



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

Three and nine-month periods ended May 31, 2017

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 Communications Inc.'s ("Cogeco Communications" 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 Communications believes are reasonable as of the current date. Refer in particular to the "Corporate Objectives and Strategies" and "Fiscal 2017 Financial Guidelines" sections of the Corporation's 2016 annual 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 Communications 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 Corporation's 2016 annual MD&A and the present MD&A. These factors are not intended to represent a complete list of the factors that could affect Cogeco Communications 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 Communications' 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 condensed interim consolidated financial statements and the notes thereto for the three and nine-month periods ended May 31, 2017 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2016 Annual Report.

2. CORPORATE OBJECTIVES AND STRATEGIES

Cogeco Communications Inc. ("Cogeco Communications" or the "Corporation") is dedicated to providing outstanding services to its customers and to increasing shareholder value. The Corporation focuses on optimizing profitability while efficiently managing capital utilization to generate future growth. To achieve these objectives, the Corporation has developed the following strategies:

Canadian and American broadband services	Business information and communications technology ("Business ICT") services
Expanding service offerings, enhancing existing services at attractive prices and seeking value-added acquisitions	Promoting the new branding supported by a people centric culture
Improving the networks with state-of-the-art advanced technologies	Growing our customer base through an enhanced go-to-market strategy with a strong focus on specific horizontal and vertical markets
Improving customer experience and business processes to build on customer loyalty and retention	Rationalizing and expanding our product suite to bring relevant solutions to market, supported by exceptional customer service
Maintaining sound capital management and strict control over spending	Strengthening internal processes and systems to improve operational efficiency and optimize infrastructure
	Optimizing the use of current assets in order to optimize cash flows

The Corporation measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA⁽¹⁾, operating margin⁽¹⁾, free cash flow⁽¹⁾ and capital intensity⁽¹⁾.

2.1 KEY PERFORMANCE INDICATORS

REVENUE

For the nine-month period ended May 31, 2017, revenue increased by \$43.0 million, or 2.6%, to reach \$1.68 billion compared to \$1.63 billion for the same period of fiscal 2016 mainly driven by growths of 5.7% in the American broadband services segment and 2.5% in the Canadian broadband services segment, partly offset by a decrease of 3.0% in the Business ICT services segment.

ADJUSTED EBITDA AND OPERATING MARGIN

For the nine-month period ended May 31, 2017, adjusted EBITDA increased by \$22.1 million, or 3.0%, to reach \$757.8 million compared to \$735.6 million for the same period of fiscal 2016 essentially attributable to the improvement in the Canadian and American broadband services segments, partly offset by a decrease in the Business ICT services segment.

Cogeco Communications' operating margin increased slightly from 45.1% to 45.2% resulting from a higher margin in the Canadian broadband services segment, partly offset by a slightly lower margin in the American broadband services and a decline in the Business ICT services segments.

FREE CASH FLOW

For the nine-month period ended May 31, 2017, Cogeco Communications reported free cash flow of \$322.9 million, an increase of \$123.5 million, or 61.9%, compared to \$199.4 million for the same period of the prior year. The increase is mostly attributable to lower acquisitions of property, plant and equipment, intangible and other assets resulting from the timing of certain initiatives mainly in the Canadian broadband services segment and a greater focus on capital expenditure optimization in the Business ICT services segment. The improvement of adjusted EBITDA combined with last year's claims and litigations and the decrease in integration, restructuring and acquisition costs also contributed to the increase in free cash flow.

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

During the nine-month period ended May 31, 2017, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$282.9 million and revenue to \$1.68 billion for a capital intensity ratio of 16.9% compared to 21.9% in the same period of the prior year resulting from lower acquisitions of property, plant and equipment, intangible and other assets. Despite lower capital expenditures in the first nine months of fiscal 2017, the Corporation expects annual capital expenditures to be within fiscal 2017 guidelines.

In the Canadian broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$154.6 million compared to \$187.5 million for the same period of fiscal 2016. The decrease resulted mainly from a timing difference for purchases of customer premise equipment ("CPE"), scalable infrastructure and line extensions due to the timing of certain initiatives.

(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.

In the American broadband services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$99.4 million compared to \$86.2 million for the same period of fiscal 2016. The increase is mainly due to CPE acquisitions resulting from primary service units ("PSU")⁽¹⁾ growth and the increases in scalable infrastructure and line extensions as a result of the ongoing growth in the business sector combined with network improvement and expansion in some of the areas we serve.

In the Business ICT services segment, the acquisitions of property, plant and equipment, intangible and other assets amounted to \$28.9 million compared to \$83.8 million for the same period of fiscal 2016. The decrease is due to a greater focus on capital expenditure optimization combined with the timing of certain initiatives. In addition, capital expenditures were higher in the comparable period of fiscal 2016 due to the completion of strategic investments at the Kirkland data centre facility.

For further details on the Corporation's capital expenditures please refer to the "Cash flow analysis" section.

3. BUSINESS DEVELOPMENTS AND OTHER

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 non-recourse debt financing at Atlantic Broadband and an equity investment by Caisse de Dépôt et Placement du Québec ("CDPQ") in Atlantic Broadband's holding company. The transaction is subject to usual closing conditions, regulatory approvals and other customary conditions. The Corporation expects the transaction to close in January 2018.

4. OPERATING AND FINANCIAL RESULTS

4.1 OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Revenue	565,158	540,257	4.6	1,675,123	1,632,093	2.6
Operating expenses	306,132	292,555	4.6	903,062	882,566	2.3
Management fees – Cogeco Inc.	4,793	4,587	4.5	14,286	13,888	2.9
Adjusted EBITDA	254,233	243,115	4.6	757,775	735,639	3.0
Operating margin	45.0%	45.0%		45.2%	45.1%	

REVENUE

Fiscal 2017 third-quarter revenue amounted to \$565.2 million, an increase of \$24.9 million, or 4.6%, compared to the same period of the prior year driven by growths of 9.8% in the American broadband services segment and 3.3% in the Canadian broadband services segment combined with stable revenue in the Business ICT services segment.

For the first nine months of fiscal 2017, revenue amounted to \$1.68 billion, an increase of \$43.0 million, or 2.6%, compared to the same period of the prior year driven by growths of 5.7% in the American broadband services segment and of 2.5% in the Canadian broadband services segment, partly offset by a decrease of 3.0% in the Business ICT services segment.

For further details on the Corporation's revenue, please refer to the "Segmented operating results" section.

OPERATING EXPENSES AND MANAGEMENT FEES

Fiscal 2017 third-quarter operating expenses amounted to \$306.1 million, an increase of \$13.6 million, or 4.6%, compared to the same period of the prior year. Operating expenses increased in all of our operating segments. The appreciation of the US dollar against the Canadian dollar has also contributed to the increase.

For the first nine months of fiscal 2017, operating expenses amounted to \$903.1 million, an increase of \$20.5 million, or 2.3%, compared to the same period of the prior year. Operating expenses increased in the Canadian and American broadband services segments and remained essentially the same in the Business ICT services segment.

For further details on the Corporation's operating expenses, please refer to the "Segmented operating results" section.

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

For the three and nine-month periods ended May 31, 2017, management fees paid to Cogeco Inc. amounted to \$4.8 million and \$14.3 million, respectively, compared to \$4.6 million and \$13.9 million for the same periods of fiscal 2016. For further details on the Corporation's management fees, please refer to the "Related party transactions" section.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and nine-month periods ended May 31, 2017, adjusted EBITDA increased by \$11.1 million, or 4.6%, to reach \$254.2 million, and by \$22.1 million, or 3.0%, to reach \$757.8 million, respectively. For both periods, the increase in adjusted EBITDA resulted from the improvement in the Canadian and American broadband services segments, partly offset by a decline in the Business ICT service segment.

Fiscal 2017 third-quarter operating margin remained stable at 45.0% and increased slightly for the first nine months of fiscal 2017 from 45.1% to 45.2% compared to the same periods of fiscal 2016 as a result of higher margins in the Canadian broadband services segment, partly offset by slightly lower margins in the American broadband services and a decline in the Business ICT services segments.

For further details on the Corporation's adjusted EBITDA and operating margin, please refer to the "Segmented operating results" section.

4.2 FIXED CHARGES

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Depreciation and amortization	119,597	123,928	(3.5)	357,926	378,664	(5.5)
Financial expense	31,792	32,792	(3.0)	96,357	101,984	(5.5)

Fiscal 2017 third-quarter depreciation and amortization expense decreased by \$4.3 million, or 3.5%, to reach \$119.6 million compared to the same period of the prior year mainly due to certain assets being fully amortized and the impairment of intangible assets recognized in the third quarter of fiscal 2016, partly offset by the appreciation of the US dollar against the Canadian dollar and higher acquisitions of property, plant and equipment. For the nine-month period ended May 31, 2017, depreciation and amortization expense decreased by \$20.7 million, or 5.5%, to reach \$357.9 million compared to the same periods of 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.

For the three and nine-month periods ended May 31, 2017, financial expense decreased by \$1.0 million, or 3.0%, to reach \$31.8 million, and by \$5.6 million, or 5.5%, to reach \$96.4 million, respectively, compared to the same periods of the prior year mainly due to a lower level of Indebtedness as a result of generated free cash flow. In addition, the decrease in financial expense in the quarter was partly offset by the appreciation of the US dollar against the Canadian dollar.

4.3 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

During the third quarter of fiscal 2016, the Corporation recorded a non-cash pre-tax impairment of goodwill and intangible assets of \$450 million related to its Business ICT segment.

The impairment of goodwill and intangible assets that affected the Corporation's financial results for the three and nine-month periods ended May 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

4.4 CLAIMS AND LITIGATIONS

During the third quarter of fiscal 2016, the Corporation's subsidiary, Cogeco Peer 1, recognized an amount of \$10.5 million related to the settlement of claims and costs related to litigations.

4.5 INCOME TAXES

For the three and nine-month periods ended May 31, 2017, income taxes increased by \$14.5 million and \$24.4 million, to reach \$26.6 million and \$75.6 million, respectively, compared to the same periods of the prior year. The increase for both periods is mainly attributable to a profit before income taxes compared to a loss before income taxes in the same periods of 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 \$1.7 million for the nine-month period ended May 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 \$1.3 million for the first nine months of fiscal 2016.

4.6 PROFIT (LOSS) FOR THE PERIOD

For the three-month period ended May 31, 2017, profit for the period amounted to \$76.2 million, or \$1.55 per share compared to a loss for the period of \$387.4 million, or \$7.89 per share for the same period of the prior year. For the nine-month period ended May 31, 2017, profit for the period amounted to \$227.9 million, or \$4.63 per share compared to a loss for the period of \$264.2 million, or \$5.39 per share for the same period of the prior year. The progression for both periods resulted from last year's non-cash pre-tax impairment of goodwill and intangible assets of \$450 million and the claims and litigations of \$10.5 million which both occurred in the Business ICT services 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.

4.7 CUSTOMER STATISTICS

	May 31, 2017			Net additions (losses) Quarters ended		Net additions (losses) Nine months ended	
	Consolidated	Canada	United States	May 31, 2017	May 31, 2016	May 31, 2017 ⁽²⁾	May 31, 2016
PSU ⁽¹⁾	2,534,925	1,926,537	608,388	(1,951)	(3,338)	24,928	14,097
Video service customers	967,020	729,701	237,319	(9,977)	(8,928)	(17,374)	(22,252)
Internet service customers	1,034,686	764,350	270,336	11,167	10,382	46,513	43,068
Telephony service customers	533,219	432,486	100,733	(3,141)	(4,792)	(4,211)	(6,719)

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

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

VIDEO

For the three and nine-month periods ended May 31, 2017, video service customers net losses stood at 9,977 and 17,374, respectively, compared to 8,928 and 22,252 for the same periods of fiscal 2016. The higher decrease in the quarter resulted mainly from competitive offers in the industry and the changing video consumption environment. The loss reduction for the first nine months 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.

INTERNET

For the three and nine-month periods ended May 31, 2017, Internet service customers net additions amounted to 11,167 and 46,513, respectively, compared to 10,382 and 43,068 for the same periods of fiscal 2016. The net additions stemmed from the customers' ongoing interest in high speed offerings and in TiVo's services which requires an Internet subscription, the continued growth of Internet resellers' customers and from the business sector as well as sustained interest in bundle offers.

TELEPHONY

For the three and nine-month periods ended May 31, 2017, telephony service customers net losses stood at 3,141 and 4,211, respectively, compared to 4,792 and 6,719 for the same periods of fiscal 2016. The loss reduction for both periods are 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.

For further details on the Corporation's customer statistics, please refer to the "Segmented operating results" section.

5. RELATED PARTY TRANSACTIONS

Cogeco Communications is a subsidiary of Cogeco Inc. ("Cogeco"), which holds 31.7% of the Corporation's equity shares, representing 82.3% of the Corporation's voting shares.

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

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the first nine months ended May 31, 2017, the Corporation granted 81,350 (71,650 in 2016) stock options, did not grant any Incentive Share Units ("ISUs") and granted 12,150 (11,150 in 2016) Performance Share Units ("PSUs") to these executive officers as executive officers of Cogeco Communications. During the three and nine-month periods ended May 31, 2017, the Corporation charged Cogeco \$163,000 and \$465,000 (\$162,000 and \$442,000 in 2016), \$2,000 and \$37,000 (\$69,000 and \$248,000 in 2016) and \$177,000 and \$483,000 (\$135,000 and \$364,000 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 Cogeco, by which a revolving credit facility was established in favour of the Corporation. The maximum principal amount of the facility is set at \$40 million and the full amount was advanced to the Corporation as of the signing date. The credit facility is payable on demand and the interest is calculated on the daily outstanding balance at an annual rate equivalent to the Corporation's Canadian Revolving Facility. During the third quarter of fiscal 2017, the intercompany loan was fully repaid by the Corporation.

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

6. CASH FLOW ANALYSIS

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Cash flow from operating activities	241,689	181,498	610,700	483,545
Cash flow from investing activities	(100,212)	(94,934)	(275,242)	(356,752)
Cash flow from financing activities	(85,498)	(62,268)	(296,600)	(235,141)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	253	(256)	923	(60)
Net change in cash and cash equivalents	56,232	24,040	39,781	(108,408)
Cash and cash equivalents, beginning of the period	45,835	30,718	62,286	163,166
Cash and cash equivalents, end of the period	102,067	54,758	102,067	54,758

6.1 OPERATING ACTIVITIES

Fiscal 2017 third-quarter cash flow from operating activities reached \$241.7 million, representing an increase of \$60.2 million, or 33.2%, compared to the same period of the prior year mainly as a result of the following:

- the improvement of \$11.1 million in adjusted EBITDA;
- the decrease of \$39.3 million in income taxes paid as a result of the timing of payments related to the deferral until early fiscal 2018, of income tax installments pursuant to a corporate structure reorganization of the Canadian broadband services segment subsidiaries; and
- last year's claims and litigations of \$10.5 million; partly offset by
- the decrease of \$7.2 million in changes in non-cash operating activities primarily due to changes in working capital.

For the first nine months of fiscal 2017, cash flow from operating activities reached \$610.7 million, representing an increase of \$127.2 million, or 26.3%, compared to the same period of the prior year mainly as a result of the following:

- the improvement of \$22.1 million in adjusted EBITDA;
- the decrease of \$98.9 million in income taxes paid as a result of the timing of payments related to the deferral until early fiscal 2018, of income tax installments pursuant to a corporate structure reorganization of the Canadian broadband services segment subsidiaries;
- last year's claims and litigations of \$10.5 million; and
- the decrease of \$9.7 million in financial expense paid; partly offset by
- the decrease of \$21.6 million in changes in non-cash operating activities primarily due to changes in working capital.

6.2 INVESTING ACTIVITIES

For the three and nine-month periods ended May 31, 2017, investing activities increased by \$5.3 million, or 5.6%, to reach \$100.2 million, and decreased by \$81.5 million, or 22.8%, to reach \$275.2 million, respectively, compared to the same periods of fiscal 2016. The variation for both periods is mainly explained by the acquisitions of property, plant and equipment, intangible and other assets as explained below.

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

Investing activities, including acquisition of property, plant and equipment segmented according to the *National Cable Television Association* ("NCTA") standard reporting categories, are as follows:

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Customer premise equipment ⁽¹⁾	33,201	22,421	102,967	122,194
Scalable infrastructure ⁽²⁾	22,497	8,914	51,987	43,557
Line extensions	13,758	9,557	35,296	41,871
Upgrade / Rebuild	5,178	4,112	12,462	13,142
Support capital	11,145	13,781	39,793	41,022
Acquisition of property, plant and equipment - Canadian and American broadband services	85,779	58,785	242,505	261,786
Acquisition of property, plant and equipment - Business ICT services	9,668	30,844	26,047	79,820
Acquisition of property, plant and equipment - Head office	—	—	—	26
Acquisitions of property, plant and equipment	95,447	89,629	268,552	341,632
Acquisition of intangible and other assets - Canadian and American broadband services	3,778	4,235	11,445	11,889
Acquisition of intangible and other assets - Business ICT services	977	578	2,898	3,972
Acquisitions of intangible and other assets	4,755	4,813	14,343	15,861
	100,202	94,442	282,895	357,493

(1) Includes mainly home terminal devices as well as new and replacement drops.

(2) Includes mainly head-end equipment, digital video, telephony and Internet equipments.

For the three and nine-month periods ended May 31, 2017, acquisitions of property, plant and equipment amounted to \$95.4 million and \$268.6 million, respectively, compared to \$89.6 million and \$341.6 million for the same periods of the prior year.

For the three and nine-month periods ended May 31, 2017, acquisitions of intangible and other assets amounted to \$4.8 million and \$14.3 million, respectively, compared to \$4.8 million and \$15.9 million for the same periods of the prior year.

The most significant variances are as follows:

CANADIAN BROADBAND SERVICES SEGMENT

- Fiscal 2017 third-quarter and first nine months acquisitions of property, plant and equipment amounted to \$54.8 million and \$146.7 million, respectively, representing an increase of \$21.0 million and a decrease of \$31.8 million, or 62.0% and 17.8%, compared to the same periods of the prior year. The variation for both periods resulted mainly from a timing difference for purchases of customer premise equipment ("CPE"), scalable infrastructure and line extensions due to the timing of certain initiatives;
- For the three and nine-month periods ended May 31, 2017, acquisitions of intangible and other assets amounted to \$2.5 million and \$7.8 million, respectively, compared to \$3.2 million and \$8.9 million for the same periods of fiscal 2016; and
- For the nine-month period ended May 31, 2017, capital intensity reached 15.9% compared to 19.8% for the same period of fiscal 2016 mainly as a result of a decrease in acquisitions of capital expenditures.

AMERICAN BROADBAND SERVICES SEGMENT

- Fiscal 2017 third-quarter and first nine months acquisitions of property, plant and equipment amounted to \$31.0 million and \$95.8 million, respectively, representing increases of \$6.0 million and \$12.6 million, or 24.1% and 15.1%, compared to the same periods of the prior year. The increase for both periods is mainly due to CPE acquisitions resulting from PSU growth and the increases in scalable infrastructure and line extensions as a result of the ongoing growth in the business sector combined with network improvement and expansion in some of the areas we serve. The appreciation of the US dollar against the Canadian dollar also contributed to the growth in capital expenditures for the quarter compared to the same period of fiscal 2016;
- For the three and nine-month periods ended May 31, 2017, acquisitions of intangible and other assets amounted to \$1.3 million and \$3.6 million, respectively, compared to \$1.0 million and \$2.9 million for the same periods of fiscal 2016; and
- For the nine-month period ended May 31, 2017, capital intensity reached 20.5% compared to 18.8% for the same period of the prior year as a result of capital expenditures growth exceeding revenue growth.

BUSINESS ICT SERVICES SEGMENT

- Fiscal 2017 third-quarter and first nine months acquisitions of property, plant and equipment amounted to \$9.7 million and \$26.0 million, respectively, representing decreases of \$21.2 million and \$53.8 million, or 68.7% and 67.4%, compared to the same periods of the prior year. The decrease for both periods is due to a greater focus on capital expenditure optimization combined with the timing of certain initiatives. In addition, capital expenditures were higher in the comparable periods of fiscal 2016 due to strategic investments at the Kirkland data centre facility;
- For the three and nine-month periods ended May 31, 2017, acquisitions of intangible and other assets amounted to \$1.0 million and \$2.9 million, respectively, compared to \$0.6 million and \$4.0 million for the same periods of fiscal 2016; and
- For the nine-month period ended May 31, 2017, capital intensity reached 13.1% compared to 36.8% for the same period of the prior year mainly as a result of a decrease in acquisitions of property, plant and equipment, intangible and other assets, partly offset by a decline in revenue.

BUSINESS COMBINATION IN FISCAL 2017

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

6.3 FREE CASH FLOW AND FINANCING ACTIVITIES

FREE CASH FLOW

Fiscal 2017 third-quarter free cash flow amounted to \$104.7 million, an increase of \$20.1 million, or 23.7%, compared to \$84.7 million for the same period of the prior year mainly due to the following:

- the improvement of \$11.1 million in adjusted EBITDA; and
- last year's claims and litigations of \$10.5 million; partly offset by
- the increase of \$5.8 million in acquisitions of property, plant and equipment, intangible and other assets resulting from the increase in capital expenditures mainly in the Canadian broadband services segment due to the timing of certain initiatives, partly offset by a greater focus on capital expenditure optimization in the Business ICT services segment.

For the first nine months ended May 31, 2017, free cash flow amounted to \$322.9 million, an increase of \$123.5 million, or 61.9%, compared to \$199.4 million during the same period of the prior year mainly due to the following:

- the decrease of \$74.6 million in acquisitions of property, plant and equipment, intangible and other assets resulting from the timing of certain initiatives in the Canadian broadband services segment combined with a greater focus on capital expenditure optimization in the Business ICT services segment;
- the improvement of \$22.1 million in adjusted EBITDA;
- last year's claims and litigations of \$10.5 million; and
- the decrease of \$7.5 million in integration, restructuring and acquisition costs.

FINANCING ACTIVITIES

For the three and nine-month periods ended May 31, 2017, lower Indebtedness levels resulting from debt repayments led to cash decreases of \$64.8 million and \$234.4 million, respectively, compared to cash decreases of \$43.0 million and \$177.3 million, respectively, for the same periods of fiscal 2016.

	Quarters ended			Nine months ended			Explanations
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change	
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	
Increase (decrease) in bank indebtedness	(2,043)	3,534	(5,577)	(748)	26,863	(27,611)	Related to the timing of payments made to suppliers.
Repayment of intercompany note payable - Cogeco Inc.	(40,000)	—	(40,000)	(40,000)	—	(40,000)	Repayment of the short-term intercompany Revolving Credit Facility of \$40 million to the parent company, Cogeco Inc., during the third quarter of fiscal 2017.
Net increases (decreases) under the revolving facilities	(20,326)	(37,238)	16,912	(173,323)	36,459	(209,782)	Repayments of the revolving facilities in both periods in fiscal 2017 as a result of generated free cash flow. Repayments of the revolving facilities during the third quarter of fiscal 2016 as a result of generated free cash flow. Increase under the revolving facilities for the first nine months of fiscal 2016 mainly as a result of the repayment of the US\$190 million Senior Secured Notes Series A maturing in October 2015.
Repayments of long-term debt and settlement of derivative financial instruments	(1,601)	(9,339)	7,738	(19,444)	(240,629)	221,185	Repayments on the First Lien Credit Facilities during the third quarter and the first nine months of fiscal 2017. Repayments on the First Lien Credit Facilities in the third quarter and first nine months of fiscal 2016. For the first nine months of fiscal 2016, repayments 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)	(837)	—	(837)	Repayment of balance due on a business combination during the third quarter of fiscal 2017.
	(64,807)	(43,043)	(21,764)	(234,352)	(177,307)	(57,045)	

DIVIDENDS

During the third quarter of fiscal 2017, a quarterly eligible dividend of \$0.43 per share was paid to the holders of multiple and subordinate voting shares, for a total paid of \$21.2 million compared to a quarterly eligible dividend paid of \$0.39, or \$19.1 million in the third quarter of fiscal 2016. Dividends payments in the first nine months totaled \$1.29 per share, or \$63.5 million, compared to \$1.17 per share, or \$57.3 million, in the prior year.

6.4 DIVIDEND DECLARATION

At its July 13, 2017 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of \$0.43 per share for multiple and subordinate voting shares, payable on August 10, 2017 to shareholders of record on July 27, 2017. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, the amount and frequency may vary.

7. FINANCIAL POSITION

7.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco Communications maintains a working capital deficiency due to a low level of trade and other receivables since a large proportion of the Corporation's customers pay before their services are rendered, while trade and other payables are usually 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:

	May 31, 2017	August 31, 2016	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Current assets				
Cash and cash equivalents	102,067	62,286	39,781	Please refer to the "Cash flow and analysis" section.
Trade and other receivables	101,791	115,435	(13,644)	Mostly related to a change in the billing cycle in the Canadian broadband services segment, partly offset by revenue growth.
Income taxes receivable	8,216	12,701	(4,485)	Non significant.
Prepaid expenses and other	23,980	16,208	7,772	Increase in prepayment of annual maintenance agreements.
Derivative financial instrument	286	1,040	(754)	Non significant.
	236,340	207,670	28,670	
Current liabilities				
Bank indebtedness	3,367	4,115	(748)	Non significant.
Trade and other payables	218,391	289,668	(71,277)	Timing of payments made to suppliers.
Provisions	24,855	30,688	(5,833)	Mostly related to the settlement of claims and litigations in the Business ICT services segment during the third quarter.
Income tax liabilities	83,586	26,680	56,906	Timing of payments of income taxes related to the deferral, until early fiscal 2018, of income tax installments pursuant to a corporate structure reorganization of the Canadian broadband services segment subsidiaries.
Deferred and prepaid revenue	73,743	61,316	12,427	Mostly related to a change in the billing cycle in the Canadian Broadband services segment.
Balance due on a business combination	118	—	118	Non significant.
Intercompany note payable - Cogeco Inc.	—	40,000	(40,000)	Repayment of the short-term intercompany Revolving Credit Facility of \$40 million to the parent company, Cogeco Inc., during the third quarter of fiscal 2017.
Current portion of long-term debt	129,197	22,516	106,681	Mostly related to the \$100 million Senior Unsecured Debenture maturing in March 2018.
	533,257	474,983	58,274	
Working capital deficiency	(296,917)	(267,313)	(29,604)	

7.2 OTHER SIGNIFICANT CHANGES

	May 31, 2017	August 31, 2016	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
Non-current assets				
Property, plant and equipment	1,952,699	1,989,720	(37,021)	Depreciation expense exceeding capital expenditures, partly offset by the appreciation of the US dollar against the Canadian dollar.
Goodwill	1,085,048	1,060,780	24,268	Appreciation of the US dollar against the Canadian dollar.
Non-current liabilities				
Long-term debt	2,597,323	2,838,130	(240,807)	Repayments on the Term Revolving Facility and First Lien Credit Facilities combined with the \$100 million Senior Unsecured Debenture maturing in March 2018, partly offset by the appreciation of the US dollar against the Canadian dollar.
Deferred tax liabilities	622,296	601,127	21,169	Appreciation of the US dollar against the Canadian dollar.

7.3 OUTSTANDING SHARE DATA

A description of Cogeco Communications' share data at June 30, 2017 is presented in the table below. Additional details are provided in Note 12 of the consolidated financial statements.

<i>(in thousands of dollars, except number of shares/options)</i>	Number of shares/options	Amount \$
Common shares		
Multiple voting shares	15,691,100	98,346
Subordinate voting shares	33,774,820	930,815
Options to purchase subordinate voting shares		
Outstanding options	691,342	
Exercisable options	238,863	

7.4 FINANCING

In the normal course of business, Cogeco Communications has incurred financial obligations, primarily in the form of long-term debt, operating and finance leases and guarantees. Cogeco Communications' obligations, as reported in the 2016 Annual Report, have not materially changed since August 31, 2016.

On December 9, 2016, the Corporation amended its Term Revolving Facility resulting in the extension of the maturity date by an additional year until January 24, 2022.

At May 31, 2017, the Corporation had used \$5.4 million of its \$800 million Term Revolving Facility for a remaining availability of \$794.6 million. In addition, two subsidiaries related to Atlantic Broadband benefit from a Revolving Facility of \$202.5 million (US\$150 million), of which \$56.6 million (US\$41.9 million) was used at May 31, 2017 for a remaining availability of \$145.9 million (US\$108.1 million).

7.5 CREDIT RATINGS

On December 14, 2016, strictly as a result of a general change in methodology, S&P Global Ratings lowered its issue-level rating on Cogeco Communications Inc.'s Senior secured debt to « BBB- » from « BBB », following the publication on December 7, 2016 of its revised criteria for rating debt issues of speculative-grade corporate issuers. Under the revised criteria, the ratings of debt instruments issued by companies with an issuer's rating of « BB+ » are now typically not notched up more than one level above the issuer rating. The secured debt rating downgrade to « BBB- » therefore does not reflect a change in Cogeco Communications' underlying credit profile. S&P's secured debt rating is now aligned with DBRS's and Fitch's secured debt ratings.

Pursuant to the announcement of the Metrocast acquisition, all credit ratings for Cogeco Communications and Atlantic Broadband were confirmed.

7.6 FINANCIAL MANAGEMENT

Interest rate risk

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

To reduce such risk, the Corporation entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 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 would represent an increase of approximately \$6.2 million based on the outstanding debt at May 31, 2017.

Foreign exchange risk

The Corporation is exposed to foreign exchange risk with respect to the interest associated with its long-term debt denominated in US dollars. The impact of an increase of 10% in the exchange rate of the US dollar into Canadian dollars would increase financial expense by approximately \$7.5 million based on the outstanding debt at May 31, 2017.

Furthermore, the Corporation's net investments in foreign operations are 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 May 31, 2017:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investment	US\$790 million	US\$901.7 million	Net investments in foreign operations in US dollar
N/A	£—	£29.2 million	N/A

The exchange rates used to convert the US dollar currency and British Pound currency into Canadian dollar for the statement of financial position accounts at May 31, 2017 was \$1.3500 (\$1.3116 at August 31, 2016) per US dollar and \$1.7387 (\$1.7223 at August 31, 2016) per British Pound. A 10% decrease in the exchange rates of the US dollar and British Pound into Canadian dollars would decrease comprehensive income by approximately \$20.1 million.

For the three and nine-month periods ended May 31, 2017, the average rates prevailing used to convert the operating results of the American broadband services and a portion of the Business ICT services segments were as follows:

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
	\$	\$	%	\$	\$	%
US dollar vs Canadian dollar	1.3479	1.2996	3.7	1.3318	1.3370	(0.4)
British Pound vs Canadian dollar	1.7036	1.8669	(8.7)	1.6744	1.9699	(15.0)

The following tables highlight in Canadian dollars, the impact of a 10% increase in the US dollar and British Pound against the Canadian dollar on Cogeco Communications' segmented and consolidated operating results for the three and nine-month periods ended May 31, 2017:

	Canadian broadband services		American broadband services		Business ICT services		Consolidated	
Quarter ended May 31, 2017	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported ⁽¹⁾	Exchange rate impact
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	328,976	—	165,136	16,513	71,857	3,773	565,158	20,286
Operating expenses	154,853	1,125	97,370	9,736	50,068	2,371	306,132	13,232
Management fees - Cogeco Inc.	—	—	—	—	—	—	4,793	—
Adjusted EBITDA	174,123	(1,125)	67,766	6,777	21,789	1,402	254,233	7,054
Acquisitions of property, plant and equipment, intangible and other assets	57,298	1,755	32,259	3,226	10,645	576	100,202	5,557
Free cash flow	—	—	—	—	—	—	104,728	(258)

(1) The consolidated results do not correspond to the addition of the operating segment's results as inter-segment eliminations and other are not presented.

	Canadian broadband services		American broadband services		Business ICT services		Consolidated	
Nine months ended May 31, 2017	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported	Exchange rate impact	As reported ⁽¹⁾	Exchange rate impact
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	971,601	—	485,011	48,495	221,177	11,370	1,675,123	59,865
Operating expenses	462,724	2,637	279,710	27,965	151,596	6,991	903,062	37,593
Management fees - Cogeco Inc.	—	—	—	—	—	—	14,286	—
Adjusted EBITDA	508,877	(2,637)	205,301	20,530	69,581	4,379	757,775	22,272
Acquisitions of property, plant and equipment, intangible and other assets	154,581	4,692	99,369	9,930	28,945	1,669	282,895	16,291
Free cash flow	—	—	—	—	—	—	322,894	680

(1) The consolidated results do not correspond to the addition of the operating segment's results as inter-segment eliminations and other are not presented.

8. SEGMENTED OPERATING RESULTS

The Corporation reports its operating results in three operating segments: Canadian broadband services, American broadband services and Business ICT services. The reporting structure reflects how the Corporation manages its business activities to make decisions about resources to be allocated to the segment and to assess its performance.

8.1 CANADIAN BROADBAND SERVICES

CUSTOMER STATISTICS

	May 31, 2017	Net additions (losses)				% of penetration ⁽²⁾	
		Quarters ended		Nine months ended		May 31, 2017	May 31, 2016
		May 31, 2017	May 31, 2016	May 31, 2017 ⁽¹⁾	May 31, 2016		
PSU	1,926,537	(7,959)	(10,544)	10,273	(4,743)		
Video service customers	729,701	(8,274)	(8,109)	(11,061)	(18,101)	42.3	43.9
Internet service customers	764,350	5,198	3,707	29,841	23,531	44.3	42.8
Telephony service customers	432,486	(4,883)	(6,142)	(8,507)	(10,173)	25.1	26.3

(1) Excludes 2,247 PSU (1,439 video services and 808 Internet services) from a business combination completed in the first quarter of fiscal 2017.

(2) As a percentage of homes passed.

VIDEO

For the three and nine-month periods ended May 31, 2017, video service customers net losses stood at 8,274 and 11,061, respectively, compared to 8,109 and 18,101 for the same periods of the prior year. The variation for both periods is mainly due to the customers' ongoing interest in video product offering, including TiVo's digital advanced video services, as well as bundles with fast Internet offerings, in spite of competitive offers in the industry, service category maturity and a changing video consumption environment.

INTERNET

For the three and nine-month periods ended May 31, 2017, Internet service customers net additions stood at 5,198 and 29,841, respectively, compared to 3,707 and 23,531 for the same periods of the prior year as a result of customers' ongoing interest in high speed offerings and in TiVo's digital advanced video services which requires an Internet subscription, the continued growth of customers from Internet resellers and from the business sector as well as the sustained interest in bundle offers.

TELEPHONY

For the three and nine-month periods ended May 31, 2017, telephony service customers net losses amounted to 4,883 and 8,507, respectively, compared to 6,142 and 10,173 for the same periods of the prior year. The telephony service customer losses are mainly due to the increasing mobile penetration in North America and various unlimited offers launched by mobile operators causing customers to cancel their landline telephony services for mobile telephony services only.

DISTRIBUTION OF CUSTOMERS

At May 31, 2017, 72% (71% in 2016) of the Canadian broadband services customers subscribed to two or more services. The distribution of customers by number of services for the Canadian broadband services were: 28% who subscribe to the single play (29% in 2016), 39% to the double-play (37% in 2016) and 33% to the triple-play (34% in 2016).

OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Revenue	328,976	318,361	3.3	971,601	948,020	2.5
Operating expenses	154,853	153,051	1.2	462,724	457,184	1.2
Adjusted EBITDA	174,123	165,310	5.3	508,877	490,836	3.7
Operating margin	52.9%	51.9%		52.4%	51.8%	

REVENUE

For the three-month period ended May 31, 2017, revenue increased by \$10.6 million, or 3.3%, to reach \$329.0 million. The increase for the quarter is mainly due to the impact of rate increases implemented in December 2016, the continued growth in Internet services customers combined with the movement of customers to higher value packages and the recognition of \$2.1 million non-recurring revenue related to settlements with suppliers. The increase was partly offset by a decline in video and telephony customers as well as the impact of the interim decision of the CRTC, on October 6, 2016, to reduce significantly the third party Internet access ("TPIA") capacity rates.

For the nine-month period ended May 31, 2017, revenue increased by \$23.6 million, or 2.5%, to reach \$971.6 million. Revenue progression for the first nine months is mainly attributable to the impact of rate increases implemented in December 2016 compared to rate increases implemented in February 2016 in the comparable period of the prior year, the continued growth in Internet services customers combined with the movement of customers to higher value packages and the recognition in the third quarter of fiscal 2017 of \$2.1 million non-recurring revenue related to settlements with suppliers. The increase was partly offset by a decline in video and telephony customers as well as the impact of the interim decision of the CRTC, on October 6, 2016, to reduce significantly TPIA capacity rates.

OPERATING EXPENSES

For the three and nine-month periods ended May 31, 2017, operating expense increased by \$1.8 million and \$5.5 million, or 1.2% for both periods, to reach \$154.9 million and \$462.7 million, respectively, compared to the same periods of the prior year. The increase for both periods resulted mainly from programming rate increases and additional costs related to the implementation of a new Customer Relations Management system, partly offset by a shift in product mix to higher margin Internet services from traditional video services.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and nine-month periods ended May 31, 2017, adjusted EBITDA increased by \$8.8 million, or 5.3%, and by \$18.0 million, or 3.7% to reach \$174.1 million and \$508.9 million, respectively, compared to the same periods of the prior year mainly as a result of revenue growth, including the \$2.1 million non-recurring revenue, exceeding operating expenses growth for both periods. Consequently, operating margins increased from 51.9% to 52.9% and from 51.8% to 52.4%, respectively, compared to the same periods of fiscal 2016.

8.2 AMERICAN BROADBAND SERVICES

CUSTOMER STATISTICS

	May 31, 2017	Net additions (losses)				% of penetration ⁽¹⁾	
		Quarters ended		Nine months ended		May 31, 2017	May 31, 2016
		May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016		
PSU	608,388	6,008	7,206	14,655	18,840		
Video service customers	237,319	(1,703)	(819)	(6,313)	(4,151)	40.1	41.4
Internet service customers	270,336	5,969	6,675	16,672	19,537	45.7	42.1
Telephony service customers	100,733	1,742	1,350	4,296	3,454	17.0	16.1

(1) As a percentage of homes passed.

VIDEO

For the three and nine-month periods ended May 31, 2017, video service customers net losses stood at 1,703 and 6,313, respectively, compared to 819 and 4,151 for the same periods of the prior year. The net losses for both periods resulted mainly from higher churn related to competitive offers in the industry and the implementation of rate increases in September 2016 combined with the changing video consumption environment for both periods. In addition, the net losses for both periods was partly offset by the customers' ongoing interest in TiVo's digital advanced video services.

INTERNET

For the three and nine-month periods ended May 31, 2017, Internet service customers net additions stood at 5,969 and 16,672, respectively, compared to 6,675 and 19,537 for the same periods of the prior year. The net additions stemmed from the customers' ongoing interest in high speed offerings and the continued growth of TiVo's digital video services which requires an Internet subscription, growth in the business sector and the sustained interest in bundle offers.

TELEPHONY

For the three and nine-month periods ended May 31, 2017, telephony service customers net additions stood at 1,742 and 4,296, respectively, compared to 1,350 and 3,454 for the same periods of the prior year mainly as a result of the continued growth in the residential and business sectors.

DISTRIBUTION OF CUSTOMERS

At May 31, 2017, 55% (57% in 2016) of the American broadband services customers subscribed to two or more services. The distribution of customers by number of services for the American broadband services were: 45% (43% in 2016) who subscribe to the single play, 35% (36% in 2016) to the double-play and 20% (21% in 2016) to the triple-play.

OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Revenue	165,136	150,369	9.8	485,011	458,773	5.7
Operating expenses	97,370	87,452	11.3	279,710	262,514	6.6
Adjusted EBITDA	67,766	62,917	7.7	205,301	196,259	4.6
Operating margin	41.0%	41.8%		42.3%	42.8%	

REVENUE

For the three and nine-month periods ended May 31, 2017, revenue increased by \$14.8 million, or 9.8%, to reach \$165.1 million and by \$26.2 million, or 5.7%, to reach \$485.0 million, respectively, compared to the same periods of the prior year. Revenue increased for both periods primarily as a result of the continued growth in Internet and telephony services customers in both the residential and business sectors combined with rate increases implemented in September 2016. The appreciation of the US dollar against the Canadian dollar contributed to revenue growth in the

quarter compared to the same period of the prior year. In addition, revenue progression for the third quarter and the first nine months has been negatively impacted by higher churn as a result of competitive offers in the industry and the rate increases.

For the three and nine-month periods ended May 31, 2017, revenue in local currency amounted to US\$122.5 million and US\$364.1 million, respectively, compared to US\$115.7 million and US\$343.2 million for the same periods of fiscal 2016, representing increases of US\$6.8 million and US\$21.0 million, or 5.9% and 6.1%, respectively.

OPERATING EXPENSES

For the three and nine-month periods ended May 31, 2017, operating expenses increased by \$9.9 million, or 11.3%, to reach \$97.4 million, and by \$17.2 million, or 6.6%, to reach \$279.7 million, respectively, compared to the same periods of the prior year. The increase for both periods is mainly due to programming rate increases, costs to serve additional PSU and to support the business sector development combined with additional costs to support the continued expansion in Florida. In addition, the appreciation of the US dollar against the Canadian dollar in the quarter compared to the same period of the prior year also contributed to the operating expense increase.

For the three and nine-month periods ended May 31, 2017, operating expenses in local currency amounted to US\$72.2 million and US\$210.0 million, respectively, compared to US\$67.3 million and US\$196.4 million for the same periods of fiscal 2016, representing increases of US\$4.9 million and US\$13.6 million, or 7.3% and 6.9%, respectively.

ADJUSTED EBITDA AND OPERATING MARGIN

For the three and nine-month periods ended May 31, 2017, adjusted EBITDA increased by \$4.8 million, or 7.7%, to reach \$67.8 million, and by \$9.0 million, or 4.6%, to reach \$205.3 million, respectively, compared to the same periods of last year. As a result of operating expenses growth exceeding revenue growth for the three and nine-month periods ended May 31, 2017, operating margins decreased slightly to 41.0% from 41.8% and to 42.3% from 42.8%, respectively, compared to the same periods of fiscal 2016.

For the three and nine-month periods ended May 31, 2017, adjusted EBITDA in local currency amounted to US\$50.3 million and US\$154.2 million, respectively, compared to US\$48.4 million and US\$146.8 million for the same periods of the prior year, representing increases of US\$1.9 million and US\$7.4 million, or 3.9% and 5.0%, respectively.

8.3 BUSINESS ICT SERVICES

OPERATING RESULTS

	Quarters ended			Nine months ended		
	May 31, 2017	May 31, 2016	Change	May 31, 2017	May 31, 2016	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Revenue	71,857	72,344	(0.7)	221,177	227,984	(3.0)
Operating expenses	50,068	49,408	1.3	151,596	151,510	0.1
Adjusted EBITDA	21,789	22,936	(5.0)	69,581	76,474	(9.0)
Operating margin	30.3%	31.7%		31.5%	33.5%	

REVENUE

For the three and nine-month periods ended May 31, 2017, revenue remained stable and decreased by \$6.8 million, or 3.0%, to reach \$71.9 million and \$221.2 million, respectively, compared to the same periods of fiscal 2016.

Revenue remained stable for the quarter as a result of colocation revenue growth combined with the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year, partly offset by competitive pricing pressures on the hosting and network connectivity services and the depreciation of the British Pound currency against the Canadian dollar compared to the same period of the prior year.

The decrease for the first nine months is primarily due to competitive pricing pressures on the hosting and network connectivity services and the depreciation of the British Pound currency against the Canadian dollar compared to the same period of the prior year, partly offset by colocation revenue growth and the recognition of \$2 million in non-recurring revenue related to an Indefeasible rights of use ("IRU") agreement concluded in the second quarter of fiscal 2017.

OPERATING EXPENSES

For the three-month period ended May 31, 2017, operating expenses increased by \$0.7 million, or 1.3%, to reach \$50.1 million compared to \$49.4 million for the same period of the prior year. For the nine-month period ended May 31, 2017, operating expenses remained essentially the same at \$151.6 million compared to \$151.5 million for the same period of the prior year.

The increase for the quarter resulted mainly from additional facilities costs, IT expense and marketing initiatives due to the timing of certain initiatives combined with the appreciation of the US dollar against the Canadian dollar, partly offset by the depreciation of the British Pound currency against the Canadian dollar compared to the same period of the prior year.

The slight increase for the first nine months is mainly due to additional facilities costs and IT expense, partly offset by a \$1.8 million gain on disposal of property, plant and equipment in the first quarter of fiscal 2017 combined with the depreciation of the British Pound currency against the Canadian dollar compared to the same period of the prior year.

ADJUSTED EBITDA AND OPERATING MARGIN

For the third quarter of fiscal 2017, adjusted EBITDA decreased by \$1.1 million, or 5.0%, to reach \$21.8 million mainly from stable revenue combined with increased operating expenses compared to the same period of the prior year. For the first nine months of fiscal 2017, adjusted EBITDA decreased by \$6.9 million, or 9.0%, to reach \$69.6 million due to declining revenue. Consequently, operating margins decreased to 30.3% from 31.7% and to 31.5% from 33.5%, respectively, compared to the same periods of fiscal 2016.

9. FISCAL 2018 PRELIMINARY FINANCIAL GUIDELINES

The following section contains forward-looking statements concerning the business outlook of Cogeco Communications. For a description of risk factors that could cause actual results to differ materially from what Cogeco Communications expects, please refer to the "Uncertainties and main risk factors" sections of the present MD&A and the Corporation's 2016 annual MD&A.

These preliminary financial guidelines do not include the expected financial results from the announcement of the agreement for the acquisition of MetroCast by the Corporation's subsidiary, Atlantic Broadband. They will be revised when the transaction is concluded.

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 in 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 PSU growth in both 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 the Internet and telephony services. In the Business ICT services segment, revenue growth should stem primarily from cloud services due to additional services, partly offset by a decline in network connectivity services as a result of competitive pricing pressures.

Adjusted EBITDA should reach between \$1,025 million and \$1,050 million 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 as the fiscal 2017 revised financial guidelines.

Free cash flow should remain in the same range as the fiscal 2017 revised financial guidelines 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 the fiscal 2017 revised financial guidelines mainly as a result of significantly higher capital expenditures for the American broadband services segment as a result of continued expansion in high growth segments in Florida.

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

	Preliminary projections Fiscal 2018 ⁽¹⁾	Revised projections November 2, 2016 Fiscal 2017
(in millions of dollars)	\$	\$
Financial guidelines		
Revenue	2,300 to 2,330	2,200 to 2,230
Adjusted EBITDA	1,025 to 1,050	980 to 1,005
Operating margin	44.6% to 45.1%	44.5% to 45.1%
Acquisitions of property, plant and equipment, intangible and other assets	470 to 485	430 to 445
Free cash flow	345 to 375	345 to 375
Capital intensity	20.5% to 21.0%	19.5% to 20.0%

(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 1.65, respectively, for the fiscal 2017 revised financial guidelines. The assumed current income tax effective rate is approximately 23%.

10. 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 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 Communications' 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 of the Corporation's DC&P and ICFR at May 31, 2017, and concluded that they are adequate. Furthermore, no significant changes to the internal controls over financial reporting occurred during the three and nine-month periods ended May 31, 2017.

11. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco Communications can be found in the 2016 Annual Report, available at www.sedar.com and corpo.cogeco.com. The following update should be read together with the uncertainties and main risk factors described in the 2016 Annual Report, which are hereby incorporated by reference.

On April 9, 2015, the Canadian Radio-Television and Telecommunications Commissions ("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 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 have been 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.

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. It is not possible, at this time, to determine if these reviews will have a material impact on the activities of the Corporation.

12. ACCOUNTING POLICIES

12.1 NEW ACCOUNTING STANDARDS

A number of new standards, interpretations and amendments to existing standards were issued by the *International Accounting Standards Board* ("IASB") that are mandatory but not yet effective for the three and nine-month periods ended May 31, 2017 and have not been applied in preparing the condensed interim consolidated financial statements. These standards are described under the "Future accounting developments in Canada" section in the Corporation's 2016 Annual Report available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

12.2 CHANGES IN CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in Cogeco Communications' critical accounting policies and estimates since August 31, 2016, except as mentioned below. A description of the Corporation's policies and estimates can be found in the 2016 Annual Report, available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

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 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	12,086	(4,093)	7,993
Deferred tax liabilities	514,194	112,134	626,328
Retained earnings	660,999	(116,227)	544,772
Balance at August 31, 2016			
Deferred tax assets	11,680	(4,093)	7,587
Deferred tax liabilities	488,993	112,134	601,127
Retained earnings	389,720	(116,227)	273,493

13. NON-IFRS FINANCIAL MEASURES

This section describes non-IFRS financial measures used by Cogeco Communications 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”, “adjusted EBITDA”, “operating margin” and “capital intensity” 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 measures
Free cash flow	Management and investors use free cash flow to measure Cogeco Communications' 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 and Operating margin	Adjusted EBITDA and operating margin are key measures commonly reported and used in the telecommunications industry, as they allow comparisons between companies that have different capital structures and are more current measures since they exclude 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 Cogeco Communications' business units is equal to the segment profit (loss) reported in note 3 of the Condensed Interim Consolidated Financial Statements.	Adjusted EBITDA: - Profit (loss) for the period add: - Income taxes; - Financial expense; - Depreciation and amortization; - Integration, restructuring and acquisition costs; - Impairment of goodwill and intangible assets; and - Claims and litigations. Operating margin: - Adjusted EBITDA divided by: - Revenue	Profit (loss) for the period No comparable IFRS measure
Capital intensity	Capital intensity is used by Cogeco Communications' management and investors to assess the Corporation's investment in capital expenditures in order to support a certain level of revenue.	Capital intensity: - Acquisition of property, plant and equipment; and - Acquisition of intangible and other assets divided by: - Revenue	No comparable IFRS measure

13.1 FREE CASH FLOW RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Cash flow from operating activities	241,689	181,498	610,700	483,545
Amortization of deferred transaction costs and discounts on long-term debt	2,235	2,244	6,633	6,892
Changes in non-cash operating activities	(28,891)	(36,050)	43,180	21,623
Income taxes paid	562	39,825	5,651	104,550
Current income taxes	(21,529)	(24,528)	(67,244)	(70,635)
Financial expense paid	42,656	48,909	103,226	112,906
Financial expense	(31,792)	(32,792)	(96,357)	(101,984)
Acquisition of property, plant and equipment	(95,447)	(89,629)	(268,552)	(341,632)
Acquisition of intangible and other assets	(4,755)	(4,813)	(14,343)	(15,861)
Free cash flow	104,728	84,664	322,894	199,404

13.2 ADJUSTED EBITDA AND OPERATING MARGIN RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<i>(in thousands of dollars, except percentages)</i>	\$	\$	\$	\$
Profit (loss) for the period	76,203	(387,357)	227,890	(264,209)
Income taxes	26,641	12,127	75,602	51,225
Financial expense	31,792	32,792	96,357	101,984
Impairment of goodwill and intangible assets	—	450,000	—	450,000
Depreciation and amortization	119,597	123,928	357,926	378,664
Claims and litigations	—	10,499	—	10,499
Integration, restructuring and acquisition costs	—	1,126	—	7,476
Adjusted EBITDA	254,233	243,115	757,775	735,639
Revenue	565,158	540,257	1,675,123	1,632,093
Operating margin	45.0%	45.0%	45.2%	45.1%

13.3 CAPITAL INTENSITY RECONCILIATION

	Quarters ended		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<i>(in thousands of dollars, except percentages)</i>	\$	\$	\$	\$
Acquisition of property, plant and equipment	95,447	89,629	268,552	341,632
Acquisition of intangible and other assets	4,755	4,813	14,343	15,861
Total acquisitions of property, plant and equipment, intangible and other assets	100,202	94,442	282,895	357,493
Revenue	565,158	540,257	1,675,123	1,632,093
Capital intensity	17.7%	17.5%	16.9%	21.9%

14. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Quarters ended	May 31,	February 28,	February 29,	November 30,	August 31,			
<i>(in thousands of dollars, except percentages and per share data)</i>	2017	2016	2017	2016	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	565,158	540,257	560,875	551,523	549,090	540,313	544,056	520,419
Adjusted EBITDA	254,233	243,115	253,839	248,382	249,703	244,142	247,810	240,592
Operating margin	45.0%	45.0%	45.3%	45.0%	45.5%	45.2%	45.5%	46.2%
Integration, restructuring and acquisition costs	—	1,126	—	4,320	—	2,030	1,326	6,942
Claims and litigations	—	10,499	—	—	—	—	292	(27,431)
Impairment of goodwill and intangible assets	—	450,000	—	—	—	—	—	—
Profit (loss) for the period	76,203	(387,357)	76,663	62,042	75,024	61,106	74,581	77,986
Cash flow from operating activities	241,689	181,498	245,550	205,954	123,461	96,093	261,623	271,328
Acquisitions of property, plant and equipment, intangible and other assets	100,202	94,442	86,199	116,732	96,494	146,319	110,017	129,946
Free cash flow	104,728	84,664	116,787	74,698	101,379	40,042	81,594	72,047
Capital intensity	17.7%	17.5%	15.4%	21.2%	17.6%	27.1%	20.2%	25.0%
Earnings (loss) per share ⁽¹⁾								
Basic	1.55	(7.89)	1.56	1.27	1.53	1.25	1.52	1.59
Diluted	1.54	(7.89)	1.55	1.26	1.52	1.24	1.52	1.58
Dividends per share	0.43	0.39	0.43	0.39	0.43	0.39	0.39	0.35

(1) Per multiple and subordinate voting share.

14.1 SEASONAL VARIATIONS

Cogeco Communications' operating results are not generally subject to material seasonal fluctuations except as follows. In the Canadian and American broadband services segments, the number of video and Internet services 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 American broadband services segment, the Miami area is also subject to seasonal fluctuations due to the winter season residents returning home from late spring through the fall.

15. ADDITIONAL INFORMATION

This MD&A was prepared on July 13, 2017. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at www.sedar.com or on the Corporation's website at corpo.cogeco.com.

/s/ Jan Peeters

Jan Peeters
Chairman of the Board

/s/ Louis Audet

Louis Audet
President and Chief Executive Officer

Cogeco Communications Inc.
Montréal, Québec
July 13, 2017