observable for substantially the full term of the financial instrument and (iv) pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the financial instrument.

Level 3 — consists of financial instruments and nonfinancial assets whose values are determined using pricing models that utilize significant inputs that are primarily unobservable, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

An assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial instruments and its classification within the fair value hierarchy. Financial instruments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the classification of any financial instruments or nonfinancial assets within the fair value hierarchy in the periods presented.

Financial instruments that are accounted for at fair value on a recurring basis are presented in the table below (in thousands).

Recurring Fair Value Measures

	Fair value as of December 31, 2017		
	Level 1	**Level 2**	**Level 3**
Assets — Interest Rate Swaps	$	$ 355	$

7. PARTNERS' DEFICIENCY

The Company's profits and losses are allocated to the partners in proportion to their ownership interests. In addition, any distributions shall be made to the partners in proportion to their ownership interests.

8. STATE INCOME TAXES

For the year ended December 31, 2017, the Company's total state income tax expense of $0.7 million consists of a current year tax expense of $1.0 million and a deferred tax benefit of $0.3 million.

For the year ended December 31, 2016, the Company's total state income tax benefit of $2.3 million consists of a current year tax benefit of $3.6 million, offset by deferred tax expense of $1.3 million.

As of December 31, 2017 and 2016, the Company had a net deferred tax liability of $4.3 million and $4.6 million, respectively. Deferred tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2017 and 2016, the deferred tax liability primarily represents the tax effect of the differences in the tax and book basis in the Company's fixed and intangible assets.

In the ordinary course of business, there may be transactions and calculations for which the ultimate income tax determination is uncertain. The Company establishes liabilities for tax-related uncertainties based on estimates of whether, and the extent to which, additional income taxes may be due. These reserves are established when the Company believes that certain positions might be challenged despite the Company's belief that its tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of an income tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the coming year.

In 2016, the Company reversed uncertain income tax positions resulting in a current tax benefit of $3.3 million and a reduction in interest expense of $0.4 million. With few exceptions, the Company's income tax returns are subject to examination by the taxing authorities for tax years ending after December 31, 2013.

9. COMMITMENTS AND CONTINGENCIES

Leases — The Company is obligated under noncancelable operating leases, primarily for office space, that expire in various years, principally through 2022. Rental expense under these leases aggregated $297,000 and $293,000 in 2017 and 2016, respectively. Future minimum lease payments under such noncancelable operating leases for the annual periods subsequent to 2017 are as follows (in thousands):

Year Ending December 31,		
2018	$	157
2019		92
2020		28
2021		28
2022		28
Thereafter		57
Total	$	390

The Company has cancelable operating leases for pole attachments with utility companies. Pole rent amounted to $2.4 million and $2.1 million in 2017 and 2016, respectively.

Contingencies — The Company is subject to legal proceedings and claims that arise in the ordinary course of business. While the resolution of a legal proceeding or claim may have an impact on financial results for the period in which it is resolved, the Company believes that the final disposition with respect to such actions in which it is currently involved, either individually or in the aggregate, will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

10. RELATED PARTY TRANSACTIONS

The Company has entered into a management services agreement with Harron Entertainment Company, LLC ("HEC"), which is the 100% owner of HCLP's general partner. The agreement calls for HEC to provide financial and administrative services in exchange for a monthly fee of 4% of the Company's combined revenues. Total compensation for these services was $9.1 million and $8.7 million in 2017 and 2016, respectively. These fees are included in general and administrative expenses in the Company's combined statements of operations.

During the performance of its duties under the financial services agreement, HEC paid various expenses on behalf of the Company. These payments amounted to $16,000 and $15,000 in 2017 and 2016, respectively, and are reimbursed based on HEC's cost. As of December 31, 2017, the Company had an amount payable to HEC of $0.8 million.

11. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 4, 2018, the date the combined financial statements were available for issuance. Except as discussed elsewhere in the notes to the combined financial statements, no events have occurred that would require adjustment to or disclosure in the combined financial statements.

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