



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

Three and nine-month periods ended May 31, 2019

# 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" of the Corporation's 2018 annual MD&A, the "Fiscal 2019 Revised Financial Guidelines" section of the second quarter of fiscal 2019 MD&A and the "Fiscal 2020 Preliminary Financial Guidelines" section of the present MD&A for a discussion of certain key economic, market and operational assumptions we have made in preparing forward-looking statements. While Management considers these assumptions to be reasonable based on information currently available to the Corporation, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what Cogeco Communications currently expects. These factors include risks such as competitive risks, business risks, regulatory risks, technology risks, financial risks, economic conditions, human-caused and natural threats to our network, infrastructure and systems, community acceptance risks, ethical behavior risks, ownership risks 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 2018 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, 2019 prepared in accordance with the International Financial Reporting Standards ("IFRS") and the MD&A included in the Corporation's 2018 Annual Report.*

## 2. CORPORATE OBJECTIVES AND STRATEGIES

Cogeco Communications Inc.'s ("Cogeco Communications" or the "Corporation") mission is to connect its customers to the digital world and create outstanding communication experiences. Our vision is to deliver value to our shareholders by: 1) creating exceptional customer experience, 2) augmenting our geographic reach in Canada and the United States, 3) expanding into new market segments, and 4) mobilizing highly engaged teams. To achieve this, we are pursuing the following strategies:

Canadian broadband services	American broadband services
Delivering organic growth by introducing value added services for residential customers and by growing our business customer base	Leveraging Internet superiority to support loyalty and promote growth
Optimizing the return on investments by delivering our services more efficiently and improving loyalty through a differentiated customer experience strategy	Focusing on business services in the enterprise market with expanded sales channels, enhanced product offerings and aggressive market pricing strategy
Exploring a potential wireless service in a profitable manner and within our financial means	Building on initial successes in expanding the Florida market
Investing in the development of our people	Improving our networks with state-of-the-art advanced technologies

The Corporation measures its performance, with regard to these objectives by monitoring revenue, adjusted EBITDA<sup>(1)</sup>, free cash flow<sup>(1)</sup> and capital intensity<sup>(1)</sup> on a constant currency basis<sup>(1)</sup>.

### 2.1 KEY PERFORMANCE INDICATORS

#### REVENUE

For the first nine months of fiscal 2019, revenue increased by 10.6% (8.3% in constant currency) resulting from:

- a growth of 28.7% (22.8% in constant currency) in the American broadband services segment mainly due to the impact of the MetroCast cable systems acquisition ("the MetroCast acquisition") completed on January 4, 2018 which was included in revenue for only a five-month period for the comparable period of the prior year and the acquisition of the south Florida fibre network previously owned by FiberLight, LLC (the "FiberLight acquisition") completed on October 3, 2018; partly offset by
- a decrease of 0.5% (0.5% in constant currency) in the Canadian broadband services segment mainly as a result of:
  - a decline in primary service units in the first quarter of fiscal 2019 from lower service activations primarily due to the implementation of a new customer management system in the second half of fiscal 2018; and
  - the impact of the timing of rate increases implemented in fiscal 2019 compared to the same period of the prior year; partly offset by
  - higher net pricing from consumer sales.

#### ADJUSTED EBITDA

For the first nine months of fiscal 2019, adjusted EBITDA increased by 12.0% (10.0% in constant currency) as a result of:

- an increase of 35.0% (28.9% in constant currency) in the American broadband services segment mainly as a result of the impact of the MetroCast and FiberLight acquisitions; and
- an increase of 0.3% (0.5% in constant currency) in the Canadian broadband services segment resulting mainly from a reduction in operating expenses.

#### FREE CASH FLOW

For the first nine months of fiscal 2019, free cash flow increased by 45.5% (44.9% in constant currency) compared to the same period of the prior year mainly due to the following:

- higher adjusted EBITDA;
- the decrease in current income taxes expense; and
- the decrease in integration, restructuring and acquisition costs.

(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.

## CAPITAL INTENSITY AND ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

For the first nine months of fiscal 2019, acquisitions of property, plant and equipment decreased by 2.0% (4.9% in constant currency) mainly due to lower capital expenditures in the American broadband services segment, partly offset by higher capital expenditures in the Canadian broadband services segment. For the first nine months of fiscal 2019, capital intensity reached 16.6% compared to 18.7% for the same period of the prior year mainly as a result of revenue growth combined with lower capital expenditures.

In the American broadband services segment, the acquisitions of property, plant and equipment decreased by 9.3% (13.4% in constant currency), compared to the prior year mainly due to:

- the acquisition of several dark fibres throughout south Florida from FiberLight, LLC for a consideration of \$21.2 million (US\$16.8 million) during the second quarter of fiscal 2018; partly offset by
- additional capital expenditures related to the impact of the MetroCast acquisition; and
- additional capital expenditures related to the expansion in Florida.

In the Canadian broadband services segment, the acquisitions of property, plant and equipment increased by 4.5% (2.7% in constant currency) resulting from:

- additional investments to improve and expand the network infrastructure; and
- costs related to the new Internet protocol television (“IPTV”) platform; partly offset by
- lower costs related to the new customer management system which was implemented in the third quarter of fiscal 2018; and
- lower purchases of customer premise equipment due to the timing of certain initiatives.

For further details on the Corporation’s capital expenditures please refer to the “Cash flow analysis” section.

## 3. BUSINESS DEVELOPMENTS AND OTHER

On April 30, 2019, Cogeco Communications completed the sale of its subsidiary Cogeco Peer 1 Inc., its Business information and communications technology (“Business ICT”) services subsidiary, to affiliates of Digital Colony for a net cash consideration of \$720 million which resulted in a gain on disposal of \$82.4 million in the third quarter of fiscal 2019.

Operating and financial results as well as cash flows from Cogeco Peer 1 from both the current and comparable periods are therefore presented as discontinued operations.

For further details on the Business ICT services operating results, please refer to the “Discontinued operations” section.

## 4. OPERATING AND FINANCIAL RESULTS

### 4.1 OPERATING RESULTS

	Three months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	587,345	567,079	3.6	1.7	10,849
Operating expenses	298,444	294,819	1.2	(0.9)	6,335
Management fees – Cogeco Inc.	4,974	4,327	15.0	15.0	—
Adjusted EBITDA	283,927	267,933	6.0	4.3	4,514
Adjusted EBITDA margin	48.3%	47.2%			

(1) For the three-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3402 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the “Accounting policies” and “Discontinued operations” sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2846 USD/CDN.

	Nine months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	1,748,147	1,581,220	10.6	8.3	35,006
Operating expenses	901,147	823,648	9.4	7.0	20,195
Management fees – Cogeco Inc.	14,670	14,165	3.6	3.6	—
Adjusted EBITDA	832,330	743,407	12.0	10.0	14,811
Adjusted EBITDA margin	47.6%	47.0%			

(1) For the nine-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3266 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2664 USD/CDN.

## REVENUE

	Three months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	325,808	329,144	(1.0)	(1.0)	—
American broadband services	261,537	237,809	10.0	5.4	10,849
Inter-segment eliminations and other	—	126	(100.0)	(100.0)	—
	587,345	567,079	3.6	1.7	10,849

(1) For the three-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3402 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2846 USD/CDN.

	Nine months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	975,032	980,165	(0.5)	(0.5)	—
American broadband services	773,115	600,929	28.7	22.8	35,006
Inter-segment eliminations and other	—	126	(100.0)	(100.0)	—
	1,748,147	1,581,220	10.6	8.3	35,006

(1) For the nine-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3266 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2664 USD/CDN.

Fiscal 2019 third-quarter revenue increased by 3.6% (1.7% in constant currency) resulting from:

- a growth in the American broadband services segment mainly due to strong organic growth and the FiberLight acquisition; partly offset by
- a decrease in the Canadian broadband services segment mainly as a result of:
  - decreases in video and telephony services customers primarily due to the implementation of a new customer management system in the second half of fiscal 2018; partly offset by
  - rate increases; and
  - higher net pricing from consumer sales.

For the first nine months of fiscal 2019, revenue increased by 10.6% (8.3% in constant currency) resulting from:

- a growth in the American broadband services segment mainly due to the impact of the MetroCast acquisition which was included in revenue for only a five-month period for the comparable period of the prior year combined with organic growth and the FiberLight acquisition; partly offset by
- a decrease in the Canadian broadband services segment mainly as a result of:
  - a decline in primary service units in the first quarter of fiscal 2019 from lower service activations primarily due to the implementation of a new customer management system; and
  - the impact of the timing of rate increases implemented in fiscal 2019 compared to the same period of the prior year; partly offset by
  - higher net pricing from consumer sales.

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

## OPERATING EXPENSES

	Three months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	147,054	156,391	(6.0)	(6.1)	277
American broadband services	145,836	131,613	10.8	6.2	6,055
Inter-segment eliminations and other	5,554	6,815	(18.5)	(18.6)	3
	<b>298,444</b>	<b>294,819</b>	<b>1.2</b>	<b>(0.9)</b>	<b>6,335</b>

(1) For the three-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3402 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2846 USD/CDN.

	Nine months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	458,471	465,326	(1.5)	(1.7)	1,029
American broadband services	422,993	341,666	23.8	18.2	19,152
Inter-segment eliminations and other	19,683	16,656	18.2	18.1	14
	<b>901,147</b>	<b>823,648</b>	<b>9.4</b>	<b>7.0</b>	<b>20,195</b>

(1) For the nine-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3266 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2664 USD/CDN.

Fiscal 2019 third-quarter operating expenses increased by 1.2% (decrease of 0.9% in constant currency) mainly from:

- additional costs in the American broadband services segment mainly due to marketing initiatives, programming costs, additional headcount to support growth and the FiberLight acquisition; partly offset by
- lower operating expenses in the Canadian broadband services segment mainly attributable to lower compensation expenses resulting from an operational optimization program implemented in the first half of fiscal 2019 and lower programming costs as a result of lower primary service units.

For the first nine months of fiscal 2019, operating expenses increased by 9.4% (7.0% in constant currency) mainly from:

- a growth in the American broadband services segment mainly due to the impact of the MetroCast acquisition which was included in operating expense for only a five-month period for the comparable period of the prior year combined with programming costs, additional headcount to support growth and the FiberLight acquisition; and
- additional costs in Inter-segment eliminations and other resulting from efficiency projects and the timing of certain initiatives; partly offset by
- lower operating expenses in the Canadian broadband services segment mainly attributable to lower programming costs resulting from a lower level of primary service units and lower compensation expenses resulting from an operational optimization program implemented in the first half of fiscal 2019, partly offset by additional headcount costs to support the stabilization phase of the new customer management system as well as retroactive costs related to higher rates than expected established by the Copyright Board of Canada.

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

## MANAGEMENT FEES

For the third quarter and first nine months of fiscal 2019, management fees paid to Cogeco Inc. reached \$5.0 million and \$14.7 million, respectively, compared to \$4.3 million and \$14.2 million for the same periods of fiscal 2018. For further details on the Corporation's management fees, please refer to the "Related party transactions" section.

## ADJUSTED EBITDA

	Three months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	178,754	172,753	3.5	3.6	(277)
American broadband services	115,701	106,196	9.0	4.4	4,794
Inter-segment eliminations and other	(10,528)	(11,016)	(4.4)	(4.5)	(3)
	283,927	267,933	6.0	4.3	4,514

(1) For the three-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3402 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2846 USD/CDN.

	Nine months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Canadian broadband services	516,561	514,839	0.3	0.5	(1,029)
American broadband services	350,122	259,263	35.0	28.9	15,854
Inter-segment eliminations and other	(34,353)	(30,695)	11.9	11.9	(14)
	832,330	743,407	12.0	10.0	14,811

(1) For the nine-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3266 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2664 USD/CDN.

For the third quarter and first nine months of fiscal 2019, adjusted EBITDA increased by 6.0% and 12.0%, respectively, (4.3% and 10.0% in constant currency) as a result of:

- an increase in the American broadband services segment mainly as a result of strong organic growth combined with the impact of the FiberLight acquisition; and
- an increase in the Canadian broadband services segment resulting mainly from a reduction in operating expenses.

The increase for the first nine months of fiscal 2019 in the American broadband services segment was also attributable to the impact of the MetroCast acquisition.

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

## 4.2 INTEGRATION, RESTRUCTURING AND ACQUISITION COSTS

For the third quarter and first nine months of fiscal 2019, integration, restructuring and acquisition costs amounted to \$1.0 million and \$10.4 million, respectively, mostly due to restructuring costs in the Canadian broadband services segment from an operational optimization program during the first half of fiscal 2019. The workforce reduction strategy, which included a voluntary departure program focused on support functions, aimed to create a leaner, more efficient and agile organization pursuant to its digital transformation.

For the third quarter and first nine months of fiscal 2018, integration, restructuring and acquisition costs amounted to \$2.3 million and \$18.7 million, respectively, due to the MetroCast acquisition completed on January 4, 2018.

## 4.3 DEPRECIATION AND AMORTIZATION

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Depreciation of property, plant and equipment	104,861	101,193	3.6	316,734	280,827	12.8
Amortization of intangible assets	14,280	14,624	(2.4)	42,435	32,756	29.5
	119,141	115,817	2.9	359,169	313,583	14.5

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

Fiscal 2019 third-quarter depreciation and amortization expense increased by 2.9% mostly as a result of the impact of the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

For the first nine months of fiscal 2019, depreciation and amortization expense increased by 14.5% resulting mainly from the impact of the MetroCast acquisition combined with the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

## 4.4 FINANCIAL EXPENSE

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Interest on long-term debt	43,988	55,964	(21.4)	135,491	133,553	1.5
Net foreign exchange gains	(2,085)	(1,847)	12.9	(2,341)	(2,616)	(10.5)
Amortization of deferred transaction costs	466	438	6.4	1,372	1,443	(4.9)
Capitalized borrowing costs	(224)	(338)	(33.7)	(522)	(1,912)	(72.7)
Other	(52)	6,044	—	1,065	7,279	(85.4)
	42,093	60,261	(30.1)	135,065	137,747	(1.9)

(1) Fiscal 2018 was restated to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Discontinued operations" section.

For the third quarter and first nine months of fiscal 2019, financial expense decreased by 30.1% and 1.9%, respectively, mainly due to:

- the reimbursement at maturity of the Senior Secured Notes Series B on October 1, 2018;
- the reimbursements of \$65 million and US\$35 million under the Canadian Revolving Facility during the second quarter of fiscal 2019 and of US\$328 million during the third quarter of fiscal 2019 following the sale of Cogeco Peer 1; and
- early reimbursement of the US\$400 million Senior Unsecured Notes during the third quarter of fiscal 2018 which resulted in a \$6.2 million redemption premium and the write-off of the unamortized deferred transaction costs of \$2.5 million; partly offset by
- higher debt outstanding and interest rates on the First Lien Credit Facilities following the MetroCast acquisition; and
- the appreciation of the US dollar against the Canadian dollar compared to same period of the prior year.

## 4.5 INCOME TAXES

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Current	12,156	11,420	6.4	41,758	58,987	(29.2)
Deferred	9,963	7,650	30.2	21,395	(94,269)	—
	22,119	19,070	16.0	63,153	(35,282)	—

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Profit before income taxes	121,690	89,595	35.8	327,658	273,426	19.8
Combined Canadian income tax rate	26.5%	26.5%	—	26.5%	26.5%	—
Income taxes at combined Canadian income tax rate	32,247	23,743	35.8	86,829	72,458	19.8
Adjustment for losses or profit subject to lower or higher tax rates	(960)	776	—	62	(76)	—
Impact on deferred taxes as a result of changes in substantively enacted tax rates	(287)	—	—	—	(94,175)	(100.0)
Impact on income taxes arising from non-deductible expenses and non-taxable profit	(1,606)	2,200	—	(785)	2,067	—
Tax impacts related to foreign operations	(7,255)	(6,530)	11.1	(21,116)	(15,274)	38.2
Other	(20)	(1,119)	(98.2)	(1,837)	(282)	—
	22,119	19,070	16.0	63,153	(35,282)	—

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

Fiscal 2019 third-quarter income taxes expense increased by 16.0% compared to the same period of the prior year mainly attributable to:

- the increase in profit before income taxes which is mostly related to the growth in the American broadband services segment and the decrease in financial expense, partly offset by the increase in depreciation and amortization; and
- the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

For the first nine months of fiscal 2019, income taxes expense amounted to \$63.2 million compared to a recovery of \$35.3 million for the same period of the prior year mainly attributable to:

- the effect of the federal rate reduction in the second quarter of fiscal 2018 in the United States;
- the increase in profit before income taxes which is mostly related to the impact of the MetroCast acquisition completed in the second quarter of fiscal 2018, partly offset by the increase in depreciation and amortization; and
- the appreciation of the US dollar against the Canadian dollar compared to the same period of the prior year.

On March 19, 2019, the Canada Ministry of Finance confirmed the announcement during its 2018 Fall Economic Update that Canadian businesses will temporarily be allowed to accelerate tax depreciation on most capital investments for property, plant and equipment acquired after November 20, 2018, phasing out during the period from 2023 to 2028. The federal accelerated tax depreciation will have a favorable impact on the current income tax expense of the Corporation in fiscal 2019 and was accounted for in the third quarter of this fiscal year since the new legislation has been considered as substantively enacted on April 8, 2019. On March 21, 2019, the Québec Ministry of Finance confirmed that it will harmonize with the Federal legislation.

On December 22, 2017, the US Federal administration enacted the Tax Cuts and Jobs Act (the "Act"). The tax reform reduces the general federal corporate tax rate from 35% to 21% starting after 2017 which reduced net deferred tax liabilities by approximately \$94 million (US\$74 million) in the second quarter of fiscal 2018. In addition, the Act calls for other changes such as interest deductibility limitations, full deduction of acquisitions of tangible assets, net operating losses limitations as well as base erosion anti-avoidance, which together with tax rate reductions, had an overall favorable impact on the income tax expense.

## 4.6 PROFIT FOR THE PERIOD

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change
<i>(in thousands of dollars, except percentages and earnings per share)</i>	\$	\$	%	\$	\$	%
Profit for the period from continuing operations	99,571	70,525	41.2	264,505	308,708	(14.3)
Profit for the period	182,022	65,160	—	337,965	285,379	18.4
Profit for the period from continuing operations attributable to owners of the Corporation	96,613	67,190	43.8	252,123	302,461	(16.6)
Profit for the period attributable to owners of the Corporation	179,064	61,825	—	325,583	279,132	16.6
Profit for the period from continuing operations attributable to non-controlling interest <sup>(2)</sup>	2,958	3,335	(11.3)	12,382	6,247	98.2
Basic earnings per share from continuing operations	1.96	1.36	44.1	5.11	6.14	(16.8)
Basic earnings per share	3.62	1.25	—	6.59	5.66	16.4

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(2) The non-controlling interest represents a participation of 21% in Atlantic Broadband's results by Caisse de dépôt et placement du Québec ("CDPQ"), effective since the MetroCast acquisition on January 4, 2018.

Fiscal 2019 third-quarter profit for the period from continuing operations and profit for the period from continuing operations attributable to owners of the Corporation increased by 41.2% and 43.8%, respectively, as a result of:

- higher adjusted EBITDA; and
- the decrease in financial expense; partly offset by
- the increases in income taxes and in depreciation and amortization.

Fiscal 2019 third-quarter profit for the period and profit for the period attributable to owners of the Corporation amounted to \$182.0 million and \$179.1 million, respectively, compared to \$65.2 million and \$61.8 million for the comparable period of the prior year mainly due to a profit for the period from discontinued operations of \$82.5 million resulting from the sale of Cogeco Peer 1 compared to a loss for the period from discontinued operations of \$5.4 million for the comparable period of the prior year in addition to the same elements mentioned above.

For the first nine months of fiscal 2019, profit for the period from continuing operations and profit for the period from continuing operations attributable to owners of the Corporation decreased by 14.3% and 16.6%, respectively, as a result of:

- last year's \$94 million income tax reduction following the United States tax reform; and
- the increase in depreciation and amortization mostly related to the impact of the MetroCast acquisition; partly offset by
- higher adjusted EBITDA mainly as a result of the impact of the MetroCast acquisition; and
- the decrease in integration, restructuring and acquisition costs.

For the first nine months of fiscal 2019, profit for the period and profit for the period attributable to owners of the Corporation increased by 18.4% and 16.6%, respectively, mainly due to a profit for the period from discontinued operations of \$73.5 million resulting from the sale of Cogeco Peer 1 compared to a loss for the period from discontinued operations of \$23.3 million for the comparable period of the prior year in addition to the same elements mentioned above.

## 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 additional services to the Corporation under a Management Services Agreement (the "Agreement"). Following the sale of Cogeco Peer 1, the Corporation and Cogeco agreed to amend the Agreement in order to replace the methodology used to establish the management fees payable by the Corporation to Cogeco, which was based on a percentage of the revenue of the Corporation, with a new methodology based on the costs incurred by Cogeco plus a reasonable mark-up. This new cost-plus methodology, which became effective on May 1, 2019, was introduced to avoid future variations of the management fee percentage due to the frequent changes of the Corporation's consolidated revenue pursuant to business acquisitions and divestitures. Prior to this change, management fees represented 0.75% of the consolidated revenue from continuing and discontinued operations of the Corporation (0.85% for the period prior to the MetroCast acquisition on January 4, 2018). Provision is made for future adjustment upon the request of either Cogeco or the Corporation from time to time during the term of the Agreement.

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the nine-month periods ended May 31, 2019 and 2018, the Corporation granted stock options and performance share units ("PSUs") to these executive officers, as executive officers of Cogeco Communications, as shown in the following table:

	Nine months ended	
	May 31, 2019	May 31, 2018
Stock options	97,725	126,425
PSUs	14,625	19,025

The following table shows the amounts that the Corporation charged Cogeco with regards to the Corporation's stock options, incentive share units ("ISUs") and PSUs to these executive officers, as well as deferred share units ("DSUs") granted to Board directors of Cogeco:

	Three months ended		Nine months ended	
	May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Stock options	256	240	749	635
ISUs	15	—	45	1
PSUs	304	254	806	736
DSUs	69	—	393	—

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

## 6. CASH FLOW ANALYSIS

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	\$	\$	%
Cash flow from operating activities	265,551	167,073	58.9	564,009	365,310	54.4
Cash flow from investing activities	(95,735)	(59,243)	61.6	(326,746)	(1,997,192)	(83.6)
Cash flow from financing activities	(517,581)	(226,200)	—	(609,024)	1,478,263	—
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency	1,710	555	—	966	2,052	(52.9)
<b>Net change in cash and cash equivalents from continuing operations</b>	<b>(346,055)</b>	<b>(117,815)</b>	<b>—</b>	<b>(370,795)</b>	<b>(151,567)</b>	<b>—</b>
Net change in cash and cash equivalent from discontinued operations <sup>(2)</sup>	734,405	6,983	—	733,807	3,200	—
Cash and cash equivalents, beginning of the period	59,387	173,650	(65.8)	84,725	211,185	(59.9)
<b>Cash and cash equivalents, end of the period</b>	<b>447,737</b>	<b>62,818</b>	<b>—</b>	<b>447,737</b>	<b>62,818</b>	<b>—</b>

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

(2) For further details on the Corporation's cash flow attributable to discontinued operations, please consult the "Discontinued operations" section.

### 6.1 OPERATING ACTIVITIES

Fiscal 2019 third-quarter cash flow from operating activities increased by 58.9% compared to the same period of the prior year mainly from:

- higher adjusted EBITDA;
- the decreases in income taxes paid and financial expense paid; and
- the decrease in changes in non-cash operating activities primarily due to changes in working capital.

For the first nine months of fiscal 2019, cash flow from operating activities increased by 54.4% compared to the same period of the prior year mainly from:

- higher adjusted EBITDA; and
- the decreases in income taxes paid and in integration, restructuring and acquisition costs; partly offset by
- the increase in changes in non-cash operating activities primarily due to changes in working capital.

## 6.2 INVESTING ACTIVITIES

Fiscal 2019 third-quarter investing activities increased by 61.6% compared to the same period of the prior year mainly due to the redemption of short-term investments in the prior year.

For the first nine months of fiscal 2019, investing activities decreased by 83.6% compared to the same period of the prior year mainly due to the MetroCast acquisition of \$1.76 billion in the second quarter of fiscal 2018.

### BUSINESS COMBINATION IN FISCAL 2019

On October 3, 2018, the Corporation's subsidiary, Atlantic Broadband, completed the acquisition of the south Florida fibre network previously owned by FiberLight, LLC. The transaction, combined with the dark fibers acquired from FiberLight in the second quarter of fiscal 2018, added 350 route miles to Atlantic Broadband's existing south Florida footprint.

The acquisition was accounted for using the purchase method and is subject to post closing adjustments. The preliminary allocation of the purchase price of this acquisition is as follows:

	Preliminary
<i>(in thousands of dollars)</i>	<i>\$</i>
<b>Purchase price</b>	
Consideration paid at closing	38,876
Balance due on a business combination	5,005
	<b>43,881</b>
<b>Net assets acquired</b>	
Trade and other receivables	1,743
Prepaid expenses and other	335
Property, plant and equipment	45,769
Trade and other payables assumed	(644)
Contract liabilities and other liabilities assumed	(3,322)
	<b>43,881</b>

### ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

The acquisitions of property, plant and equipment as well as the capital intensity per operating segment are as follows:

	Three months ended			Change in constant currency <sup>(2)</sup>
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	
<i>(in thousands of dollars, except percentages)</i>	<i>\$</i>	<i>\$</i>	<i>%</i>	<i>%</i>
<b>Canadian broadband services</b>	<b>49,729</b>	53,206	(6.5)	(7.8)
Capital intensity	15.3%	16.2%		
<b>American broadband services</b>	<b>46,387</b>	45,454	2.1	(2.2)
Capital intensity	17.7%	19.1%		
<b>Consolidated</b>	<b>96,116</b>	98,660	(2.6)	(5.2)
Capital intensity	16.4%	17.4%		

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(2) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2846 USD/CDN.

	Nine months ended			
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	Change	Change in constant currency <sup>(2)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%
<b>Canadian broadband services</b>	<b>162,808</b>	155,823	4.5	2.7
Capital intensity	<b>16.7%</b>	15.9%		
<b>American broadband services</b>	<b>126,638</b>	139,666	(9.3)	(13.4)
Capital intensity	<b>16.4%</b>	23.2%		
<b>Consolidated</b>	<b>289,446</b>	295,489	(2.0)	(4.9)
Capital intensity	<b>16.6%</b>	18.7%		

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(2) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2664 USD/CDN.

Fiscal 2019 third-quarter acquisitions of property, plant and equipment decreased by 2.6% (5.2% in constant currency) mainly due to lower capital expenditures in the Canadian broadband services segment attributable to the timing of certain initiatives.

For the first nine months of fiscal 2019, acquisitions of property, plant and equipment decreased by 2.0% (4.9% in constant currency) mainly due to lower capital expenditures in the American broadband services segment, partly offset by higher capital expenditures in the Canadian broadband services segment.

For the first nine months of fiscal 2019, capital intensity reached 16.6% compared to 18.7% for the same period of the prior year mainly as a result of revenue growth combined with lower capital expenditures.

For further details on the Corporation's acquisitions of property, plant and equipment, please refer to the "Segmented operating and financial results" section.

## 6.3 FREE CASH FLOW AND FINANCING ACTIVITIES

### FREE CASH FLOW

Fiscal 2019 third-quarter free cash flow increased by 33.8% (33.4% in constant currency) compared to the same period of the prior year, mainly due to the following:

- higher adjusted EBITDA; and
- the decrease in financial expense.

For the first nine months of fiscal 2019, free cash flow increased by 45.5% (44.9% in constant currency) compared to the same period of the prior year mainly due to the following:

- higher adjusted EBITDA;
- the decrease in current income taxes expense; and
- the decrease in integration, restructuring and acquisition costs.

## FINANCING ACTIVITIES

For the third quarter and first nine months of fiscal 2019, changes in cash flows from financing activities are mainly explained as follows:

<i>(in thousands of dollars)</i>	Three months ended			Nine months ended			Explanations
	May 31, 2019	May 31, 2018	Change	May 31, 2019	May 31, 2018	Change	
	\$	\$	\$	\$	\$	\$	
Increase (decrease) in bank indebtedness	(31,493)	11,484	(42,977)	(1,128)	12,061	(13,189)	Related to the timing of payments made to suppliers.
Net increase (decrease) under the revolving facilities	(440,034)	397,002	(837,036)	(443,955)	397,910	(841,865)	Repayments of the revolving facilities in fiscal 2019 as a result of the sale of Cogeco Peer 1 combined with generated free cash flow.  US\$307 million revolving loan was drawn under the Term Revolving Facility following the early reimbursement of the US\$400 million Senior Unsecured Notes in the third quarter of fiscal 2018 and drawing of US\$40.4 million on the US\$150 million Senior Secured Revolving Credit Facility to finance the MetroCast acquisition.
Issuance of long-term debt, net of discounts and transaction costs	—	—	—	—	2,082,408	(2,082,408)	Issuance of a US\$1.7 billion Senior Secured Term Loan B to finance the MetroCast acquisition and refinance Atlantic Broadband's long-term debt in the second quarter of fiscal 2018.
Repayment of long-term debt	(5,749)	(611,440)	605,691	(71,989)	(1,323,496)	1,251,507	Reimbursement of the \$55 million Senior Secured Notes Series B maturing in October 2018.  Repayment of long-term debt in fiscal 2018 mainly related to the Atlantic Broadband refinancing and the early redemption of the US\$400 million Senior Unsecured Notes.
Repayment of balance due on a business combination	—	—	—	(655)	(118)	(537)	Not significant.
Increase in deferred transaction costs	—	—	—	(432)	(3,168)	2,736	Not significant.
	(477,276)	(202,954)	(274,322)	(518,159)	1,165,597	(1,683,756)	

## DIVIDENDS

During the third quarter of fiscal 2019, a quarterly eligible dividend of \$0.525 per share was paid to the holders of multiple and subordinate voting shares, totalling \$25.9 million, compared to an eligible dividend paid of \$0.475 per share, or \$23.4 million in the third quarter of fiscal 2018. Dividend payments in the first nine months totaled \$1.575 per share, or \$77.8 million, compared to \$1.425 per share, or \$70.3 million, in the prior year.

## NORMAL COURSE ISSUER BID

Following the completion of the sale of Cogeco Peer 1 on April 30, 2019, the Toronto Stock Exchange has accepted Cogeco Communications' notice of intention for a normal course issuer bid in respect to its subordinate voting shares. Purchases pursuant to the normal course issuer bid will be made between May 3, 2019 to May 20, 2020 and enable the Corporation to acquire up to 1,869,000 subordinate voting shares. During the third quarter of fiscal 2019, Cogeco Communications purchased and cancelled 157,400 subordinate voting shares with an average stated value of \$4.4 million for a consideration of \$14.5 million.

## 6.4 DIVIDEND DECLARATION

At its July 10, 2019 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of \$0.525 per share for multiple voting and subordinate voting shares, payable on August 7, 2019 to shareholders of record on July 24, 2019. 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. SEGMENTED OPERATING AND FINANCIAL RESULTS

The Corporation reports its operating results in two operating segments: Canadian broadband services and American broadband 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.

### 7.1 CANADIAN BROADBAND SERVICES

#### OPERATING AND FINANCIAL RESULTS

	Three months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	325,808	329,144	(1.0)	(1.0)	—
Operating expenses	147,054	156,391	(6.0)	(6.1)	277
Adjusted EBITDA	178,754	172,753	3.5	3.6	(277)
Adjusted EBITDA margin	54.9%	52.5%			
Acquisitions of property, plant and equipment	49,729	53,206	(6.5)	(7.8)	699
Capital intensity	15.3%	16.2%			

(1) For the three-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3402 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2846 USD/CDN.

	Nine months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	975,032	980,165	(0.5)	(0.5)	—
Operating expenses	458,471	465,326	(1.5)	(1.7)	1,029
Adjusted EBITDA	516,561	514,839	0.3	0.5	(1,029)
Adjusted EBITDA margin	53.0%	52.5%			
Acquisitions of property, plant and equipment	162,808	155,823	4.5	2.7	2,785
Capital intensity	16.7%	15.9%			

(1) For the nine-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3266 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2664 USD/CDN.

#### REVENUE

Fiscal 2019 third-quarter revenue decreased by 1.0% (1.0% in constant currency) mainly as a result of:

- decreases in video and telephony services customers primarily due to the implementation of a new customer management system in the second half of fiscal 2018; partly offset by
- rate increases; and
- higher net pricing from consumer sales.

For the first nine months of fiscal 2019, revenue decreased by 0.5% (0.5% in constant currency) mainly as a result of:

- a decline in primary service units in the first quarter of fiscal 2019 from lower service activations primarily due to the implementation of a new customer management system; and
- the impact of the timing of rate increases implemented in fiscal 2019 compared to the same period of the prior year; partly offset by
- higher net pricing from consumer sales.

## OPERATING EXPENSES

Fiscal 2019 third-quarter operating expenses decreased by 6.0% (6.1% in constant currency) mainly attributable to:

- lower compensation expenses resulting from an operational optimization program implemented in the first half of fiscal 2019; and
- lower programming costs as a result of lower primary service units.

For the first nine months of fiscal 2019, operating expenses decreased by 1.5% (1.7% in constant currency) mainly attributable to:

- lower programming costs resulting from a lower level of primary service units; and
- lower compensation expenses resulting from an operational optimization program implemented in the first half of fiscal 2019; partly offset by
- additional costs of \$4.5 million incurred in the first quarter of fiscal 2019 to support the stabilization phase of the new customer management system implemented in the third quarter of fiscal 2018; and
- retroactive costs of \$3.2 million incurred in the first quarter of fiscal 2019 related to higher rates than expected established by the Copyright Board of Canada for the retransmission of distant Canadian and American television signals in Canada for the period of 2014 to 2018.

## ADJUSTED EBITDA

For the third quarter and first nine months of fiscal 2019, adjusted EBITDA increased by 3.5% and 0.3%, respectively, (3.6% and 0.5% in constant currency) resulting mainly from a reduction in operating expenses.

## CAPITAL INTENSITY AND ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

Fiscal 2019 third-quarter acquisitions of property, plant and equipment decreased by 6.5% (7.8% in constant currency) resulting from:

- lower costs related to the new customer management system which was implemented in the third quarter of fiscal 2018; and
- lower purchases of customer premise equipment due to the timing of certain initiatives; partly offset by
- additional investments to improve and expand the network infrastructure; and
- costs related to the new IPTV platform.

For the first nine months of fiscal 2019, acquisitions of property, plant and equipment increased by 4.5% (2.7% in constant currency) resulting from:

- additional investments to improve and expand the network infrastructure; and
- costs related to the new IPTV platform; partly offset by
- lower costs related to the new customer management system which was implemented in the third quarter of fiscal 2018; and
- lower purchases of customer premise equipment due to the timing of certain initiatives.

For the first nine months of fiscal 2019, capital intensity reached 16.7% compared to 15.9% for the same period of fiscal 2018 mainly as a result of capital expenditures growth combined with a decrease in revenue.

## CUSTOMER STATISTICS

	May 31, 2019	Net additions (losses) Three months ended		Net additions (losses) Nine months ended		% of penetration <sup>(1)</sup>	
		May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018
		Primary service units	1,813,212	(11,799)	(13,141)	(53,706)	(20,031)
Internet service customers	785,703	699	693	3,426	17,138	44.6	45.0
Video service customers	657,747	(11,024)	(9,030)	(31,021)	(21,082)	37.4	40.0
Telephony service customers	369,762	(1,474)	(4,804)	(26,111)	(16,087)	21.0	23.7

(1) As a percentage of homes passed.

During the third quarter of fiscal 2018, the Canadian broadband services segment implemented a new customer management system, replacing 22 legacy systems. While the customer management system was still in the stabilization phase, contact center congestion resulted in lower services activations during most of the first quarter of fiscal 2019. Contact center and marketing operations had returned to normal at the end of the first quarter of 2019.

Variations of each services are also explained as follows:

#### INTERNET

For the third quarter and first nine months of fiscal 2019, Internet service customers net additions stood at 699 and 3,426, respectively, compared to 693 and 17,138 for the same periods of the prior year mainly due to:

- the ongoing interest in high speed offerings;
- the increased demand from Internet resellers; and
- the sustained interest in bundle offers; partly offset by
- competitive offers in the industry.

The variation for the first nine months of fiscal 2019 was also due to contact center congestion in the first quarter of fiscal 2019 resulting from the implementation and stabilization of the new customer management system.

#### VIDEO

For the third quarter and first nine months of fiscal 2019, video service customers net losses stood at 11,024 and 31,021, respectively, compared to 9,030 and 21,082 for the same periods of the prior year as a result of:

- highly competitive offers in the industry; and
- a changing video consumption environment; partly offset by
- our customers' ongoing interest in digital advanced video services; and
- bundles with fast Internet offerings.

The variation for the first nine months of fiscal 2019 was also due to contact center congestion in the first quarter of fiscal 2019 resulting from the implementation and stabilization of the new customer management system.

#### TELEPHONY

For the third quarter and first nine months of fiscal 2019, telephony service customers net losses amounted to 1,474 and 26,111, respectively, compared to 4,804 and 16,087 for the same periods of the prior year mainly due to:

- the increasing wireless penetration in North America and various unlimited offers launched by wireless operators causing some customers to cancel their landline telephony services for wireless telephony services only.

The variation for the first nine months of fiscal 2019 was also due to technical issues with telephony activations following the implementation of the new customer management system which were resolved at the end of the first quarter.

#### DISTRIBUTION OF CUSTOMERS

At May 31, 2019, the distribution of customers by number of services for the Canadian broadband services were: 31% who subscribe to one service (29% in 2018), 39% to two services (39% in 2018) and 30% to three services (32% in 2018).

## 7.2 AMERICAN BROADBAND SERVICES

### OPERATING AND FINANCIAL RESULTS

	Three months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	261,537	237,809	10.0	5.4	10,849
Operating expenses	145,836	131,613	10.8	6.2	6,055
Adjusted EBITDA	115,701	106,196	9.0	4.4	4,794
Adjusted EBITDA margin	44.2%	44.7%			
Acquisitions of property, plant and equipment	46,387	45,454	2.1	(2.2)	1,930
Capital intensity	17.7%	19.1%			

(1) For the three-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3402 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2846 USD/CDN.

	Nine months ended				
	May 31, 2019 <sup>(1)</sup>	May 31, 2018 <sup>(2)</sup>	Change	Change in constant currency <sup>(3)</sup>	Foreign exchange impact <sup>(3)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	%	%	\$
Revenue	773,115	600,929	28.7	22.8	35,006
Operating expenses	422,993	341,666	23.8	18.2	19,152
Adjusted EBITDA	350,122	259,263	35.0	28.9	15,854
Adjusted EBITDA margin	45.3%	43.1%			
Acquisitions of property, plant and equipment	126,638	139,666	(9.3)	(13.4)	5,628
Capital intensity	16.4%	23.2%			

(1) For the nine-month period ended May 31, 2019, the average foreign exchange rate used for translation was 1.3266 USD/CDN.

(2) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(3) Fiscal 2019 actuals are translated at the average foreign exchange rate of fiscal 2018 which was 1.2664 USD/CDN.

## REVENUE

For the third quarter and first nine months of fiscal 2019, revenue increased by 10.0% and 28.7%, respectively, (5.4% and 22.8% in constant currency). In local currency, revenue amounted to US\$195.2 million and US\$582.8 million, respectively, compared to US\$185.1 million and US\$474.1 million for the same periods of fiscal 2018. The increase for both periods resulted mainly from:

- rate increases;
- continued growth in Internet and telephony services customers; and
- the FiberLight acquisition completed in the first quarter of fiscal 2019; partly offset by
- a decrease in video service customers.

In addition, the variation for the first nine months of fiscal 2019 was also due to the impact of the MetroCast acquisition completed on January 4, 2018 which was included in revenue for only a five-month period for the comparable period of the prior year.

Excluding the MetroCast and FiberLight acquisitions, revenue in constant currency increased by 5.5% for the first nine months of fiscal 2019.

## OPERATING EXPENSES

For the third quarter and first nine months of fiscal 2019, operating expenses increased by 10.8% and 23.8%, respectively, (6.2% and 18.2% in constant currency) mainly as a result of:

- higher costs related to growing demands for higher Internet capacity packages;
- the FiberLight acquisition completed in the first quarter of fiscal 2019;
- programming rate increases; and
- higher compensation expenses due to higher headcount to support growth.

The variation for the third quarter of fiscal 2019 was also due to marketing initiatives and the variation for the first nine months was also attributable to the impact of the MetroCast acquisition which was included in operating expense for only a five-month period for the comparable period of the prior year, partly offset by the prior year's non-recurring costs of \$3.1 million (US\$2.5 million) related to hurricane Irma.

## ADJUSTED EBITDA

For the third quarter and first nine months of fiscal 2019, adjusted EBITDA increased by 9.0% and 35.0%, respectively, (4.4% and 28.9% in constant currency). In local currency, adjusted EBITDA amounted to US\$86.3 million and US\$264.0 million, respectively, compared to US\$82.7 million and US\$204.5 million for the same periods of fiscal 2018. The increase for both periods was mainly due to organic growth combined with the impact of the FiberLight acquisition. The increase for the first nine months of fiscal 2019 was also attributable to the impact of the MetroCast acquisition.

Excluding the MetroCast and FiberLight acquisitions and the prior year's non-recurring costs of \$3.1 million (US\$2.5 million) related to hurricane Irma, adjusted EBITDA in constant currency increased by 9.2% for the first nine months of fiscal 2019.

## CAPITAL INTENSITY AND ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

For the third quarter and first nine months of fiscal 2019, acquisitions of property, plant and equipment increased by 2.1% (decrease of 2.2% in constant currency) mainly due to:

- additional capital expenditures related to the expansion in Florida; partly offset by
- lower purchases of customer premise equipment due to the timing of certain initiatives.

For the first nine months of fiscal 2019, acquisitions of property, plant and equipment decreased by 9.3% (13.4% in constant currency) mainly due to:

- the acquisition of several dark fibres throughout south Florida from FiberLight, LLC for a consideration of \$21.2 million (US\$16.8 million) during the second quarter of fiscal 2018; partly offset by
- additional capital expenditures related to the impact of the MetroCast acquisition; and
- additional capital expenditures related to the expansion in Florida.

For the first nine months of fiscal 2019, capital intensity reached 16.4% compared to 23.2% for the same period of fiscal 2018 mainly as a result of lower capital expenditures combined with revenue growth.

## CUSTOMER STATISTICS

	May 31, 2019	Net additions (losses) Three months ended		Net additions (losses) Nine months ended		% of penetration <sup>(2)(3)</sup>	
		May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018 <sup>(1)</sup>	May 31, 2019	May 31, 2018 <sup>(3)</sup>
		Primary service units	894,015	15,803	7,578	9,550	17,454
Internet service customers	443,696	14,134	7,368	18,748	16,724	50.7	49.8
Video service customers	307,261	(345)	(1,019)	(9,991)	(3,714)	35.1	37.9
Telephony service customers	143,058	2,014	1,229	793	4,444	16.3	16.7

(1) Excludes 251,379 primary services units (130,404 Internet services, 87,873 video services and 33,102 telephony services) from the MetroCast acquisition completed in the second quarter of fiscal 2018.

(2) As a percentage of homes passed.

(3) In the first quarter of fiscal 2019, the number of homes passed in the American broadband services segment have been adjusted upwards in order to reflect the number of non-served multi-dwelling unit passings within the footprint and consequently, the penetration as a percentage of homes passed have also been adjusted.

### INTERNET

For the third quarter and first nine months of fiscal 2019, Internet service customers net additions stood at 14,134 and 18,748, respectively, compared to 7,368 and 16,724 for the same periods of the prior year as a result of:

- additional connects from the Florida expansion and in the MetroCast footprint;
- our customers' ongoing interest in high speed offerings;
- growth in both the residential and business sectors; and
- seasonal reconnects in the Maine and New Hampshire areas during the third quarter of fiscal 2019.

### VIDEO

For the third quarter and first nine months of fiscal 2019, video service customers net losses stood at 345 and 9,991, respectively, compared to 1,019 and 3,714 for the same periods of the prior year mainly from:

- competitive offers in the industry;
- a changing video consumption environment; partly offset by
- seasonal reconnects in the Maine and New Hampshire areas during the third quarter of fiscal 2019; and
- our customers' ongoing interest in TiVo's digital advanced video services.

### TELEPHONY

For the third quarter and first nine months of fiscal 2019, telephony service customers net additions stood at 2,014 and 793, respectively, compared to 1,229 and 4,444 for the same periods of the prior year mainly as a result of growth in the business sector.

### DISTRIBUTION OF CUSTOMERS

At May 31, 2019, the distribution of customers by number of services for the American broadband services were: 48% (46% in 2018) who subscribe to one service, 33% (34% in 2018) to two services and 19% (20% in 2018) to three services.

## 8. FINANCIAL POSITION

### 8.1 WORKING CAPITAL

As part of the usual conduct of its business, Cogeco Communications generally 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:

<i>(in thousands of dollars)</i>	May 31, 2019	August 31, 2018 <sup>(1)</sup>	Change	Explanations
	\$	\$	\$	
<b>Current assets</b>				
Cash and cash equivalents	447,737	84,725	363,012	Please refer to the "Cash flow analysis" section.
Trade and other receivables	72,760	97,294	(24,534)	Related to the sale of Cogeco Peer 1 on April 30, 2019, partly offset by revenue growth combined with the appreciation of the US dollar against the Canadian dollar.
Income taxes receivable	14,761	24,976	(10,215)	Mostly related to lower income tax installments made during the first nine months of fiscal 2019 in the Canadian broadband services segment.
Prepaid expenses and other	25,263	29,473	(4,210)	Not significant.
Derivative financial instruments	243	1,330	(1,087)	Not significant.
	<b>560,764</b>	237,798	322,966	
<b>Current liabilities</b>				
Bank indebtedness	4,821	5,949	(1,128)	Timing of payments made to suppliers.
Trade and other payables	184,953	302,806	(117,853)	Timing of payments made to suppliers combined with the sale of Cogeco Peer 1.
Provisions	33,283	25,887	7,396	Mostly related to the increase of network fees in the Canadian broadband services segment.
Income tax liabilities	14,248	16,133	(1,885)	Not significant.
Contract liabilities and other liabilities	47,370	59,656	(12,286)	Related to the sale of Cogeco Peer 1, partly offset by the appreciation of the US dollar against the Canadian dollar.
Balance due on a business combination	4,599	—	4,599	Related to the FiberLight acquisition completed on October 3, 2018.
Current portion of long-term debt	22,996	77,188	(54,192)	Mostly related to the reimbursement of the \$55 million Senior Secured Notes Series B maturing in October 2018, partly offset by the appreciation of the US dollar against the Canadian dollar.
	<b>312,270</b>	487,619	(175,349)	
<b>Working capital surplus (deficiency)</b>	<b>248,494</b>	(249,821)	498,315	

(1) Fiscal 2018 was restated to comply with IFRS 15. For further details, please consult the "Accounting policies" section.

## 8.2 OTHER SIGNIFICANT CHANGES

	May 31, 2019	August 31, 2018 <sup>(1)</sup>	Change	Explanations
<i>(in thousands of dollars)</i>	\$	\$	\$	
<b>Non-current assets</b>				
Property, plant and equipment	2,003,945	2,323,678	(319,733)	Related to the sale of Cogeco Peer 1, partly offset by the FiberLight acquisition in the first quarter of fiscal 2019 and the appreciation of the US dollar against the Canadian dollar.
Intangible assets	2,894,186	2,927,388	(33,202)	Related to the sale of Cogeco Peer 1, partly offset by the appreciation of the US dollar against the Canadian dollar.
Goodwill	1,385,630	1,608,446	(222,816)	Related to sale of Cogeco Peer 1, partly offset by the appreciation of the US dollar against the Canadian dollar.
Derivative financial instruments	—	33,797	(33,797)	Lower fair value of the interest rate swap agreements related to the US\$1.7 billion Senior Secured Term Loan B issued for the MetroCast acquisition due to a lower interest rate.
<b>Non-current liabilities</b>				
Long-term debt	3,434,163	3,781,020	(346,857)	Mostly related to the reimbursement of the US\$328 million Canadian Revolving Facility during the third quarter of fiscal 2019 using the proceeds of the sale of Cogeco Peer 1, partly offset by the appreciation of the US dollar against the Canadian dollar.
Derivative financial instruments	19,028	—	19,028	Lower fair value of the interest rate swap agreements related to the US\$1.7 billion Senior Secured Term Loan B issued for the MetroCast acquisition due to a lower interest rate.
<b>Shareholders' equity</b>				
Equity attributable to non-controlling interest <sup>(2)</sup>	361,353	336,442	24,911	Mostly related to the increase in profit for the period from continuing operations attributable to non-controlling interest combined with the appreciation of the US dollar against the Canadian dollar.

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(2) The non-controlling interest represents a participation of 21% in Atlantic Broadband by CDPQ, effective since the MetroCast acquisition on January 4, 2018.

## 8.3 OUTSTANDING SHARE DATA

A description of Cogeco Communications' share data at June 30, 2019 is presented in the table below. Additional details are provided in note 13 of the Condensed Interim Consolidated Financial Statements.

<i>(in thousands of dollars, except number of shares/options)</i>	Number of shares/options	Amount \$
<b>Common shares</b>		
Multiple voting shares	15,691,100	98,346
Subordinate voting shares	33,797,030	938,339
<b>Options to purchase subordinate voting shares</b>		
Outstanding options	803,977	
Exercisable options	354,192	

## 8.4 FINANCING

In the normal course of business, Cogeco Communications has incurred financial obligations, primarily in the form of long-term debt, operating and financial leases and guarantees. Cogeco Communications' obligations, as reported in the 2018 Annual Report, have not materially changed since August 31, 2018 except as follows.

On December 4, 2018, the Corporation extended its \$800 million Term Revolving Facility maturity date by an additional year until January 24, 2024.

At May 31, 2019, the Corporation had used \$1.7 million of its \$800 million Term Revolving Facility for a remaining availability of \$798.3 million. In addition, two subsidiaries related to Atlantic Broadband benefit from a Senior Secured Revolving Facility of \$202.9 million (US\$150 million), of which \$3.3 million (US\$2.4 million) was used at May 31, 2019 for a remaining availability of \$199.6 million (US\$147.6 million).

## 8.5 CREDIT RATINGS

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

At May 31, 2019	S&P	DBRS	Moody's
<b>Cogeco Communications</b>			
Senior Secured Notes and Debentures	BBB-	BBB (low)	NR
<b>Atlantic Broadband</b>			
First Liens Credit Facilities	BB-	NR	B1

NR : Not rated

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

## 8.6 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, 2019, all of the Corporation's long-term debt was at fixed rate, except for the amounts drawn under the Term Revolving Facility and First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments, the Corporation's US subsidiary entered into interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2019:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US\$1.175 billion	US Libor base rate	0.987% - 2.262%	July 2019 - November 2024	Senior Secured Term Loan B

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 \$6.9 million based on the outstanding debt at May 31, 2019.

### 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 \$12 million based on the outstanding debt at May 31, 2019.

Furthermore, the Corporation's net investments in foreign operations are exposed to market risk attributable to fluctuations in foreign currency exchange rates, notably changes in the value of the Canadian dollar versus the US dollar. The risk related to the US dollar aggregate investments is mitigated since a portion was borrowed in US dollars.

The following table shows the aggregate investments in foreign operations attributable to owners of the Corporation and the notional amount of debt borrowed to hedge these investments at May 31, 2019:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US\$390 million	US\$955.6 million	Net investments in foreign operations in US dollar

The exchange rate used to translate the US dollar currency into Canadian dollars for the statement of financial position accounts at May 31, 2019 was \$1.3527 (\$1.3055 at August 31, 2018) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollars would decrease other comprehensive income by approximately \$76.5 million.

## 8.7 FOREIGN CURRENCY

For the three and nine-month periods ended May 31, 2019, the average rates prevailing used to convert the operating results of the American broadband services and the discontinued operations were as follows:

	Three months ended				Nine months ended			
	May 31, 2019	May 31, 2018	Change	Change	May 31, 2019	May 31, 2018	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
US dollar vs Canadian dollar	1.3402	1.2846	0.06	4.3	1.3266	1.2664	0.06	4.8
British Pound vs Canadian dollar <sup>(1)</sup>	1.7518	1.7776	(0.03)	(1.5)	1.7212	1.7234	—	(0.1)

(1) The rates presented for fiscal 2019 are for the two and eight-month periods ended April 30, 2019.

The following table highlights in Canadian dollars, the impact of a depreciation of \$0.06 of the Canadian dollar against the US dollar on Cogeco Communications' segmented and consolidated operating results for the nine-month period ended May 31, 2019:

	Canadian broadband services	American broadband services	Consolidated <sup>(1)</sup>
Nine months ended May 31, 2019 <i>(in thousands of dollars)</i>	Exchange rate impact \$	Exchange rate impact \$	Exchange rate impact \$
Revenue	—	35,006	35,006
Operating expenses	1,029	19,152	20,195
Management fees - Cogeco Inc.			—
Adjusted EBITDA	(1,029)	15,854	14,811
Acquisitions of property, plant and equipment	2,785	5,628	8,413
Free cash flow			1,551

(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.

## 9. DISCONTINUED OPERATIONS

On April 30, 2019, Cogeco Communications completed the sale of its subsidiary Cogeco Peer 1 Inc., its Business ICT services subsidiary, to affiliates of Digital Colony for a net cash consideration of \$720 million.

In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, the Corporation reclassified the current period and prior year results and cash flows of Cogeco Peer 1 as discontinued operations separate from the Corporation's continuing operations.

As a result of the sale, which is subject to closing adjustments, the Corporation recognized the following gain on disposal for the third quarter and first nine months of fiscal 2019:

	\$
Gross proceeds, net of cash disposed	720,314
Preliminary working capital adjustments	(1,229)
Transaction costs	(10,903)
Net proceeds from sale, net of cash disposed	708,182
Net assets disposed	(625,738)
<b>Gain on disposal of a subsidiary</b>	<b>82,444</b>

The following table presents the carrying value of the net assets disposed of:

	\$
Trade and other receivables	19,988
Income taxes receivable	1,126
Prepaid expenses and other	8,532
Property, plant and equipment	361,774
Intangible assets	49,618
Other assets	9,594
Goodwill	272,591
Deferred tax assets	2,061
Trade and other payables	(22,416)
Provisions	(34)
Contract liabilities and other liabilities	(25,104)
Deferred tax liabilities	(22,183)
Foreign currency translation adjustment	(29,809)
	<b>625,738</b>

The profit or loss of the discontinued operations was as follows:

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018	Change	May 31, 2019	May 31, 2018	Change
	\$	\$	%	\$	\$	%
<b>Revenue</b>	<b>42,177</b>	69,986	(39.7)	<b>174,990</b>	208,123	(15.9)
Operating expenses	<b>33,196</b>	50,925	(34.8)	<b>132,390</b>	149,942	(11.7)
<b>Adjusted EBITDA</b>	<b>8,981</b>	19,061	(52.9)	<b>42,600</b>	58,181	(26.8)
Depreciation and amortization	—	24,602	(100.0)	<b>43,999</b>	72,325	(39.2)
Financial expense	<b>(775)</b>	(306)	—	<b>(1,304)</b>	(757)	72.3
Gain on disposal of a subsidiary	<b>(82,444)</b>	—	—	<b>(82,444)</b>	—	—
<b>Profit (loss) before income taxes</b>	<b>92,200</b>	(5,235)	—	<b>82,349</b>	(13,387)	—
Income taxes	<b>9,749</b>	130	—	<b>8,889</b>	9,942	(10.6)
<b>Profit (loss) for the period from discontinued operations</b>	<b>82,451</b>	(5,365)	—	<b>73,460</b>	(23,329)	—

## REVENUE

For the third quarter and first nine months of fiscal 2019, revenue decreased by 39.7% and 15.9%, respectively, primarily due to a two-month and eight-month periods of revenue in fiscal 2019 compared to three-month and nine-month periods in fiscal 2018 combined with higher churn and continued pricing pressures on the hosting and network connectivity services.

## OPERATING EXPENSES

For the third quarter and first nine months of fiscal 2019, operating expenses decreased by 34.8% and 11.7%, respectively, mainly due to:

- a two-month and eight-month periods of operating expenses in fiscal 2019 compared to three-month and nine-month periods in fiscal 2018;
- lower compensation expenses; and
- lower costs related to service delivery and cloud licensing; partly offset by
- costs related to the closure of a data centre.

## ADJUSTED EBITDA

For the third quarter and first nine months of fiscal 2019, adjusted EBITDA decreased by 52.9% and 26.8% as a result of a two-month and eight-month periods of operating results in fiscal 2019 compared to three-month and nine-month periods in fiscal 2018 combined with a higher decline in revenue.

## CASH FLOW

The cash flows of the discontinued operations were as follows:

	Three months ended			Nine months ended		
	May 31, 2019	May 31, 2018	Change	May 31, 2019	May 31, 2018	Change
	\$	\$	%	\$	\$	%
Cash flow from operating activities	22,799	18,675	22.1	41,962	37,167	12.9
Cash flow from investing activities	711,550	(11,775)	—	691,729	(34,011)	—
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	56	83	(32.5)	116	44	—
<b>Net change in cash and cash equivalents from discontinued operations</b>	<b>734,405</b>	<b>6,983</b>	<b>—</b>	<b>733,807</b>	<b>3,200</b>	<b>—</b>

## 10. FISCAL 2020 PRELIMINARY FINANCIAL GUIDELINES

The following section contains forward-looking statements concerning the business outlook for 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" section of the present MD&A and of the Corporation's 2018 annual MD&A.

The Corporation presents its financial guidelines on a constant currency basis and believes this presentation enables an improved understanding of the Corporation's underlying financial performance, undistorted by the effects of changes in a foreign currency rate. Measures on a constant currency basis are considered non-IFRS measures and do not have any standardized meaning prescribed by IFRS and therefore, may not be comparable to similar measures presented by other companies.

On a constant currency and consolidated basis, Cogeco Communications expects fiscal 2020 revenue to grow between 2% and 4% mainly as a result of organic growth in the American broadband services segment for both the residential and business sectors, the continued expansion in Florida and annual rate increases. In the Canadian broadband services segment, revenue growth should stem primarily from Internet customer additions and growth in the business sector.

On a constant currency and consolidated basis, fiscal 2020 adjusted EBITDA should grow between 2.5% and 4.5% mainly as a result of revenue growth exceeding operating expenses in both the American and Canadian broadband services segments.

The capital intensity ratio should decrease as a result of revenue growth exceeding capital expenditures increase. In the American broadband services segment, higher capital expenditures are expected due to additional investments in our network infrastructure in the areas we serve, partly offset by lower capital expenditure due to the completion of equipment replacements in the MetroCast regions in fiscal 2019. In the Canadian broadband services segment, stable capital expenditures are expected as a result of lower customer premise equipment costs, offset by investments to expand our network footprint across Ontario and Québec combined with investments in digitalization projects.

Free cash flow on a constant currency and consolidated basis should increase between 5% and 11% mainly due to the growth of adjusted EBITDA, partly offset by higher capital expenditures.

The following table outlines fiscal 2020 preliminary financial guidelines ranges on a consolidated basis:

	Preliminary projections (prior to the adoption of IFRS 16) <sup>(1)</sup>	Fiscal 2020 <sup>(2)</sup>
<i>(in millions of dollars, except percentages)</i>		
		\$
<b>Financial guidelines</b>		
Revenue	Increase of 2% to 4%	
Adjusted EBITDA	Increase of 2.5% to 4.5%	
Acquisitions of property, plant and equipment	\$460 to \$480	
Capital intensity	19% to 20%	
Free cash flow <sup>(3)</sup>	Increase of 5% to 11%	

(1) Fiscal 2020 preliminary financial guidelines presented as percentages reflect increases over projections for fiscal 2019 prior to the adoption of IFRS 16, *Leases*.

(2) Fiscal 2020 preliminary financial guidelines are based on an estimated USD/CDN exchange rate of 1.33 USD/CDN.

(3) The assumed current income tax effective rate is approximately 12%

## 11. 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, 2019, 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, 2019.

## 12. UNCERTAINTIES AND MAIN RISK FACTORS

A detailed description of the uncertainties and main risk factors faced by Cogeco Communications can be found in the 2018 Annual Report, available at [www.sedar.com](http://www.sedar.com) and [corpo.cogeco.com](http://corpo.cogeco.com). The following update should be read together with the uncertainties and main risk factors described in the 2018 Annual Report, which are hereby incorporated by reference.

On February 28, 2019, the Canadian Radio-television and Telecommunications Commission ("CRTC") initiated a public consultation to review mobile wireless services in Canada. In this proceeding, the CRTC will consider three areas for review: (i) competition in the retail wireless market, (ii) the current wholesale mobile wireless service regulatory framework, with a focus on wholesale Mobile Virtual Network Operator ("MVNO") access, and (iii) the future of mobile wireless services in Canada, with a focus on reducing barriers to infrastructure deployment. The CRTC is concerned that the mobile wireless market continues to demonstrate a high degree of market concentration. To protect the interest of users and further the policy objectives of the *Telecommunications Act*, the CRTC has determined as a preliminary view in this Notice of Consultation, that it would be appropriate to mandate the national wireless carriers in Canada (Bell Mobility, Rogers Communications and Telus Communications) to provide wholesale MVNO access as an outcome of the proceeding. The CRTC received initial submissions on May 15, 2019, followed by a public hearing that is scheduled for January 13, 2020. A decision is expected sometime in mid-2020.

# 13. ACCOUNTING POLICIES

## 13.1 CHANGES IN ACCOUNTING POLICIES

### IFRS 9 *Financial Instruments*

On September 1, 2018, the Corporation adopted IFRS 9, *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes requirements for classification and measurement, impairment, derecognition and general hedge accounting. The Corporation adopted IFRS 9 on a retrospective basis.

The Corporation is applying the IFRS 9 expected credit losses method to estimate the provision for expected credit losses on its financial assets. The Corporation elected to continue to apply the hedge accounting requirements of IAS 39.

The adoption of IFRS 9 had no significant impact on the consolidated financial statements.

### IFRS 15 *Revenue from Contracts with Customers*

On September 1, 2018, the Corporation adopted IFRS 15, *Revenue from Contracts with Customers*, on a fully retrospective basis. IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single, five-step model for an entity to recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. In addition, IFRS 15 requires additional disclosure in the consolidated financial statements regarding the Corporation's revenue. IFRS 15 supersedes the following standards: IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue-Barter Transactions Involving Advertising Services*.

The adoption of IFRS 15 has an impact on residential non-refundable upfront installation fees charged to broadband service customers. Such revenue is deferred and amortized over the period the fee remains material to the customer, which the Corporation estimated to be six months. The estimate required consideration of both quantitative and qualitative factors including average installation fee, average revenue per customer and customer behavior, among others. Prior to IFRS 15, these installation fees were deferred and amortized as revenue at the same pace as the revenue from the related services was earned, which was the average life of a customer's subscription for broadband service customers.

The adoption of IFRS 15 also impacted the consolidated financial statements with regards to the capitalization of costs to obtain a contract. Costs to obtain a contract (such as direct and incremental costs associated with the acquisition of customers) are recognized as an asset and recognized in operating expenses over the period of time the customer is expected to remain a customer of the Corporation. Prior to IFRS 15, direct and incremental costs associated with the acquisition of customers were capitalized as intangible assets for contracts lasting greater than one year, and amortized over the term of the revenue arrangement. For contracts with durations of less than one year, these costs were recognized in operating expenses as incurred.

Upfront fees paid by the Corporation to multiple-dwelling units such as condo associations, in order to gain access to serve and market occupants of the dwelling, are deferred as contract costs in other assets and recognized over the term of the contract, as a reduction of revenue. Prior to IFRS 15, these fees were capitalized in property, plant and equipment and recognized in depreciation expense, over the term of the contract.

### RECLASSIFICATION OF RECONNECT COSTS

Following an in-depth analysis of all contract costs, stemming from the adoption of IFRS 15, the Corporation reviewed the reconnect and additional service activation costs ("reconnect costs") generated by the customer reconnect activity. Prompted by the significant change in technology that occurred over time regarding the activities required to reconnect customers, the Corporation determined that the reconnect costs are incurred to ensure that the customer premise equipment ("CPE") is functioning as per the intended use and within the required parameters. Thus the reconnect costs are directly attributable to bringing the CPE assets to their condition necessary for the intended operating manner.

Consequently, the Corporation changed its accounting policy with respect to reconnect costs which are now recognized as property, plant and equipment, and depreciated over the expected useful life of the CPE. Previously, reconnect costs were capitalized as intangible assets up to a maximum not exceeding the revenue generated by the reconnect activity, and amortized over the average life of a customer's subscription, not exceeding eight years.

The Corporation believes this change in accounting policy will better reflect the current nature of the reconnect costs.

### IMPACTS OF CHANGES IN ACCOUNTING POLICIES ON THE COMPARATIVE FIGURES

The changes in accounting policies mentioned above were applied retrospectively and as a result the Corporation changed the comparative figures for the periods ended May 31, 2018, the year ended August 31, 2018 and the opening statement of financial position as at September 1, 2017 and 2018. The impact on the Corporation's consolidated financial statements of adopting these accounting policies is provided in note 2 of the the Condensed Interim Consolidated Financial Statements.



## 14.1 FREE CASH FLOW RECONCILIATION

	Three months ended		Nine months ended	
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	May 31, 2019	May 31, 2018 <sup>(1)</sup>
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
<b>Cash flow from operating activities</b>	<b>265,551</b>	167,073	<b>564,009</b>	365,310
Amortization of deferred transaction costs and discounts on long-term debt	2,193	4,812	6,514	16,468
Changes in non-cash operating activities	(13,343)	26,487	98,382	88,108
Income taxes paid	(9,769)	16,829	36,533	149,821
Current income taxes	(12,156)	(11,420)	(41,758)	(58,987)
Financial expense paid	42,732	57,548	130,640	126,627
Financial expense	(42,093)	(60,261)	(135,065)	(137,747)
Acquisition of property, plant and equipment	(96,116)	(98,660)	(289,446)	(295,489)
<b>Free cash flow</b>	<b>136,999</b>	102,408	<b>369,809</b>	254,111

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

## 14.2 ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN RECONCILIATION

	Three months ended		Nine months ended	
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	May 31, 2019	May 31, 2018 <sup>(1)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	\$	\$
<b>Profit for the period from continuing operations</b>	<b>99,571</b>	70,525	<b>264,505</b>	308,708
Income taxes	22,119	19,070	63,153	(35,282)
Financial expense	42,093	60,261	135,065	137,747
Depreciation and amortization	119,141	115,817	359,169	313,583
Integration, restructuring and acquisition costs	1,003	2,260	10,438	18,651
<b>Adjusted EBITDA</b>	<b>283,927</b>	267,933	<b>832,330</b>	743,407
Revenue	587,345	567,079	1,748,147	1,581,220
<b>Adjusted EBITDA margin</b>	<b>48.3%</b>	47.2%	<b>47.6%</b>	47.0%

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

## 14.3 CAPITAL INTENSITY RECONCILIATION

	Three months ended		Nine months ended	
	May 31, 2019	May 31, 2018 <sup>(1)</sup>	May 31, 2019	May 31, 2018 <sup>(1)</sup>
<i>(in thousands of dollars, except percentages)</i>	\$	\$	\$	\$
Acquisition of property, plant and equipment	96,116	98,660	289,446	295,489
Revenue	587,345	567,079	1,748,147	1,581,220
<b>Capital intensity</b>	<b>16.4%</b>	17.4%	<b>16.6%</b>	18.7%

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy as well as to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Accounting policies" and "Discontinued operations" sections.

# 15. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

Three months ended		May 31,		February 28,		November 30,		August 31,
<i>(in thousands of dollars, except percentages and per share data)</i>	<b>2019</b>	2018 <sup>(1)(2)</sup>	<b>2019</b>	2018 <sup>(1)(2)</sup>	<b>2018<sup>(2)</sup></b>	2017 <sup>(1)(2)</sup>	2018 <sup>(1)(2)</sup>	2017
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Operations</b>								
Revenue	<b>587,345</b>	567,079	<b>584,129</b>	529,855	<b>576,673</b>	484,286	566,184	551,728
Adjusted EBITDA	<b>283,927</b>	267,933	<b>280,552</b>	248,470	<b>267,851</b>	227,004	263,411	247,195
Adjusted EBITDA margin	<b>48.3%</b>	47.2%	<b>48.0%</b>	46.9%	<b>46.4%</b>	46.9%	46.5%	44.8%
Integration, restructuring and acquisition costs	<b>1,003</b>	2,260	<b>3,722</b>	15,999	<b>5,713</b>	392	1,677	3,191
Profit for the period from continuing operations	<b>99,571</b>	70,525	<b>86,128</b>	159,912	<b>78,806</b>	78,271	75,870	—
Profit (loss) for the period from discontinued operations	<b>82,451</b>	(5,365)	<b>(5,369)</b>	(16,079)	<b>(3,622)</b>	(1,885)	(1,052)	—
Profit for the period	<b>182,022</b>	65,160	<b>80,759</b>	143,833	<b>75,184</b>	76,386	74,818	71,335
Profit for the period attributable to owners of the Corporation	<b>179,064</b>	61,825	<b>76,349</b>	140,921	<b>70,170</b>	76,386	71,701	71,335
<b>Cash flow</b>								
Cash flow from operating activities	<b>265,551</b>	167,073	<b>199,462</b>	198,720	<b>98,996</b>	(483)	255,438	345,957
Acquisitions of property, plant and equipment	<b>96,116</b>	98,660	<b>92,773</b>	112,378	<b>100,557</b>	84,451	162,319	145,162
Free cash flow	<b>136,999</b>	102,408	<b>125,307</b>	58,796	<b>107,503</b>	92,907	47,739	50,841
Capital intensity	<b>16.4%</b>	17.4%	<b>15.9%</b>	21.2%	<b>17.4%</b>	17.4%	28.7%	26.3%
<b>Earnings (loss) per share<sup>(3)</sup></b>								
Basic								
From continuing operations	<b>1.96</b>	1.36	<b>1.65</b>	3.19	<b>1.50</b>	1.59	1.48	—
From discontinued operations	<b>1.67</b>	(0.11)	<b>(0.11)</b>	(0.33)	<b>(0.07)</b>	(0.04)	(0.02)	—
From continuing and discontinued operations	<b>3.62</b>	1.25	<b>1.55</b>	2.86	<b>1.42</b>	1.55	1.45	1.45
Diluted								
From continuing operations	<b>1.94</b>	1.35	<b>1.64</b>	3.16	<b>1.49</b>	1.57	1.47	—
From discontinued operations	<b>1.65</b>	(0.11)	<b>(0.11)</b>	(0.33)	<b>(0.07)</b>	(0.04)	(0.02)	—
From continuing and discontinued operations	<b>3.59</b>	1.24	<b>1.53</b>	2.83	<b>1.41</b>	1.53	1.44	1.44
Dividends per share	<b>0.525</b>	0.475	<b>0.525</b>	0.475	<b>0.525</b>	0.475	0.475	0.43

(1) Fiscal 2018 was restated to comply with IFRS 15 and to reflect a change in accounting policy. For further details, please consult the "Accounting policies" section.

(2) Results were restated to reclassify results from Cogeco Peer 1 as discontinued operations. For further details, please consult the "Discontinued operations" section.

(3) Per multiple and subordinate voting share.

## 15.1 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 Internet and video 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 and New Hampshire/Maine areas are also subject to seasonal fluctuations due to the winter and summer seasons.

## 16. ADDITIONAL INFORMATION

This MD&A was prepared on July 10, 2019. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Corporation's website at [corpo.cogeco.com](http://corpo.cogeco.com).

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/s/ Louis Audet  
Louis Audet  
Executive Chairman of the Board

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/s/ Philippe Jetté  
Philippe Jetté  
President and Chief Executive Officer

Cogeco Communications Inc.  
Montréal, Québec  
July 10, 2019