



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine-month periods ended May 31, 2020

COGECO COMMUNICATIONS INC.
INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
(unaudited)

		Three months ended May 31,		Nine months ended May 31,	
	Notes	2020	2019	2020	2019
		\$	\$	\$	\$
<i>(In thousands of Canadian dollars, except per share data)</i>					
Revenue	3	605,821	587,345	1,779,115	1,748,147
Operating expenses	6	304,921	298,444	907,694	901,147
Management fees – Cogeco Inc.	17	6,183	4,974	17,227	14,670
Integration, restructuring and acquisition costs	4	12	1,003	5,531	10,438
Depreciation and amortization	7	129,041	119,141	374,413	359,169
Financial expense	8	40,356	42,093	91,791	135,065
Profit before income taxes		125,308	121,690	382,459	327,658
Income taxes	9	28,584	22,119	82,016	63,153
Profit for the period from continuing operations		96,724	99,571	300,443	264,505
Profit for the period from discontinued operations		—	82,451	—	73,460
Profit for the period		96,724	182,022	300,443	337,965
Profit for the period attributable to:					
Owners of the Corporation		90,771	179,064	284,340	325,583
Non-controlling interest		5,953	2,958	16,103	12,382
		96,724	182,022	300,443	337,965
Earnings per share					
Basic	10				
Profit for the period from continuing operations		1.89	1.96	5.84	5.11
Profit for the period from discontinued operations		—	1.67	—	1.49
Profit for the period		1.89	3.62	5.84	6.59
Diluted	10				
Profit for the period from continuing operations		1.87	1.94	5.78	5.07
Profit for the period from discontinued operations		—	1.65	—	1.48
Profit for the period		1.87	3.59	5.78	6.54

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
(In thousands of Canadian dollars)	\$	\$	\$	\$
Profit for the period	96,724	182,022	300,443	337,965
Other comprehensive income				
Items to be subsequently reclassified to profit or loss				
<i>Cash flow hedging adjustments</i>				
Net change in fair value of hedging derivative financial instruments	(24,260)	(35,624)	(34,089)	(53,912)
Related income taxes	6,429	9,440	9,033	14,287
	(17,831)	(26,184)	(25,056)	(39,625)
<i>Foreign currency translation adjustments</i>				
Net foreign currency translation differences on net investments in foreign operations	49,181	46,865	68,050	62,189
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	(13,964)	(21,820)	(19,188)	(29,802)
Realized foreign currency translation adjustments on disposal of a subsidiary	—	(29,809)	—	(29,809)
Related income taxes	(176)	—	(244)	—
	35,041	(4,764)	48,618	2,578
	17,210	(30,948)	23,562	(37,047)
Items not to be subsequently reclassified to profit or loss				
<i>Defined benefit plans actuarial adjustments</i>				
Remeasurement of net defined benefit liability or asset	3,871	(5,266)	3,839	(8,155)
Related income taxes	(1,025)	1,469	(1,017)	2,235
	2,846	(3,797)	2,822	(5,920)
	20,056	(34,745)	26,384	(42,967)
Comprehensive income for the period	116,780	147,277	326,827	294,998
Comprehensive income for the period attributable to:				
Owners of the Corporation	100,882	134,731	296,960	270,087
Non-controlling interest	15,898	12,546	29,867	24,911
	116,780	147,277	326,827	294,998

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Equity attributable to owners of the Corporation					
	Share capital	Share-based payment reserve	Accumulated other comprehensive income	Retained earnings	Equity attributable to non-controlling interest	Total shareholders' equity
(In thousands of Canadian dollars)	\$	\$	\$	\$	\$	\$
	(Note 12)		(Note 13)			
Balance at August 31, 2018	1,017,172	15,260	113,774	850,963	336,442	2,333,611
Profit for the period	—	—	—	325,583	12,382	337,965
Other comprehensive income (loss) for the period	—	—	(49,576)	(5,920)	12,529	(42,967)
Comprehensive income (loss) for the period	—	—	(49,576)	319,663	24,911	294,998
Issuance of subordinate voting shares under the Stock Option Plan	3,894	—	—	—	—	3,894
Share-based payment (Note 12 D) and 17)	—	4,542	—	—	—	4,542
Share-based payment previously recorded in share-based payment reserve for options exercised	735	(735)	—	—	—	—
Dividends (Note 12 C))	—	—	—	(77,795)	—	(77,795)
Purchase and cancellation of subordinate voting shares	(4,363)	—	—	(10,097)	—	(14,460)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(2,504)	—	—	—	—	(2,504)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	4,868	(4,566)	—	(302)	—	—
Total contributions by (distributions to) shareholders	2,630	(759)	—	(88,194)	—	(86,323)
Balance at May 31, 2019	1,019,802	14,501	64,198	1,082,432	361,353	2,542,286
Balance at August 31, 2019	1,023,390	13,526	31,028	1,131,845	359,689	2,559,478
Profit for the period	—	—	—	284,340	16,103	300,443
Other comprehensive income for the period	—	—	9,798	2,822	13,764	26,384
Comprehensive income for the period	—	—	9,798	287,162	29,867	326,827
Issuance of subordinate voting shares under the Stock Option Plan	6,670	—	—	—	—	6,670
Share-based payment (Note 12 D) and 17)	—	5,218	—	—	—	5,218
Share-based payment previously recorded in share-based payment reserve for options exercised	1,129	(1,129)	—	—	—	—
Dividends (Note 12 C))	—	—	—	(84,597)	—	(84,597)
Purchase and cancellation of subordinate voting shares	(39,085)	—	—	(106,817)	—	(145,902)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	(5,643)	—	—	—	—	(5,643)
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	3,859	(3,126)	—	(733)	—	—
Total contributions by (distributions to) shareholders	(33,070)	963	—	(192,147)	—	(224,254)
Balance at May 31, 2020	990,320	14,489	40,826	1,226,860	389,556	2,662,051

COGECO COMMUNICATIONS INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

	Notes	May 31, 2020	August 31, 2019
<i>(In thousands of Canadian dollars)</i>		\$	\$
Assets			
Current			
Cash and cash equivalents	14 B)	493,794	556,504
Trade and other receivables		76,578	75,652
Income taxes receivable		13,959	17,706
Prepaid expenses and other		28,341	22,740
Derivative financial instrument		13	—
		612,685	672,602
Non-current			
Other assets		46,237	40,020
Property, plant and equipment		2,124,782	2,007,610
Intangible assets		2,893,794	2,850,844
Goodwill		1,473,632	1,373,439
Deferred tax assets		5,974	6,564
		7,157,104	6,951,079
Liabilities and Shareholders' equity			
Liabilities			
Current			
Trade and other payables		214,230	260,481
Provisions		33,096	36,553
Income tax liabilities		29,383	16,693
Contract liabilities and other liabilities		47,641	43,395
Balance due on business combinations		2,928	4,520
Derivative financial instruments		6,071	—
Current portion of long-term debt	11	228,651	22,601
		562,000	384,243
Non-current			
Long-term debt	11	3,237,053	3,382,258
Derivative financial instruments		74,062	46,044
Contract liabilities and other liabilities		11,245	11,119
Pension plan liabilities and accrued employee benefits		12,044	14,355
Deferred tax liabilities		598,649	553,582
		4,495,053	4,391,601
Shareholders' equity			
Equity attributable to owners of the Corporation			
Share capital	12 B)	990,320	1,023,390
Share-based payment reserve		14,489	13,526
Accumulated other comprehensive income	13	40,826	31,028
Retained earnings		1,226,860	1,131,845
		2,272,495	2,199,789
Equity attributable to non-controlling interest		389,556	359,689
		2,662,051	2,559,478
		7,157,104	6,951,079

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Notes	Three months ended May 31,		Nine months ended May 31,	
		2020	2019	2020	2019
(In thousands of Canadian dollars)		\$	\$	\$	\$
Cash flow from operating activities					
Profit for the period from continuing operations		96,724	99,571	300,443	264,505
Adjustments for:					
Depreciation and amortization	7	129,041	119,141	374,413	359,169
Financial expense	8	40,356	42,093	91,791	135,065
Income taxes	9	28,584	22,119	82,016	63,153
Share-based payment		1,864	923	5,821	5,053
(Gain) loss on disposals and write-offs of property, plant and equipment		(1,593)	941	(338)	1,651
Defined benefit plans expense, net of contributions		5	383	924	968
		294,981	285,171	855,070	829,564
Changes in non-cash operating activities	14 A)	19,512	13,343	(56,310)	(98,382)
Financial expense paid		(38,816)	(42,732)	(108,272)	(130,640)
Income taxes (paid) received		6,552	9,769	(27,414)	(36,533)
		282,229	265,551	663,074	564,009
Cash flow from investing activities					
Acquisition of property, plant and equipment		(123,653)	(96,116)	(355,795)	(289,446)
Business combinations, net of cash and cash equivalents acquired	5	(81,745)	—	(81,745)	(38,876)
Proceeds on disposals of property, plant and equipment		5,285	381	7,164	1,576
		(200,113)	(95,735)	(430,376)	(326,746)
Cash flow from financing activities					
Decrease in bank indebtedness		—	(31,493)	—	(1,128)
Net decrease under the revolving facilities		—	(440,034)	—	(443,955)
Repayment of notes, debentures and credit facilities		(5,859)	(5,749)	(63,603)	(71,989)
Repayment of lease liabilities		(1,352)	—	(3,762)	—
Repayment of balance due on a business combination		—	—	(3,228)	(655)
Increase in deferred transaction costs		(98)	—	(620)	(432)
Issuance of subordinate voting shares	12 B)	1,326	2,605	6,670	3,894
Purchase and cancellation of subordinate voting shares	12 B)	(59,425)	(14,460)	(145,902)	(14,460)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	12 B)	—	(2,504)	(5,643)	(2,504)
Dividends paid on multiple voting shares	12 C)	(9,101)	(8,237)	(27,303)	(24,713)
Dividends paid on subordinate voting shares	12 C)	(18,695)	(17,709)	(57,294)	(53,082)
		(93,204)	(517,581)	(300,685)	(609,024)
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency		2,987	1,710	5,277	966
Net change in cash and cash equivalents from continuing operations		(8,101)	(346,055)	(62,710)	(370,795)
Net change in cash and cash equivalents from discontinued operations		—	734,405	—	733,807
Cash and cash equivalents, beginning of the period		501,895	59,387	556,504	84,725
Cash and cash equivalents, end of the period		493,794	447,737	493,794	447,737

COGECO COMMUNICATIONS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020

(unaudited)

(amounts in tables are in thousands of Canadian dollars, except number of shares or units and per share data)

NATURE OF OPERATIONS

Cogeco Communications Inc. ("Cogeco Communications" or the "Corporation") is a communications corporation operating in Canada under the Cogeco Connexion name in Québec and Ontario, and in the United States under the Atlantic Broadband brand (in 11 states along the East Coast, from Maine to Florida). Cogeco Communications provides residential and business customers with Internet, video and telephony services through its two-way broadband fibre networks.

The Corporation is a subsidiary of Cogeco Inc. ("Cogeco"), which holds 32.6% of the Corporation's equity shares, representing 82.9% of the votes attached to the Corporation's voting shares. Cogeco Communications is a Canadian public corporation whose subordinate voting shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "CCA".

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

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all the information required for annual financial statements. Certain information and footnote disclosure included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information. As such, these condensed interim consolidated financial statements should be read in conjunction with the Corporation's 2019 annual consolidated financial statements.

These condensed interim consolidated financial statements have been prepared with the accounting policies the Corporation adopted in its 2019 annual consolidated financial statements, unless as mentioned in Note 2. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements unless otherwise indicated.

The condensed interim consolidated financial statements have been prepared on a going concern basis using historical cost, except for financial instruments and derivative financial instruments, cash-settled share-based payment arrangements and pension plan assets, which are measured at fair value, and for the defined benefit obligation and provisions, which are measured at present value.

Financial information is presented in Canadian dollars, which is the functional currency of the Corporation.

The results of operations for the interim period are not necessarily indicative of the results of operations for the full year. The Corporation does not expect seasonality to be a material factor in quarterly results, except that the number of customers in the Internet and video services 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.

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on July 15, 2020.

COGECO COMMUNICATIONS INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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2. ACCOUNTING POLICY DEVELOPMENTS

ADOPTION OF NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

IFRS 16

Effective September 1, 2019, the Corporation adopted IFRS 16 *Leases* using the modified retrospective approach whereby the financial statements of prior periods presented are not restated and the cumulative effect of the initial application is adjusted to opening retained earnings. IFRS 16 replaces previous accounting standards for leases, including IAS 17 *Leases* and IFRIC 4 *Determining whether an arrangement contains a lease*, and establishes a comprehensive model for the identification of lease arrangements, their recognition, measurement, presentation and disclosure in the financial statements of the lessees and lessors.

IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead the recognition on the statement of financial position of a right-of-use asset (representing the right to use the underlying asset) and a lease liability (representing the obligation to make the lease payments) for all leases at lease commencement, with certain exceptions permitted through elections and practical expedients. The accounting treatment for lessors and for leases previously classified as finance leases remains largely the same as under IAS 17.

As a result of adopting IFRS 16, the Corporation has recognized an increase to both assets and liabilities on the consolidated statement of financial position, stemming from the recognition of the right-of-use ("ROU") assets and the corresponding lease liabilities. Lease liabilities at transition have been measured at the present value of remaining future lease payments discounted at the related incremental borrowing rate as at September 1, 2019. ROU assets at transition have been measured at an amount equal to the lease liability, adjusted for any prepaid or accrued rent related to that lease. The ROU assets are presented within *Property, plant and equipment* and the lease liabilities within *Long-term debt*.

The total lease expenses over the lease term remain unchanged, however the timing of recognition of these expenses are effected. Relative to leases that have previously been accounted for as operating leases, the Corporation has recognized a decrease in *Operating expenses* (due to the removal of rent expense), an increase in *Depreciation and amortization* (due to the depreciation of the ROU asset) and an increase in *Financial expense* (due to the accretion of the lease liability), on the consolidated statement of profit or loss.

Although the actual cash flows relative to leases that have previously been accounted for as operating leases are unaffected, the Corporation has presented an increase in cash flows from operating activities and a decrease in cash flows from financing activities, on the consolidated statement of cash flows. This is the result of the presentation of the payment of the principal component of these leases as a cash flow use within the financing activities under the new standard, versus an operating activities cash flow use under IAS 17.

As permitted by IFRS 16, the Corporation has elected to apply certain practical expedients, most notably:

- Not separating non-lease components from lease components for certain classes of underlying assets;
- Applying a single discount rate to a portfolio of leases with similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets as at September 1, 2019;
- Using hindsight in determining the lease term where the contract contains extension or termination options;
- Electing not to recognize lease liabilities and right-of-use assets for short-term leases or low-value leases;
- Electing to exclude intangible assets from the application of IFRS 16.

The table below shows the impact of adopting IFRS 16 on the September 1, 2019 consolidated statement of financial position:

	August 31, 2019		September 1, 2019
	As reported	IFRS 16 impact	Upon adoption of IFRS 16
	\$	\$	\$
Property, plant and equipment	2,007,610	41,981	2,049,591
Current portion of long-term debt	22,601	4,566	27,167
Long-term debt	3,382,258	39,877	3,422,135
Contract liabilities and other liabilities	11,119	(2,462)	8,657

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The difference between operating lease commitments of \$160 million at August 31, 2019 and lease liabilities of \$44.4 million recognized upon adoption of IFRS 16 on September 1, 2019 was mainly the result of:

- The exclusion of approximately \$89 million of lease payments related to agreements that do not meet the criteria set out in IFRS 16, most notably for rent of support structures;
- The exclusion of approximately \$27 million of certain costs contractually committed under lease contracts, which do not qualify to be accounted for as lease liabilities, such as variable lease payments not tied to an index or rate;
- The diminishing effect of discounting the minimum lease payments, using the weighted average incremental borrowing rate of 3.57% at September 1, 2019, of approximately \$12 million;
- The inclusion of approximately \$20 million of lease payments related to reasonably certain renewal periods or extension options that had not been exercised at August 31, 2019;

IFRIC 23

IFRIC 23 *Uncertainty over income tax treatments* clarifies the application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The adoption of IFRIC 23 on September 1, 2019 had no impact on the consolidated financial statements.

3. REVENUE

	Three months ended May 31,					
	Canadian broadband services		American broadband services		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	287,547	292,109	245,361	223,298	532,908	515,407
Commercial ⁽²⁾	32,802	33,451	34,517	31,452	67,319	64,903
Other ⁽³⁾	198	248	5,396	6,787	5,594	7,035
	320,547	325,808	285,274	261,537	605,821	587,345

- (1) Includes revenue from Internet, video and telephony residential customers, bulk residential customers and Internet resellers customers.
(2) Includes revenue from Internet, video and telephony commercial customers.
(3) Includes advertising revenue, late fees, rental income and other miscellaneous revenue.

	Nine months ended May 31,					
	Canadian broadband services		American broadband services		Consolidated	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Residential ⁽¹⁾	862,639	876,825	697,364	660,204	1,560,003	1,537,029
Commercial ⁽²⁾	100,199	97,429	98,739	91,624	198,938	189,053
Other ⁽³⁾	737	778	19,437	21,287	20,174	22,065
	963,575	975,032	815,540	773,115	1,779,115	1,748,147

- (1) Includes revenue from Internet, video and telephony residential customers, bulk residential customers and Internet resellers customers.
(2) Includes revenue from Internet, video and telephony commercial customers.
(3) Includes advertising revenue, late fees, rental income and other miscellaneous revenue.

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4. OPERATING SEGMENTS

The Corporation's segment profit (loss) is reported 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 segments and to assess their performance.

The Canadian and American broadband services segments provide a wide range of Internet, video and telephony services primarily to residential customers as well as business services across their coverage areas. The Canadian broadband services activities are carried out by Cogeco Connexion in the provinces of Québec and Ontario and the American broadband services activities are carried out by Atlantic Broadband in 11 states: Connecticut, Delaware, Florida, Maine, Maryland, New Hampshire, New York, Pennsylvania, South Carolina, Virginia and West Virginia.

The previously reported Business ICT services segment, comprised of the Cogeco Peer 1 operations, was discontinued due to the sale of the Cogeco Peer 1 subsidiary on April 30, 2019.

The Corporation and its chief operating decision maker assess the performance of each operating segment based on its segment profit (loss), which is equal to revenue less operating expenses. The Inter-segment eliminations and other, include head office activities and eliminate any intercompany transactions included in each segment's operating results. Transactions between operating segments are measured at the amounts agreed to between the parties.

	Three months ended May 31, 2020			
	Canadian broadband services	American broadband services	Inter-segment eliminations and other	Consolidated
	\$	\$	\$	\$
Revenue	320,547	285,274	—	605,821
Operating expenses	143,809	155,843	5,269	304,921
Management fees – Cogeco Inc.	—	—	6,183	6,183
Segment profit (loss)	176,738	129,431	(11,452)	294,717
Integration, restructuring and acquisition costs ⁽¹⁾				12
Depreciation and amortization				129,041
Financial expense				40,356
Profit before income taxes				125,308
Income taxes				28,584
Profit for the period				96,724
Acquisition of property, plant and equipment	61,217	61,184	1,252	123,653

(1) Related to the acquisitions of Thames Valley Communications and iTétract.

COGECO COMMUNICATIONS INC.
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	Three months ended May 31, 2019			
	Canadian broadband services	American broadband services	Inter-segment eliminations and other	Consolidated
	\$	\$	\$	\$
Revenue	325,808	261,537	—	587,345
Operating expenses	147,054	145,836	5,554	298,444
Management fees – Cogeco Inc.	—	—	4,974	4,974
Segment profit (loss)	178,754	115,701	(10,528)	283,927
Integration, restructuring and acquisition costs ⁽¹⁾				1,003
Depreciation and amortization				119,141
Financial expense				42,093
Profit before income taxes				121,690
Income taxes				22,119
Profit for the period from continuing operations				99,571
Profit for the period from discontinued operations				82,451
Profit for the period				182,022
Acquisition of property, plant and equipment	49,729	46,387	—	96,116

(1) Resulted primarily from an operational optimization program that included a voluntary departure program.

	Nine months ended May 31, 2020			
	Canadian broadband services	American broadband services	Inter-segment eliminations and other	Consolidated
	\$	\$	\$	\$
Revenue	963,575	815,540	—	1,779,115
Operating expenses	445,510	445,243	16,941	907,694
Management fees – Cogeco Inc.	—	—	17,227	17,227
Segment profit (loss)	518,065	370,297	(34,168)	854,194
Integration, restructuring and acquisition costs ⁽¹⁾				5,531
Depreciation and amortization				374,413
Financial expense				91,791
Profit before income taxes				382,459
Income taxes				82,016
Profit for the period				300,443
Acquisition of property, plant and equipment	202,108	151,965	1,722	355,795

(1) Resulted from organizational changes and costs related to the acquisitions of Thames Valley Communications and iTÉract.

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(amounts in tables are in thousands of Canadian dollars, except number of shares or units and per share data)

	Nine months ended May 31, 2019			
	Canadian broadband services \$	American broadband services \$	Inter-segment eliminations and other \$	Consolidated \$
Revenue	975,032	773,115	—	1,748,147
Operating expenses	458,471	422,993	19,683	901,147
Management fees – Cogeco Inc.	—	—	14,670	14,670
Segment profit (loss)	516,561	350,122	(34,353)	832,330
Integration, restructuring and acquisition costs ⁽¹⁾				10,438
Depreciation and amortization				359,169
Financial expense				135,065
Profit before income taxes				327,658
Income taxes				63,153
Profit for the period from continuing operations				264,505
Profit for the period from discontinued operations				73,460
Profit for the period				337,965
Acquisition of property, plant and equipment	162,808	126,638	—	289,446

(1) Resulted primarily from an operational optimization program that included a voluntary departure program.

The following tables set out certain segmented and geographic market information at May 31, 2020 and August 31, 2019:

	At May 31, 2020			
	Canadian broadband services \$	American broadband services \$	Inter-segment eliminations and other \$	Total \$
Property, plant and equipment	1,160,194	960,528	4,060	2,124,782
Intangible assets	1,005,854	1,887,940	—	2,893,794
Goodwill	8,833	1,464,799	—	1,473,632

	At August 31, 2019			
	Canadian broadband services \$	American broadband services \$	Inter-segment eliminations and other \$	Total \$
Property, plant and equipment	1,124,698	882,827	85	2,007,610
Intangible assets	996,296	1,854,548	—	2,850,844
Goodwill	4,662	1,368,777	—	1,373,439

	At May 31, 2020		
	Canada \$	United States \$	Total \$
Property, plant and equipment	1,164,254	960,528	2,124,782
Intangible assets	1,005,854	1,887,940	2,893,794
Goodwill	8,833	1,464,799	1,473,632

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	At August 31, 2019		
	Canada	United States	Total
	\$	\$	\$
Property, plant and equipment	1,124,783	882,827	2,007,610
Intangible assets	996,296	1,854,548	2,850,844
Goodwill	4,662	1,368,777	1,373,439

5. BUSINESS COMBINATIONS

Acquisition of Thames Valley Communications

On March 10, 2020, the Corporation's subsidiary, Atlantic Broadband, completed the acquisition of Thames Valley Communications, a broadband services company operating in Southeastern Connecticut, for a net consideration of US\$50 million.

Acquisition of iTéract

On May 1, 2020, the Corporation's subsidiary, Cogeco Connexion, completed the acquisition of iTéract Inc., a telecommunications service provider operating in southern Québec using a combination of fixed-wireless and fibre-to-the-home technologies, and owner of 15 spectrum licenses, for \$16 million.

These acquisitions were accounted for using the purchase method and are subject to post closing adjustments. The preliminary allocation of the purchase price of these acquisitions is as follows:

	At May 31, 2020		
	Thames Valley Communications Preliminary	iTéract Preliminary	TOTAL
	\$	\$	\$
Purchase price			
Consideration paid at closing	70,982	14,399	85,381
Balance due on a business combination	—	1,600	1,600
	70,982	15,999	86,981
Net assets acquired			
Cash and cash equivalents	3,631	5	3,636
Trade and other receivables	1,152	12	1,164
Income taxes receivable	177	—	177
Prepaid expenses and other	171	1	172
Other assets	—	5	5
Property, plant and equipment ⁽¹⁾	19,401	2,936	22,337
Intangible assets	6,391	12,468	18,859
Goodwill	44,747	4,171	48,918
Trade and other payables	(1,982)	(238)	(2,220)
Contract liabilities and other liabilities	(718)	—	(718)
Long-term debt ⁽²⁾	(245)	—	(245)
Deferred tax liabilities	(1,743)	(3,361)	(5,104)
	70,982	15,999	86,981

(1) Includes \$245 of right-of-use assets.

(2) Includes solely lease liabilities.

The goodwill recorded on these acquisitions is mainly attributable to the expected growth in both residential and business services, and to the strength of the assembled workforce. The financial information of these acquisitions is not material to the Corporation's consolidated financial results, and therefore has not been disclosed.

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6. OPERATING EXPENSES

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries, employee benefits and outsourced services	93,308	85,416	277,050	256,721
Service delivery costs ⁽¹⁾	170,313	165,639	496,326	500,502
Customer related costs ⁽²⁾	20,459	20,181	65,097	59,555
Other external purchases ⁽³⁾	20,841	27,208	69,221	84,369
	304,921	298,444	907,694	901,147

(1) Include cost of equipment sold, content and programming costs, payments to other carriers, franchise fees and network costs.

(2) Include advertising and marketing expenses, selling costs, billing expenses, bad debts and collection expenses.

(3) Include office building expenses, professional service fees, Canadian Radio-television and Telecommunications Commission ("CRTC") fees, losses and gains on disposals and write-offs of property, plant and equipment, and other administrative expenses.

7. DEPRECIATION AND AMORTIZATION

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Depreciation of property, plant and equipment ⁽¹⁾	113,952	104,861	330,750	316,734
Amortization of intangible assets	15,089	14,280	43,663	42,435
	129,041	119,141	374,413	359,169

(1) The depreciation of right-of-use assets amounted to \$1,824 and \$5,095 for the three and nine-month periods of fiscal 2020.

8. FINANCIAL EXPENSE

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Interest on long-term debt, excluding interest on lease liabilities	39,484	43,988	118,531	135,491
Interest on lease liabilities	391	—	1,150	—
Gain on debt modification ⁽¹⁾	—	—	(22,898)	—
Net foreign exchange loss (gain)	348	(2,085)	379	(2,341)
Amortization of deferred transaction costs	218	466	893	1,372
Capitalized borrowing costs ⁽²⁾	(169)	(224)	(462)	(522)
Other	84	(52)	(5,802)	1,065
	40,356	42,093	91,791	135,065

(1) On February 3, 2020, the Senior Secured Term Loan B Facility was amended and the most significant change consisted in the reduction of the interest rate by 0.25%. As a result, the Corporation recognized a gain on debt modification of \$22.9 million.

(2) For the three and nine-month periods ended May 31, 2020 and 2019, the weighted average interest rate used in the capitalization of borrowing costs was 4.5%.

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9. INCOME TAXES

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Current	15,845	12,156	43,919	41,758
Deferred	12,739	9,963	38,097	21,395
	28,584	22,119	82,016	63,153

The following table provides the reconciliation between income tax expense at the Canadian statutory federal and provincial income tax rates and the consolidated income tax expense:

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Profit before income taxes	125,308	121,690	382,459	327,658
Combined Canadian income tax rate	26.5 %	26.5 %	26.5 %	26.5 %
Income taxes at combined Canadian income tax rate	33,207	32,247	101,352	86,829
Difference in operations' statutory income tax rates	626	(960)	1,633	62
Impact on deferred taxes as a result of changes in substantively enacted tax rates	(24)	(287)	4	—
Impact on income taxes arising from non-deductible expenses and non-taxable profit	385	(1,606)	(760)	(785)
Tax impacts related to foreign operations	(5,610)	(7,255)	(18,223)	(21,116)
Other	—	(20)	(1,990)	(1,837)
Income taxes at effective income tax rate	28,584	22,119	82,016	63,153

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10. EARNINGS PER SHARE

The following table provides the reconciliation between basic and diluted earnings per share:

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Profit for the period from continuing operations attributable to owners of the Corporation	90,771	96,613	284,340	252,123
Profit for the period from discontinued operations attributable to owners of the Corporation	—	82,451	—	73,460
Profit for the period attributable to owners of the Corporation	90,771	179,064	284,340	325,583
Weighted average number of multiple and subordinate voting shares outstanding	48,101,129	49,398,418	48,715,564	49,375,336
Effect of dilutive stock options ⁽¹⁾	209,660	237,402	250,409	147,299
Effect of dilutive incentive share units	75,798	96,631	74,390	103,904
Effect of dilutive performance share units	115,410	142,208	112,872	142,644
Weighted average number of diluted multiple and subordinate voting shares outstanding	48,501,997	49,874,659	49,153,235	49,769,183
Earnings per share				
Basic				
Profit for the period from continuing operations	1.89	1.96	5.84	5.11
Profit for the period from discontinued operations	—	1.67	—	1.49
Profit for the period	1.89	3.62	5.84	6.59
Diluted				
Profit for the period from continuing operations	1.87	1.94	5.78	5.07
Profit for the period from discontinued operations	—	1.65	—	1.48
Profit for the period	1.87	3.59	5.78	6.54

(1) For the three and nine-month periods ended May 31, 2020, 209,225 and 205,150 stock options (nil and 201,835 in 2019) were excluded from the calculation of diluted earnings per share due to the exercise price of the options being greater than the average share price of the subordinate voting shares.

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11. LONG-TERM DEBT

A) Notes, debentures and credit facilities

	Maturity	Interest rate %	May 31, 2020 \$	August 31, 2019 \$
Corporation ⁽¹⁾				
Senior Secured Notes				
Series A – US\$25 million	September 2024	4.14	34,396	33,155
Series B - US\$150 million	September 2026	4.29	206,280	198,845
Senior Secured Notes - US\$215 million	June 2025	4.30	295,672	284,996
Senior Secured Debentures Series 2 ⁽²⁾	November 2020	5.15	199,902	199,744
Senior Secured Debentures Series 3	February 2022	4.93	199,617	199,457
Senior Secured Debentures Series 4	May 2023	4.18	298,944	298,697
Subsidiaries				
First Lien Credit Facilities ⁽³⁾				
Senior Secured Term Loan B Facility - US\$1,631 million (US\$1,678.8 million at August 31, 2019) ⁽⁴⁾	January 2025	2.17 ^{(5) (6)}	2,187,192	2,189,965
			3,422,003	3,404,859
Less current portion			223,340	22,601
			3,198,663	3,382,258

(1) On December 6, 2019, the Corporation reduced the Term Revolving Facility from \$800 million to \$750 million and extended its maturity date by an additional year until January 24, 2025.

(2) On June 19, 2020, the Corporation announced that it will proceed with an early redemption of its Senior Secured Debentures Series 2. The redemption date will be July 20, 2020.

(3) On December 6, 2019, the maturity date of the US\$150 million Senior Secured Revolving Facility, benefiting two subsidiaries related to Atlantic Broadband, was extended by an additional 18 months until July 4, 2024.

(4) On February 3, 2020, the Corporation amended its Senior Secured Term Loan B Facility, whereby the most significant change consisted in the reduction of the interest rate by 0.25%.

(5) Interest rate on debt includes the applicable credit spread.

(6) A US subsidiary of the Corporation entered into interest rate swap agreements to fix the interest rate on a notional amount of US\$1.1 billion of its LIBOR based loans. These agreements have the effect of converting the floating US Libor base rate into fixed rates ranging from 2.017% to 2.262% for maturities between January 31, 2021 and November 30, 2024, under the Senior Secured Term Loan B Facility. Taking into account these agreements, the effective interest rate on the Senior Secured Term Loan B Facility is 3.50%.

B) Lease liabilities

In the normal course of operations, the Corporation enters into leases for buildings, land, network infrastructure and equipment. Lease contracts are typically individually negotiated for a wide range of fixed periods, but may also include renewal or termination options.

The weighted average interest rate on lease liabilities was approximately 3.55% as at May 31, 2020.

	May 31, 2020 \$
Lease liabilities	43,701
Less current portion	5,311
	38,390

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12. SHARE CAPITAL

A) AUTHORIZED

Unlimited number of:

Class A Preference shares, without voting rights, redeemable by the Corporation and retractable at the option of the holder at any time at a price of \$1 per share, carrying a cumulative preferential cash dividend at a rate of 11% of the redemption price per year.

Class B Preference shares, without voting rights, could be issued in series.

Multiple voting shares, 10 votes per share.

Subordinate voting shares, 1 vote per share.

B) ISSUED AND PAID

	May 31, 2020	August 31, 2019
	\$	\$
15,691,100 multiple voting shares	98,346	98,346
32,426,033 subordinate voting shares (33,717,668 at August 31, 2019)	908,347	939,633
	1,006,693	1,037,979
76,957 subordinate voting shares held in trust under the Incentive Share Unit Plan (76,935 at August 31, 2019)	(6,346)	(5,409)
116,337 subordinate voting shares held in trust under the Performance Share Unit Plan (118,667 at August 31, 2019)	(10,027)	(9,180)
	990,320	1,023,390

During the first nine months of fiscal 2020, subordinate voting share transactions were as follows:

	Number of shares	Amount \$
Balance at August 31, 2019	33,717,668	939,633
Shares issued for cash under the Stock Option Plan	105,765	6,670
Share-based payment previously recorded in share-based payment reserve for options exercised	—	1,129
Purchase and cancellation of subordinate voting shares ⁽¹⁾	(1,397,400)	(39,085)
Balance at May 31, 2020	32,426,033	908,347

(1) During the first nine months of fiscal 2020, under its NCIB program, the Corporation purchased and cancelled 1,397,400 (157,400 in 2019) subordinate voting shares with an average stated value of \$39.1 million (\$4.4 million in 2019), for consideration of \$145.9 million (\$14.5 million in 2019). The excess of the purchase price over the average stated value of the shares totaled \$106.8 million (\$10.1 million in 2019) and was charged to retained earnings.

NORMAL COURSE ISSUER BID ("NCIB")

On April 30, 2020, the Corporation announced that the TSX accepted the renewal of its notice of intention for a NCIB, enabling it to acquire for cancellation up to 1,809,000 subordinate voting shares from May 4, 2020 to May 3, 2021. Under its previous NCIB that commenced on May 3, 2019 and ended on May 2, 2020, the Corporation could purchase for cancellation a maximum of 1,869,000 subordinate shares.

The Corporation has also entered into an automatic share purchase plan ("ASPP") with a designated broker to allow for the purchase of subordinate voting shares under the NCIB at times when the Corporation would ordinarily not be permitted to purchase shares due to regulatory restrictions or self-imposed blackout periods. Such purchases are executed by the broker based on parameters established by the Corporation prior to the pre-established ASPP period under the ASPP.

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During the first nine months of fiscal 2020, subordinate voting shares held in trust under the Incentive Share Unit Plan transactions were as follows:

	Number of shares	Amount \$
Balance at August 31, 2019	76,935	5,409
Subordinate voting shares acquired	21,290	2,437
Subordinate voting shares distributed to employees	(21,268)	(1,500)
Balance at May 31, 2020	76,957	6,346

During the first nine months of fiscal 2020, subordinate voting shares held in trust under the Performance Share Unit Plan transactions were as follows:

	Number of shares	Amount \$
Balance at August 31, 2019	118,667	9,180
Subordinate voting shares acquired	28,005	3,206
Subordinate voting shares distributed to employees	(30,335)	(2,359)
Balance at May 31, 2020	116,337	10,027

C) DIVIDENDS

For the nine-month period ended May 31, 2020, quarterly eligible dividends of \$0.58 per share, for a total of \$1.74 per share, were paid to the holders of multiple and subordinate voting shares, totaling \$84.6 million, compared to quarterly eligible dividends of \$0.525 per share for a total of \$1.575 per share or \$77.8 million for the nine-month period ended May 31, 2019.

	Nine months ended May 31, 2020	2019
	\$	\$
Dividends on multiple voting shares	27,303	24,713
Dividends on subordinate voting shares	57,294	53,082
	84,597	77,795

At its July 15, 2020 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of \$0.58 per share for multiple and subordinate voting shares, payable on August 12, 2020 to shareholders of record on July 29, 2020.

D) SHARE-BASED PAYMENT PLANS

The Corporation offers an Employee Stock Purchase Plan for the benefit of its employees and those of its subsidiaries and a Stock Option Plan to its executive officers and designated employees. No more than 10% of the outstanding subordinate voting shares are available for issuance under these plans. Furthermore, the Corporation offers an Incentive Share Unit Plan ("ISU Plan") and a Performance Share Unit Plan ("PSU Plan") for executive officers and designated employees, and a Deferred Share Unit Plan ("DSU Plan") for members of the Board of Directors. A detailed description of these plans can be found in the 2019 annual consolidated financial statements of the Corporation.

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Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding at May 31, 2020:

	Options	Weighted average exercise price \$
Outstanding at August 31, 2019	715,614	65.93
Granted ⁽¹⁾	207,150	114.19
Exercised ⁽²⁾	(105,765)	63.07
Cancelled	(14,400)	71.58
Outstanding at May 31, 2020	802,599	78.66
Exercisable at May 31, 2020	290,879	59.93

(1) During the nine-month period ended May 31, 2020, the Corporation granted 110,875 stock options to Cogeco's executive officers as executive officers of the Corporation.

(2) The weighted average share price for options exercised during the period was \$110.44.

A compensation expense of \$200,000 and \$548,000 was recorded for the three and nine-month periods ended May 31, 2020 related to this plan. A compensation expense reduction of \$212,000 and a compensation expense of \$227,000 were recorded for the respective periods of fiscal 2019 related to this plan.

The weighted average fair value of stock options granted for the nine-month period ended May 31, 2020 was \$18.43 per option. The weighted average fair value of each option granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following weighted-average assumptions:

	%
Expected dividend yield	2.07
Expected volatility	20.51
Risk-free interest rate	1.53
Expected life (in years)	5.9

Under the ISU Plan, the following ISUs were granted by the Corporation and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	71,825
Granted	28,225
Distributed	(21,268)
Cancelled	(3,141)
Outstanding at May 31, 2020	75,641

A compensation expense of \$561,000 and \$1,429,000 (\$564,000 and \$1,631,000 in 2019) was recorded for the three and nine-month periods ended May 31, 2020 related to this plan.

Under the PSU Plan, the following PSUs were granted by the Corporation and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	107,551
Granted ⁽¹⁾	39,425
Distributed	(30,335)
Cancelled	(3,873)
Dividend equivalents	1,830
Outstanding at May 31, 2020	114,598

(1) During the nine-month period ended May 31, 2020, the Corporation granted 14,375 PSUs to Cogeco's executive officers as executive officers of the Corporation.

A compensation expense of \$481,000 and \$1,262,000 (\$144,000 and \$1,084,000 in 2019) was recorded for the three and nine-month periods ended May 31, 2020 related to this plan.

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Under the DSU Plan, the following DSUs were issued by the Corporation and are outstanding at May 31, 2020:

Outstanding at August 31, 2019	42,679
Issued ⁽¹⁾	7,233
Dividend equivalents	761
Outstanding at May 31, 2020	50,673

(1) During the nine-month period ended May 31, 2020, the Corporation issued 1,847 DSUs to Board directors of Cogeco.

A compensation expense reduction of \$74,000 and a compensation expense of \$454,000 (compensation expense of \$893,000 and \$1,228,000 in 2019) were recorded for the three and nine-month periods ended May 31, 2020 related to this plan.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge reserve \$	Foreign currency translation \$	Total \$
Balance at August 31, 2018	25,818	87,956	113,774
Other comprehensive loss	(39,625)	(9,951)	(49,576)
Balance at May 31, 2019	(13,807)	78,005	64,198
Balance at August 31, 2019	(33,842)	64,870	31,028
Other comprehensive income (loss)	(25,056)	34,854	9,798
Balance at May 31, 2020	(58,898)	99,724	40,826

14. ADDITIONAL CASH FLOW INFORMATION

A) CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended May 31,		Nine months ended May 31,	
	2020 \$	2019 \$	2020 \$	2019 \$
Trade and other receivables	13,746	10,928	1,846	2,475
Prepaid expenses and other	4,484	4,157	(4,763)	(3,466)
Other assets	(1,021)	(1,338)	(5,435)	(5,091)
Trade and other payables	3,504	(5,699)	(48,082)	(100,580)
Provisions	1,535	2,622	(4,852)	6,817
Contract liabilities and other liabilities	(2,736)	2,673	4,976	1,463
	19,512	13,343	(56,310)	(98,382)

B) CASH AND CASH EQUIVALENTS

	May 31, 2020 \$	August 31, 2019 \$
Cash	393,815	556,504
Cash equivalents ⁽¹⁾	99,979	—
	493,794	556,504

(1) Comprised of Canada Treasury bills.

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15. EMPLOYEE BENEFITS

The Corporation and its subsidiaries offer their employees either defined benefit pension plans, defined contribution pension plans or collective registered retirement savings plans, which are described in the Corporation's annual consolidated financial statements.

The total expense related to these plans is as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Defined benefit plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)				
Current service cost	491	406	1,473	1,216
Administrative expense	50	77	150	231
Recognized in financial expense (other)				
Net interest	77	(3)	232	3
Defined contribution and collective registered retirement saving plans				
Recognized in operating expenses (salaries, employee benefits and outsourced services)	2,110	2,119	6,224	6,269
	2,728	2,599	8,079	7,719

16. FINANCIAL INSTRUMENTS

A) FINANCIAL RISK MANAGEMENT

Management's objectives are to protect the Corporation and its subsidiaries against material economic exposures and variability of results, and against certain financial risks including credit, liquidity, interest rate, foreign exchange and market risks which are described in the Corporation's annual consolidated financial statements.

Liquidity risk

At May 31, 2020, the Corporation had used \$0.02 million of its \$750 million Term Revolving Facility for a remaining availability of \$749.98 million. In addition, two subsidiaries related to Atlantic Broadband benefit from a Senior Secured Revolving Facility of \$206.8 million (US\$150 million), of which \$3.3 million (US\$2.4 million) was used at May 31, 2020 for a remaining availability of \$203.5 million (US\$147.6 million).

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, 2020, all of the Corporation's long-term debt was at fixed rate, except for the amounts drawn under the First Lien Credit Facilities which are subject to floating interest rates.

To reduce the risk on the floating interest rate instruments and mitigate the impact of interest rate variations, the Corporation's US subsidiary entered into fixed interest rate swap agreements. The following table shows the interest rate swaps outstanding at May 31, 2020:

Type of hedge	Notional amount	Receive interest rate	Pay interest rate	Maturity	Hedged item
Cash flow	US\$1.1 billion	US Libor base rate	2.017% - 2.262%	January 2021 - 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 \$7.3 million based on the outstanding debt and swap agreements at May 31, 2020.

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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 the annual financial expense by approximately \$10.2 million based on the outstanding debt and swap agreements at May 31, 2020.

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, 2020:

Type of hedge	Notional amount of debt	Aggregate investments	Hedged item
Net investments	US\$390 million	US\$1,061 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, 2020 was \$1.3787 (\$1.3295 at August 31, 2019) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollars would decrease other comprehensive income by approximately \$92.5 million.

Market risk

The Corporation uses derivative instruments to manage the cash flow exposure to the risk of changes in the price of its subordinate voting shares under the DSU plan. As such, the Corporation uses equity swap agreements to economically hedge the market price appreciation risk of its subordinate voting shares.

The following table shows the equity derivatives contracts outstanding at May 31, 2020:

Type of hedge	Notional	Maturity	Average share price	Hedged item
Economic	48,000 units	January 2021	\$102.61	Equity price exposure

As at May 31, 2020 the fair value of the equity swap was \$0.01 million and recognized as an asset. A 10% increase in the market price of the subordinate voting shares at May 31, 2020 would result in a gain of approximately \$0.5 million due to the equity swap fair value appreciation, offset by a \$0.5 million increase in the DSU plan expense.

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the Corporation's financial instruments approximates fair value, except as otherwise noted in the following table:

	May 31, 2020		August 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Long-term debt, excluding lease liabilities	3,422,003	3,557,029	3,404,859	3,521,418

C) CAPITAL MANAGEMENT

The Corporation's objectives in managing capital are to ensure sufficient liquidity to support the capital requirements of its various businesses, including growth opportunities. The Corporation manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. Management of the capital structure involves the issuance of new debt, the repayment of existing debt, the issuance or repurchase of equity and distributions to shareholders. The capital structure of the Corporation is composed of shareholders' equity, cash and cash equivalents, bank indebtedness and long-term debt.

At May 31, 2020 and August 31, 2019, the Corporation was in compliance with all of its debt covenants and was not subject to any other externally imposed capital requirements.

COGECO COMMUNICATIONS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2020

(unaudited)

(amounts in tables are in thousands of Canadian dollars, except number of shares or units and per share data)

The following table summarizes certain key ratios used to monitor and manage the Corporation's capital structure:

	May 31, 2020	August 31, 2019
Net indebtedness ⁽¹⁾ / adjusted EBITDA ⁽²⁾	2.7	2.6
Adjusted EBITDA ⁽²⁾ / financial expense ⁽²⁾	7.3	6.3

(1) Net indebtedness is defined as the total of balance due on business combinations and principal on long-term debt, less cash and cash equivalents.

(2) Calculation based on adjusted EBITDA and financial expense for the twelve-month period ended May 31, 2020 and for the year ended August 31, 2019. Financial expense for the twelve-month period ended May 31, 2020 excludes the gain on debt modification of \$22.9M.

17. RELATED PARTY TRANSACTIONS

Cogeco Communications is a subsidiary of Cogeco, which holds 32.6% of the Corporation's equity shares, representing 82.9% of the votes attached to the Corporation's voting shares.

Cogeco provides executive, administrative, financial, strategic planning and additional services to the Corporation under a Management Services Agreement (the "Agreement"). The methodology used to establish the management fees is based on the costs incurred by Cogeco plus a reasonable mark-up. 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. For the three and nine-month periods ended May 31, 2020, management fees paid to Cogeco amounted to \$6.2 million and \$17.2 million, respectively, compared to \$5.0 million and \$14.7 million for the same periods of fiscal 2019.

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the nine-month periods ended May 31, 2020 and 2019, the Corporation granted stock options and PSUs to these executive officers, as executive officers of Cogeco Communications, and issued DSUs to Board directors of Cogeco, as shown in the following table:

	Nine months ended May 31,	
	2020	2019
Stock options	110,875	97,725
PSUs	14,375	14,625
DSUs	1,847	2,469

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

	Three months ended May 31,		Nine months ended May 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Stock options	331	256	901	749
ISUs	8	15	30	45
PSUs	351	304	1,048	806
DSUs	6	69	149	393
	696	644	2,128	1,993

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

18. SUBSEQUENT EVENT

Redemption of Senior Secured Debentures

On June 19, 2020, the Corporation announced that it will proceed with an early redemption of its \$200 million Senior Secured Debentures Series 2 due November 16, 2020. The redemption date will be July 20, 2020.