COGECO COMMUNICATIONS

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three-month period ended November 30, 2020

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

		Three months ended November 30,	
	Notes	**2020**	2019
(In thousands of Canadian dollars, except per share data)		**$**	$
Revenue	*3*	**618,913**	586,827
Operating expenses	*5*	**301,968**	299,332
Management fees – Cogeco Inc.	*15*	**5,852**	5,390
Integration, restructuring and acquisition costs	*4*	**1,215**	61
Depreciation and amortization	*6*	**124,250**	123,135
Financial expense	*7*	**35,210**	39,270
Profit before income taxes		**150,418**	119,639
Income taxes	*8*	**35,522**	29,931
Profit for the period		**114,896**	89,708
Profit for the period attributable to:			
Owners of the Corporation		**106,679**	84,178
Non-controlling interest		**8,217**	5,530
		114,896	89,708
Earnings per share			
Basic	*9*	**2.24**	1.71
Diluted	*9*	**2.22**	1.70

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three months ended November 30,	
	2020	2019
(In thousands of Canadian dollars)	**$**	$
Profit for the period	**114,896**	89,708
Other comprehensive income		
Items to be subsequently reclassified to profit or loss		
Cash flow hedging adjustments		
Net change in fair value of hedging derivative financial instruments	**8,392**	15,129
Related income taxes	**(2,223)**	(3,985)
	6,169	11,144
Foreign currency translation adjustments		
Net foreign currency translation differences on net investments in foreign operations	**(11,556)**	(669)
Net changes on translation of long-term debt designated as hedges of net investments in foreign operations	**3,003**	234
Related income taxes	**25**	—
	(8,528)	(435)
	(2,359)	10,709
Items not to be subsequently reclassified to profit or loss		
Defined benefit plans actuarial adjustments		
Remeasurement of net defined benefit liability or asset	**2,719**	3,473
Related income taxes	**(721)**	(920)
	1,998	2,553
	(361)	13,262
Comprehensive income for the period	**114,535**	102,970
Comprehensive income for the period attributable to:		
Owners of the Corporation	**108,670**	97,576
Non-controlling interest	**5,865**	5,394
	114,535	102,970

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Equity attributable to owners of the Corporation					
(In thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Accumulated other comprehensive income (loss) $	Retained earnings $	Equity attributable to non-controlling interest $	Total shareholders' equity $
	(Note 11)		*(Note 12)*			
Balance at August 31, 2019	1,023,390	13,526	31,028	1,131,845	359,689	2,559,478
Profit for the period	—	—	—	84,178	5,530	89,708
Other comprehensive income (loss) for the period	—	—	10,845	2,553	(136)	13,262
Comprehensive income for the period	—	—	10,845	86,731	5,394	102,970
Issuance of subordinate voting shares under the Stock Option Plan	4,495	—	—	—	—	4,495
Share-based payment (Notes 11 D) and 15)	—	1,422	—	—	—	1,422
Share-based payment previously recorded in share-based payment reserve for options exercised	701	(701)	—	—	—	—
Dividends (Note 11 C))	—	—	—	(28,521)	—	(28,521)
Purchase and cancellation of subordinate voting shares	(3,988)	—	—	(11,702)	—	(15,690)
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	3,671	(2,958)	—	(713)	—	—
Total distributions to shareholders	(764)	(2,237)	—	(40,936)	—	(43,937)
Balance at November 30, 2019	1,022,626	11,289	41,873	1,177,640	365,083	2,618,511
Balance at August 31, 2020	**984,963**	**16,347**	**(7,117)**	**1,274,053**	**373,504**	**2,641,750**
Profit for the period	**—**	**—**	**—**	**106,679**	**8,217**	**114,896**
Other comprehensive income (loss) for the period	**—**	**—**	**(7)**	**1,998**	**(2,352)**	**(361)**
Comprehensive income for the period	**—**	**—**	**(7)**	**108,677**	**5,865**	**114,535**
Issuance of subordinate voting shares under the Stock Option Plan	**272**	**—**	**—**	**—**	**—**	**272**
Share-based payment (Notes 11 D) and 15)	**—**	**1,120**	**—**	**—**	**—**	**1,120**
Share-based payment previously recorded in share-based payment reserve for options exercised	**43**	**(43)**	**—**	**—**	**—**	**—**
Dividends (Note 11 C))	**—**	**—**	**—**	**(30,544)**	**—**	**(30,544)**
Purchase and cancellation of subordinate voting shares	**(418)**	**—**	**—**	**(1,061)**	**—**	**(1,479)**
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**(4,439)**	**—**	**—**	**—**	**—**	**(4,439)**
Distribution to employees of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	**4,655**	**(4,504)**	**—**	**(151)**	**—**	**—**
Total contributions by (distributions to) shareholders	**113**	**(3,427)**	**—**	**(31,756)**	**—**	**(35,070)**
Balance at November 30, 2020	**985,076**	**12,920**	**(7,124)**	**1,350,974**	**379,369**	**2,721,215**

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

(In thousands of Canadian dollars)	*Notes*	**November 30, 2020** $	August 31, 2020 $
Assets			
Current			
Cash and cash equivalents	*13 B)*	**428,982**	366,497
Trade and other receivables		**82,029**	83,013
Income taxes receivable		**5,442**	3,283
Prepaid expenses and other		**50,507**	29,266
		566,960	482,059
Non-current			
Other assets		**45,447**	45,109
Property, plant and equipment		**2,088,238**	2,088,930
Intangible assets		**2,775,173**	2,800,401
Goodwill		**1,372,923**	1,381,024
Deferred tax assets		**4,838**	6,674
		6,853,579	6,804,197
Liabilities and Shareholders' equity			
Liabilities			
Current			
Bank indebtedness		**—**	7,610
Trade and other payables		**230,564**	211,052
Provisions		**34,100**	33,864
Income tax liabilities		**20,022**	39,897
Contract liabilities and other liabilities		**42,514**	47,162
Derivative financial instruments		**1,820**	3,834
Current portion of long-term debt	*10*	**27,738**	29,569
		356,758	372,988
Non-current			
Long-term debt	*10*	**3,067,051**	3,087,033
Derivative financial instruments		**61,175**	67,375
Contract liabilities and other liabilities		**10,993**	10,965
Pension plan liabilities and accrued employee benefits		**10,974**	13,490
Deferred tax liabilities		**625,413**	610,596
		4,132,364	4,162,447
Shareholders' equity			
Equity attributable to owners of the Corporation			
Share capital	*11 B)*	**985,076**	984,963
Share-based payment reserve		**12,920**	16,347
Accumulated other comprehensive loss	*12*	**(7,124)**	(7,117)
Retained earnings		**1,350,974**	1,274,053
		2,341,846	2,268,246
Equity attributable to non-controlling interest		**379,369**	373,504
		2,721,215	2,641,750
		6,853,579	6,804,197

Contingencies (Note 16)
Subsequent event (Note 17)

COGECO COMMUNICATIONS INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

		Three months ended November 30,	
	Notes	**2020**	2019
(In thousands of Canadian dollars)		**$**	$
Cash flows from operating activities			
Profit for the period		**114,896**	89,708
Adjustments for:			
Depreciation and amortization	*6*	**124,250**	123,135
Financial expense	*7*	**35,210**	39,270
Income taxes	*8*	**35,522**	29,931
Share-based payment		**883**	2,142
(Gain) loss on disposals and write-offs of property, plant and equipment		**(481)**	994
Defined benefit plans expense, net of contributions		**440**	492
		310,720	285,672
Changes in non-cash operating activities	*13 A)*	**(5,362)**	(81,213)
Financial expense paid		**(21,852)**	(39,115)
Income taxes paid		**(41,781)**	(16,152)
		241,725	149,192
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(116,222)**	(121,302)
Advance payment related to a business combination		**(10,000)**	—
Proceeds on disposals of property, plant and equipment		**988**	185
		(125,234)	(121,117)
Cash flows from financing activities			
(Decrease) increase in bank indebtedness		**(7,610)**	11,172
Repayment of notes, debentures and credit facilities		**(5,554)**	(5,648)
Repayment of lease liabilities		**(1,088)**	(1,196)
Repayment of balance due on business combinations		**(1,258)**	(3,228)
Issuance of subordinate voting shares	*11 B)*	**272**	4,495
Purchase and cancellation of subordinate voting shares	*11 B)*	**(1,479)**	(15,690)
Acquisition of subordinate voting shares held in trust under the Incentive and Performance Share Unit Plans	*11 B)*	**(4,439)**	(5,643)
Dividends paid	*11 C)*	**(30,544)**	(28,521)
		(51,700)	(44,259)
Effect of exchange rate changes on cash and cash equivalents denominated in a foreign currency		**(2,306)**	99
Net change in cash and cash equivalents		**62,485**	(16,085)
Cash and cash equivalents, beginning of the period		**366,497**	556,504
Cash and cash equivalents, end of the period		**428,982**	540,419

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 as of November 30, 2020 held 32.8% of the Corporation's equity shares, representing 83% 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 1 Place Ville Marie, Suite 3301, Montréal, Québec, H3B 3N2.

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and do not include all the information required for annual financial statements. Certain information and footnote disclosure normally 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 2020 annual consolidated financial statements.

The condensed interim consolidated financial statements have been prepared with the same accounting policies and methods of computation followed by the Corporation in its 2020 annual consolidated financial statements. The accounting policies have been applied consistently to all periods presented in the condensed interim consolidated financial statements. Certain comparative amounts in the condensed interim consolidated financial statements have been reclassified in order to conform to the fiscal 2021 consolidated financial statements presentation.

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 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 Internet and video services customers are generally lower in the second half of a 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 towns with educational institutions. In the American broadband services segment, certain areas are also subject to seasonal fluctuations during the winter and summer seasons.

The condensed interim consolidated financial statements were approved by the Board of Directors of the Corporation at its meeting held on January 14, 2021.

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

2. ACCOUNTING POLICY DEVELOPMENTS

ADOPTION OF NEW ACCOUNTING STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

Amendments to IFRS 3

In October 2018, the IASB amended IFRS 3, *Business combinations*, to clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. Effective September 1, 2020, the Corporation adopted these amendments, which had no impact on the consolidated financial statements. The effects, if any, of these amendments, will be dependent on the facts and circumstances of any future acquisitions and they may affect whether those future acquisitions are accounted for as business combinations or as asset acquisitions, along with the allocation of the purchase price between the net identifiable assets acquired and goodwill.

3. REVENUE

	Three months ended November 30,					
	Canadian broadband services		American broadband services		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	$	$	**$**	$	**$**	$
Residential [1]	**293,426**	286,754	**248,865**	227,314	**542,291**	514,068
Commercial	**34,017**	33,963	**34,417**	32,000	**68,434**	65,963
Other	**566**	90	**7,622**	6,706	**8,188**	6,796
	328,009	320,807	**290,904**	266,020	**618,913**	586,827

(1) Includes revenue from Internet, video and telephony residential customers, bulk residential customers and Internet resellers customers.

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 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*. Transactions between operating segments are measured at the amounts agreed to between the parties.

The column entitled "Corporate and eliminations" is comprised of the corporate activities and consolidation elimination entries.

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

	Three months ended November 30, 2020			
	Canadian broadband services	American broadband services	Corporate and eliminations	Consolidated
	$	$	$	$
Revenue	328,009	290,904	—	618,913
Operating expenses	141,895	152,378	7,695	301,968
Management fees – Cogeco Inc.	—	—	5,852	5,852
Segment profit (loss)	186,114	138,526	(13,547)	311,093
Integration, restructuring and acquisition costs (1)				1,215
Depreciation and amortization				124,250
Financial expense				35,210
Profit before income taxes				150,418
Income taxes				35,522
Profit for the period				114,896
Acquisition of property, plant and equipment	65,610	49,347	1,265	116,222

(1) Comprised primarily of due diligence costs and legal fees related to the acquisition of DERYtelecom (see Note 17).

	Three months ended November 30, 2019			
	Canadian broadband services	American broadband services	Corporate and eliminations	Consolidated
	$	$	$	$
Revenue	320,807	266,020	—	586,827
Operating expenses	149,845	144,370	5,117	299,332
Management fees – Cogeco Inc.	—	—	5,390	5,390
Segment profit (loss)	170,962	121,650	(10,507)	282,105
Integration, restructuring and acquisition costs				61
Depreciation and amortization				123,135
Financial expense				39,270
Profit before income taxes				119,639
Income taxes				29,931
Profit for the period				89,708
Acquisition of property, plant and equipment	75,130	45,833	339	121,302

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

5. OPERATING EXPENSES

	Three months ended November 30,	
	2020	2019
	$	$
Salaries, employee benefits and outsourced services	**91,827**	91,265
Service delivery costs	**165,964**	162,495
Customer related costs	**19,607**	22,007
Other external purchases	**24,570**	23,565
	301,968	299,332

6. DEPRECIATION AND AMORTIZATION

	Three months ended November 30,	
	2020	2019
	$	$
Depreciation of property, plant and equipment (1)	**109,415**	108,827
Amortization of intangible assets	**14,835**	14,308
	124,250	123,135

(1) Includes depreciation of right-of-use assets amounting to $1.5 million ($1.6 million in fiscal 2020) for the three-month period of fiscal 2021.

7. FINANCIAL EXPENSE

	Three months ended November 30,	
	2020	2019
	$	$
Interest on long-term debt, excluding interest on lease liabilities	**33,325**	40,079
Interest on lease liabilities	**338**	381
Net foreign exchange loss	**806**	20
Amortization of deferred transaction costs	**211**	464
Capitalized borrowing costs	**(50)**	(151)
Other	**580**	(1,523)
	35,210	39,270

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

8. INCOME TAXES

	Three months ended November 30,	
	2020	2019
	$	$
Current	**19,862**	23,597
Deferred	**15,660**	6,334
	35,522	29,931

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 November 30,	
	2020	2019
	$	$
Profit before income taxes	**150,418**	119,639
Combined Canadian income tax rate	**26.5 %**	26.5 %
Income taxes at combined Canadian income tax rate	**39,861**	31,704
Difference in operations' statutory income tax rates	**631**	707
Impact on income taxes arising from non-deductible expenses and non-taxable profit	**114**	(229)
Tax impacts related to foreign operations	**(5,143)**	(6,510)
Other	**59**	4,259
Income taxes at effective income tax rate	**35,522**	29,931
Effective income tax rate	**23.6 %**	25.0 %

9. EARNINGS PER SHARE

The following table provides the components used in the calculation of basic and diluted earnings per share:

	Three months ended November 30,	
	2020	2019
	$	$
Profit for the period attributable to owners of the Corporation	**106,679**	84,178
Weighted average number of multiple and subordinate voting shares outstanding	**47,725,287**	49,154,736
Effect of dilutive stock options (1)	**209,698**	282,446
Effect of dilutive incentive share units	**75,909**	71,990
Effect of dilutive performance share units	**105,682**	107,837
Weighted average number of diluted multiple and subordinate voting shares outstanding	**48,116,576**	49,617,009

(1) For the first quarter of fiscal 2021, 200,900 stock options (205,150 in fiscal 2020) 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.

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

10. LONG-TERM DEBT

	November 30, 2020	August 31, 2020
	$	$
Notes, debentures and credit facilities	3,055,043	3,072,511
Lease liabilities	38,146	41,235
Balance due on business combinations	1,600	2,856
	3,094,789	3,116,602
Less current portion	27,738	29,569
	3,067,051	3,087,033

Notes, debentures and credit facilities

	Maturity	Interest rate	November 30, 2020	August 31, 2020
		%	$	$
Corporation				
Senior Secured Notes				
Series A - US$25 million	September 2024	4.14	32,349	32,538
Series B - US$150 million	September 2026	4.29	193,987	195,123
Senior Secured Notes - US$215 million	June 2025	4.30	278,066	279,687
Senior Secured Debentures Series 3	February 2022	4.93	199,727	199,671
Senior Secured Debentures Series 4	May 2023	4.18	299,112	299,027
Subsidiaries				
First Lien Credit Facilities				
Senior Secured Term Loan B Facility - US$1,622.5 million (US$1,626.8 million at August 31, 2020)	January 2025	2.15 (1) (2)	2,051,802	2,066,465
			3,055,043	3,072,511
Less current portion			22,040	22,171
			3,033,003	3,050,340

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

(2) 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%.

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

11. 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

	November 30, 2020	August 31, 2020
	$	$
15,691,100 multiple voting shares	98,346	98,346
32,220,398 subordinate voting shares (32,231,433 at August 31, 2020)	902,793	902,896
	1,001,139	1,001,242
76,930 subordinate voting shares held in trust under the Incentive Share Unit Plan (76,957 at August 31, 2020)	(6,655)	(6,346)
106,792 subordinate voting shares held in trust under the Performance Share Unit Plan (115,222 at August 31, 2020)	(9,408)	(9,933)
	985,076	984,963

During the first three months of fiscal 2021, subordinate voting share transactions were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2020	32,231,433	902,896
Shares issued for cash under the Stock Option Plan	3,865	272
Share-based payment previously recorded in share-based payment reserve for options exercised	—	43
Purchase and cancellation of subordinate voting shares (1)	(14,900)	(418)
Balance at November 30, 2020	32,220,398	902,793

(1) During the first three months of fiscal 2021, under its Normal Course Issuer Bid ("NCIB") program, the Corporation purchased and cancelled 14,900 (143,100 in 2020) subordinate voting shares with an average stated value of $0.4 million ($4 million in 2020), for consideration of $1.5 million ($15.7 million in 2020). The excess of the purchase price over the average stated value of the shares totaled $1.1 million ($11.7 million in 2020) and was charged to retained earnings.

Normal course issuer bid

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.

On September 2, 2020, Cogeco Communications ceased repurchasing shares under the ASPP as a result of the Altice-Rogers proposal.

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

During the first three months of fiscal 2021, the transactions pertaining to the subordinate voting shares held in trust under the Incentive Share Unit Plan were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2020	76,957	6,346
Subordinate voting shares acquired	24,255	2,311
Subordinate voting shares distributed to employees	(24,282)	(2,002)
Balance at November 30, 2020	76,930	6,655

During the first three months of fiscal 2021, the transactions pertaining to the subordinate voting shares held in trust under the Performance Share Unit Plan were as follows:

	Number of shares	Amount
		$
Balance at August 31, 2020	115,222	9,933
Subordinate voting shares acquired	22,337	2,128
Subordinate voting shares distributed to employees	(30,767)	(2,653)
Balance at November 30, 2020	106,792	9,408

C) DIVIDENDS

For the three-month period ended November 30, 2020, a quarterly eligible dividend of $0.64 per share, for a total of $30.5 million, was paid to the holders of multiple and subordinate voting shares, compared to a quarterly eligible dividend of $0.58 per share, for a total of $28.5 million for the three-month period ended November 30, 2019.

	Three months ended November 30,	
	2020	2019
	$	$
Dividends on multiple voting shares	10,042	9,101
Dividends on subordinate voting shares	20,502	19,420
	30,544	28,521

At its January 14, 2021 meeting, the Board of Directors of Cogeco Communications declared a quarterly eligible dividend of $0.64 per share for multiple and subordinate voting shares, payable on February 11, 2021 to shareholders of record on January 28, 2021.

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 2020 annual consolidated financial statements of the Corporation.

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

Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding at November 30, 2020:

	Options	Weighted average exercise price
		$
Outstanding at August 31, 2020	786,799	78.49
Granted	153,425	94.27
Exercised [(1)]	(3,865)	70.45
Cancelled	(7,445)	76.66
Outstanding at November 30, 2020	**928,914**	**81.15**
Exercisable at November 30, 2020	**431,754**	**67.87**

(1) The weighted average share price for options exercised during the period was $95.79.

The weighted average fair value of stock options granted for the three-month period ended November 30, 2020 was $14.74 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	2.76
Expected volatility	24.79
Risk-free interest rate	0.42
Expected life (in years)	5.9

Under the ISU Plan, the following ISUs were granted by the Corporation and are outstanding at November 30, 2020:

Outstanding at August 31, 2020	76,141
Granted [(1)]	24,900
Distributed	(24,282)
Cancelled	(2,409)
Outstanding at November 30, 2020	**74,350**

(1) The weighted average fair value of the ISUs granted during the period was $94.23.

Under the PSU Plan, the following PSUs were granted by the Corporation and are outstanding at November 30, 2020:

Outstanding at August 31, 2020	112,886
Granted [(1)]	32,325
Distributed	(30,767)
Cancelled	(10,768)
Dividend equivalents	696
Outstanding at November 30, 2020	**104,372**

(1) The weighted average fair value of the PSUs granted during the period was $94.26.

Under the DSU Plan, the following DSUs were issued by the Corporation and are outstanding at November 30, 2020:

Outstanding at August 31, 2020	50,958
Dividend equivalents	339
Outstanding at November 30, 2020	**51,297**

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

The following table shows the compensation expense recorded with regards to the Corporation's share-based payment plans:

	Three months ended November 30,	
	2020	2019
	$	$
Stock options	**268**	160
ISUs	**473**	321
PSUs	**178**	307
DSUs	**(212)**	588
	707	1,376

12. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

	Cash flow hedge reserve	Foreign currency translation	Total
	$	$	$
Balance at August 31, 2019	(33,842)	64,870	31,028
Other comprehensive income (loss)	11,144	(299)	10,845
Balance at November 30, 2019	(22,698)	64,571	41,873
Balance at August 31, 2020	**(52,184)**	**45,067**	**(7,117)**
Other comprehensive income (loss)	**6,169**	**(6,176)**	**(7)**
Balance at November 30, 2020	**(46,015)**	**38,891**	**(7,124)**

13. ADDITIONAL CASH FLOW INFORMATION

A) CHANGES IN NON-CASH OPERATING ACTIVITIES

	Three months ended November 30,	
	2020	2019
	$	$
Trade and other receivables	**(2,365)**	(3,131)
Prepaid expenses and other	**(11,376)**	(12,589)
Other assets	**(714)**	(2,756)
Trade and other payables	**15,060**	(63,835)
Provisions	**(604)**	(1,827)
Contract liabilities and other liabilities	**(5,363)**	2,925
	(5,362)	(81,213)

B) CASH AND CASH EQUIVALENTS

	November 30, 2020	August 31, 2020
	$	$
Cash	**364,157**	366,497
Cash equivalents [1]	**64,825**	—
	428,982	366,497

(1) Comprised of high interest bank deposits.

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

14. 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.

Credit risk

The Corporation is exposed to credit risk arising from the derivative financial instruments, cash and cash equivalents, and trade accounts receivable, the maximum exposure of which is represented by the carrying amounts reported on the condensed interim consolidated statements of financial position.

The Corporation reduces the credit risk with regards to the derivative financial instruments by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. At November 30, 2020, management believes this credit risk to be minimal, since the lowest credit rating of the counterparties to the agreements is "A" by Standard & Poor's rating services ("S&P").

Cash equivalents consist mainly of highly liquid money market short-term investments. The Corporation has deposited the cash and cash equivalents with reputable financial institutions, for which management believes the risk of loss to be remote.

To mitigate the credit risk in relation to its trade accounts receivable, the Corporation continuously monitors the financial condition of its customers and reviews the credit history or worthiness of each new large customer. The Corporation has credit policies in place and has established various credit controls, including credit checks, deposits on accounts and advance billing, and has also established procedures to suspend the availability of services when customers have fully utilized approved credit limits or have violated existing payment terms. Furthermore, a large portion of the Corporation's customers are billed and pay before the services are rendered. The Corporation believes that its allowance for doubtful accounts is sufficient to cover the related credit risk. Since the Corporation has a large and diversified clientele dispersed throughout its market areas in Canada and the United States, there is no significant concentration of credit risk.

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 November 30, 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 November 30, 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 $6.8 million based on the outstanding debt and swap agreements at November 30, 2020.

Foreign exchange risk

The Corporation is exposed to foreign exchange risk with respect to the interest associated with its notes, debentures and credit facilities denominated in US dollars. The impact of a 10% increase in the exchange rate of the US dollar into Canadian dollars would increase the annual financial expense by approximately $9.5 million based on the outstanding debt and swap agreements at November 30, 2020.

Furthermore, a foreign currency exposure arises from the Corporation's net investment in its US subsidiary, as a result of the translation of the net investment into the Corporation's functional currency. A portion of the Corporation's net investment in its US subsidiary is hedged by the Corporation's US dollar denominated Senior Secured Notes, which the Corporation has designated as hedges of the net investment, while a portion is economically hedged by its subsidiary's US dollar denominated First Lien Credit Facilities.

The exchange rate used to translate the US dollar currency into Canadian dollars for the consolidated statement of financial position accounts at November 30, 2020 was $1.2965 ($1.3042 at August 31, 2020) per US dollar. A 10% decrease in the exchange rate of the US dollar into Canadian dollar would decrease other comprehensive income by approximately $92 million.

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

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:

	November 30, 2020		August 31, 2020	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Notes, debentures and credit facilities	**3,055,043**	**3,208,153**	3,072,511	3,224,816

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 November 30, 2020 and August 31, 2020, the Corporation was in compliance with all of its debt covenants and was not subject to any other externally imposed capital requirements.

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

	November 30, 2020	August 31, 2020
Net indebtedness (1) / adjusted EBITDA (2)	**2.3**	2.4
Adjusted EBITDA (2) / financial expense (2)	**7.9**	7.5

(1) Net indebtedness is defined as the total of bank indebtedness 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 November 30, 2020 and for the year ended August 31, 2020. Financial expense for the twelve-month period ended November 30, 2020 and for the year ended August 31, 2020 excludes the gain on debt modification of $22.9 million, which is consistent with the covenants calculation.

15. RELATED PARTY TRANSACTIONS

Cogeco Communications is a subsidiary of Cogeco, which as of November 30, 2020 held 32.8% of the Corporation's equity shares, representing 83% 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 adjustments upon the request of either Cogeco or the Corporation from time to time during the term of the Agreement. For the three-month period of fiscal 2021, management fees paid to Cogeco amounted to $5.9 million ($5.4 million for the same period of fiscal 2020).

No direct remuneration is payable to Cogeco's executive officers by the Corporation. However, during the three-month periods ended November 30, 2020 and 2019, the Corporation granted stock options and PSUs to these executive officers, as executive officers of Cogeco Communications, as shown in the following table:

	Three months ended November 30,	
	2020	2019
Stock options	**69,200**	110,875
PSUs	**10,375**	14,375

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

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 November 30,	
	2020	2019
	$	$
Stock options	**345**	309
ISUs	**6**	13
PSUs	**(150)**	312
DSUs	**(25)**	132
	176	766

16. CONTINGENCIES

CRTC's wholesale Internet services 2019 rate decision

On August 15, 2019, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued a decision setting new rates for aggregated wholesale Internet services for resellers, significantly lowering the interim rates it had previously fixed in 2016 and applying the new rates on a retroactive basis. On September 13, 2019, the Corporation, together with other telecommunications service providers (the "Telecommunications Service Providers"), filed an application for leave to appeal the CRTC order to the Federal Court of Appeal ("FCA") and to suspend its effect pending the Court decision to hear the matter. While leave to appeal and an interlocutory stay of the CRTC order were both granted, the FCA ultimately dismissed the appeal and lifted the stay on September 10, 2020. On November 12, 2020, the Telecommunications Service Providers sought leave to appeal the Federal Court of Appeal decision to the Supreme Court of Canada.

In parallel, on December 13, 2019, the Telecommunications Service Providers submitted to the CRTC an application for review and variance of the CRTC order, based on substantial doubt as to the correctness of the rate setting methodology relied upon by the CRTC in the order. The application also requested a stay of the Order pending a decision from the CRTC. On September 28, 2020, the CRTC approved the request to stay the implementation of Telecom Order 2019-288 regarding final rates for aggregated wholesale high-speed access services until the CRTC completes its review of that order.

In addition, on November 13, 2019, the Telecommunications Service Providers filed a petition with the Governor in Council, asking Cabinet to refer the CRTC order back to the CRTC for reconsideration in conjunction with the CRTC's planned review of its regulatory framework for wireline wholesale services and in accordance with specific policy considerations. The Governor in Council rendered an order on August 15, 2020 confirming that the rates set by the CRTC decision do not in all instances appropriately balance the required policy objectives. However, as a review and variance process is currently pending before the CRTC, the Governor in Council confirmed that any further instructions from Cabinet to the CRTC would be premature.

Due to the stay issued by the CRTC and the significant uncertainty surrounding both the outcome of this decision and its financial implications, the Corporation has not recorded the impact of the reduced rates as at November 30, 2020.

17. SUBSEQUENT EVENT

Acquisition of DERYtelecom

On December 14, 2020, the Corporation's subsidiary, Cogeco Connexion, completed the acquisition of DERYtelecom, the third largest cable operator in the province of Québec, for a purchase price of $403 million, subject to customary post-closing adjustments. The transaction was executed essentially through an asset purchase. This acquisition enables Cogeco Connexion to expand its activities in more than 200 municipalities in Québec, including in the Estrie, Lanaudière, Montérégie and Laurentians regions, and adds approximately 100,000 customers to its client base. The purchase price was financed through a combination of cash on hand and borrowings under Cogeco Communications' Term Revolving Facility.