



## SHAREHOLDER'S REPORT

First Quarter Ended November 30, 2008

### FINANCIAL HIGHLIGHTS

(\$000, except percentages and per share data)	Quarters ended November 30,		Change %
	2008 \$ (unaudited)	2007 <sup>(1)</sup> \$ (unaudited)	
Revenue	308,375	260,255	18.5
Operating income from continuing operations before amortization <sup>(2)</sup>	124,704	100,174	24.5
Operating income from continuing operations	60,641	47,135	28.7
Income from continuing operations	11,053	7,656	44.4
Loss from discontinued operations	–	(17,632)	–
Net income (loss)	11,053	(9,976)	–
Cash flow from operating activities from continuing operations	30,470	46,604	(34.6)
Cash flow from operations from continuing operations <sup>(2)</sup>	95,626	81,377	17.5
Capital expenditures and increase in deferred charges	73,855	58,403	26.5
Free cash flow <sup>(2)</sup>	21,771	22,974	(5.2)
Earnings (loss) per share			
Basic			
Income from continuing operations	0.66	0.46	43.5
Loss from discontinued operations	–	(1.06)	–
Net income	0.66	(0.60)	–
Diluted			
Income from continuing operations	0.66	0.46	43.5
Loss from discontinued operations	–	(1.06)	–
Net income	0.66	(0.60)	–

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement), and to reflect the presentation of foreign exchange gains or losses as financial expense instead of operating costs.

<sup>(2)</sup> The indicated terms do not have standardized definitions prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section of the Management's discussion and analysis.

## FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to COGECO's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. In particular, statements regarding the Company's future operating results and economic performance and its objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which COGECO believes are reasonable as of the current date. While management considers these assumptions to be reasonable based on information currently available to the Company, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties (described in the "Uncertainties and main risk factors" section of the Company's 2008 annual Management's Discussion and Analysis (MD&A) that could cause actual results to differ materially from what COGECO currently expects. These factors include technological changes, changes in market and competition, governmental or regulatory developments, general economic conditions, the development of new products and services, the enhancement of existing products and services, and the introduction of competing products having technological or other advantages, many of which are beyond the Company's control. Therefore, future events and results may vary significantly from what management currently foresees. The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While management may elect to, the Company is under no obligation (and expressly disclaims any such obligation), and does not undertake to update or alter this information before the next quarter.

This analysis should be read in conjunction with the Company's consolidated financial statements, and the notes thereto, prepared in accordance with Canadian GAAP and the MD&A included in the Company's 2008 Annual Report. Throughout this discussion, all amounts are in Canadian dollars unless otherwise indicated.

## CORPORATE STRATEGIES AND OBJECTIVES

COGECO Inc.'s ("COGECO" or the "Company") objectives are to maximize shareholder value by increasing profitability and ensuring continued growth. The strategies employed to reach these objectives, supported by tight controls over costs and business processes, are specific to each sector. For the cable sector, sustained corporate growth and the continuous improvement of networks and equipment are the main strategies used. The radio activities focus on continuous improvement of programming in order to increase market share, and, thereby, profitability. COGECO uses growth of operating income before amortization<sup>(1)</sup>, free cash flow<sup>(1)</sup> and revenue-generating units ("RGU")<sup>(2)</sup> growth in order to measure its performance against these objectives for the cable sector. Below are the Company's recent achievements in furthering the corporate objectives.

### Tight control over costs and business processes

- For the first quarter of 2009, the Company's operating costs increased over last year by 14.7% compared to a revenue growth of 18.5%;
- The design of internal controls over financial reporting as per National Instrument 52-109 is still ongoing. As discussed in the 2008 annual MD&A, the Company identified certain material weaknesses in the design of internal controls over financial reporting and has been working to improve the design and efficiency of internal controls on some significant processes during the quarter. The documentation and remediation of key internal controls are progressing normally.

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<sup>(2)</sup> Represents the sum of Basic Cable, High Speed Internet (HSI), Digital Television and Telephony service customers.

## **Cable sector**

### **Sustained corporate growth**

#### Canadian operations

- Digital Television service:
  - On December 4, launch of TSN2 HD, TELETOON Retro and Canal Indigo HD on the High Definition (“HD”) Television service in Québec;
  - During the first quarter, the following Digital and HD Television services were launched:
    - TELETOON On Demand and TSN2 in Ontario and Québec;
    - TELETOON Jr. On Demand and TSN HD in Québec;
    - CBS College Sports, Speed HD, Raptors HD, TSN2 HD and Super Channel HD in Ontario.
- Telephony service:
  - During the first quarter, the Telephony service was launched in the following cities:
    - Vineland, Stevensville, Port Robinson, Tecumseh and LaSalle, Ontario;
    - Bromptonville, Richmond and Windsor, Québec.
- Customer service;
  - On November 20, the Cogeco Cable Québec call centre won a *Flèche d’or - Contact Centre of the Year, Best Employer Award* from the Québec Relationship Marketing Association (RMA);
  - On November 18, for a second consecutive year, Cogeco Cable’s call centres, located in Trois-Rivières, Québec, and in Burlington, Ontario, received from the Service Quality Measurement Group (“SQM”) the *Highest Customer Satisfaction Award* as well as the *First Call resolution Merit Award* which recognizes the best improvement in first call resolution.
- Cogeco Data Services
  - On December 15, announcement of a 10-year, \$39 million contract with the Toronto District School Board (“TDSB”).

#### European operations

- Digital Television service:
  - Continued deployment of Cabovisão - Televisão por Cabo, S.A. (“Cabovisão”)’s Digital Television service;
  - Launch of Sony AXN, Disney and Benfica channels;
  - Launch of a new PVR box.

### **Continuous improvement of networks and equipment**

- During the first quarter of fiscal 2009, the Company invested approximately \$23 million in its cable infrastructure including head-ends and upgrades and rebuilds.

### **Other**

- Fall’s BBM Canada survey conducted with the Portable People Meter (“PPM”) shows that RYTHME FM has maintained its leadership position with audiences in the adult and female categories in the Montréal market. The other RYTHME FM stations and the 93<sup>3</sup> station in the Québec City continue to expand their audiences.

### **Discontinued Operations**

In October 2007, the Board of Directors of TQS, an indirect subsidiary of the Company, engaged CIBC World Markets to advise on and assess strategic options for the TQS network in the face of financial difficulties. On December 18, 2007, the Québec Superior Court issued an order under the *Companies’ Creditors Arrangement Act* (Canada) protecting TQS, its subsidiaries and its parent 3947424 Canada Inc. (“TQS Group”) from claims by their creditors. On June 26, 2008, the Canadian Radio-television and Telecommunications Commission (“CRTC”) approved the proposed transfer of ownership and control of TQS to Remstar Corporation Inc. (“Remstar”) and on August 29, 2008, the transfer of ownership and control of TQS to Remstar was completed, which allowed the new ownership group to pursue the broadcasting activities of TQS.

Effective December 18, 2007, the Company has ceased to consolidate the financial statements of the TQS Group. Accordingly, the results of operations and cash flow for the three month period ended November 30, 2007, has been reclassified as discontinued operations.

The results of the discontinued operations were as follows:

(\$000)	Quarters ended November 30,	
	2008	2007
	\$	\$
	(unaudited)	(unaudited)
Revenue	-	32,758
Operating costs	-	29,957
Operating income before amortization	-	2,801
Amortization	-	1,116
Operating income	-	1,685
Financial expense	-	238
Impairment of assets	-	30,298
Loss before income taxes and the following items	-	(28,851)
Income taxes	-	-
Non-controlling interest	-	11,219
Loss from discontinued operations	-	(17,632)

The cash flows of the discontinued operations were as follows:

(\$000)	Quarters ended November 30,	
	2008	2007
	\$	\$
	(unaudited)	(unaudited)
Cash flow from operating activities	-	(5,743)
Cash flow from investing activities	-	(85)
Cash flow from financing activities	-	5,828
Cash flow from discontinued operations	-	-

## Continuing Operations

### ***RGU growth in the cable sector***

During the quarter ended November 30, 2008, the consolidated number of RGU increased by 52,714, or 1.9% to reach 2,769,588 RGU, on target to attain the Company's annual RGU growth projections of 100,000 net additions issued on October 29, 2008, which represents approximately 3.7%, for the fiscal year ending August 31, 2009.

### ***Revenue and operating income from continuing operations before amortization growth***

For the first quarter of fiscal 2009, revenue increased by \$48.1 million, or 18.5%, to reach \$308.4 million while operating income before amortization grew by \$24.5 million, or 24.5%, to reach \$124.7 million.

### ***Free cash flow***

In the first quarter of fiscal 2009, COGECO generated free cash flow of \$21.8 million compared to \$23 million for the same period last year. This decrease results mainly from the cable sector and is attributable to an increase in capital expenditures and deferred charges to support HD and Digital Television services as well as to acquire a power generator

for the newly acquired Canadian data communications subsidiary, and by the impact of the rapid appreciation of the US dollar over the Canadian dollar. This increase was partly offset by the increase in cash flow from operations resulting primarily from the improvement of the Company's operating income before amortization.

## OPERATING RESULTS – CONSOLIDATED OVERVIEW

(\$000, except percentages)	Quarters ended November 30,		
	2008 \$	2007 <sup>(1)</sup> \$	Change %
	(unaudited)	(unaudited)	
Revenue	308,375	260,255	18.5
Operating costs	183,671	160,081	14.7
Operating income from continuing operations before amortization	124,704	100,174	24.5
Operating margin <sup>(2)</sup>	40.4%	38.5%	

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement), and to reflect the presentation of foreign exchange gains or losses as financial expense instead of operating costs.

<sup>(2)</sup> Operating margin does not have a standardized definition prescribed by Canadian GAAP and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section.

### Revenue

Fiscal 2009 first-quarter revenue improved, mainly in its cable sector, by \$48.1 million, or 18.5%, to reach \$308.4 million. Cable revenue, driven by an increased number of RGU combined with rate increases and the acquisition of MaXess Networx®, FibreWired Burlington Hydro Communications and Cogeco Data Services (the "recent acquisitions") in the second half of fiscal 2008, went up by \$47.6 million, or 18.9%, in the first quarter of the 2009 fiscal year.

### Operating costs

For the first quarter, operating costs increased by \$23.6 million, or 14.7%, compared to the prior year, to reach \$183.7 million. The increase in operating costs was mainly attributable to the cable sector in servicing additional RGU and to the impact of the recent acquisitions in Canada in the cable sector.

### Operating income from continuing operations before amortization

Operating income from continuing operations before amortization grew, essentially by its cable segment, by \$24.5 million, or 24.5%, to reach \$124.7 million in the first quarter of fiscal 2009 compared to the corresponding period of the prior year. The cable sector contributed to the growth by \$22.4 million during the first quarter.

## FIXED CHARGES

(\$000, except percentages)	Quarters ended November 30,		
	2008 \$	2007 <sup>(1)</sup> \$	Change %
	(unaudited)	(unaudited)	
Amortization	64,063	53,039	20.8
Financial expense	23,778	16,333	45.6

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement), and to reflect the presentation of foreign exchange gains or losses as financial expense instead of operating costs.

For the quarter ended November 30, 2008, amortization amounted to \$64.1 million compared to \$53 million for the corresponding period the year before. The increase in amortization expense was mainly due to the following factors in the cable sector: additional capital expenditures arising from customer premise equipment acquisitions to sustain RGU growth in Canada and the deployment of the Digital Television service in Portugal, and to the recent acquisitions.

First-quarter financial expense increased by \$7.4 million compared to the same period in fiscal 2008 due to the rapid appreciation of the US dollar and the Euro over the Canadian dollar, the increase in the level of Indebtedness (defined as bank indebtedness, derivative financial instruments and long-term debt) and by an increase in the average cost of Indebtedness. More specifically, financial expense in the cable sector was adversely impacted by foreign exchange losses amounting to \$3.8 million in the first quarter of fiscal 2009 as the majority of customer premise equipment is purchased and subsequently paid in US dollars. These losses were essentially due to the unusually high US dollar volatility, with the Bank of Canada closing rate fluctuating from CA\$1.0620 per US dollar at August 31, 2008 to CA\$1.2370 per US dollar at November 30, 2008, reaching a maximum of CA\$1.2935 per US dollar on November 20, 2008. For the corresponding period of the prior year, the cable subsidiary recorded a foreign exchange gain of \$1 million.

## INCOME TAXES

Fiscal 2009 first-quarter income tax expense amounted to \$9.8 million compared to \$9.3 million in fiscal 2008. The increase is mainly due to the increase in operating income before amortization surpassing that of the fixed charges in the cable sector.

## NON-CONTROLLING INTEREST

The non-controlling interest represents a participation of approximately 67.7% in Cogeco Cable's results. During the first quarter of fiscal 2009 the non-controlling interest amounted to \$15.9 million due to the cable sector's strong results. The non-controlling interest for the comparable period of last year amounted to \$13.8 million.

## NET INCOME

Fiscal 2009 first-quarter net income amounted to \$11.1 million, or \$0.66 per share, compared to a net loss of \$10 million, or \$0.60 per share, for the same period last year. The net loss in the prior year was due to a loss from discontinued operations of \$17.6 million, or \$1.06 per share. Income from continuing operations for the first quarter of fiscal 2009 amounted to \$11.1 million, or \$0.66 per share, compared to \$7.7 million, or \$0.46 per share the year before. Income from continuing operations increased due to the increase in operating income before amortization in the cable sector.

## CASH FLOW AND LIQUIDITY

(\$000)	Quarters ended November 30,	
	2008	2007 <sup>(1)</sup>
	\$	\$
	(unaudited)	(unaudited)
Operating activities from continuing operations		
Cash flow from operations <sup>(2)</sup>	95,626	81,377
Changes in non-cash operating items	(65,156)	(34,773)
	30,470	46,604
Investing activities from continuing operations <sup>(3)</sup>	(72,900)	(58,329)
Financing activities from continuing operations <sup>(3)</sup>	38,776	(36,257)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	687	(153)
Net change in cash and cash equivalents from continuing operations	(2,967)	(48,135)
Net change in cash and cash equivalents from discontinued operations	-	-
Cash and cash equivalents, beginning of period	37,472	66,279
Cash and cash equivalents, end of period	34,505	18,144

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement).

(2) Cash flow from operations does not have a standardized definition prescribed by Canadian GAAP and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section.

(3) Excludes assets acquired under capital leases.

Fiscal 2009 first quarter cash flow from operations reached \$95.6 million, 17.5% higher than the comparable period last year, primarily due to the increase in operating income before amortization in the cable sector. Changes in non-cash operating items generated greater cash outflows compared to the same period last year, mainly as a result of a decrease in accounts payable and accrued liabilities and in income tax liabilities. The significant decrease in income tax liabilities is due to payments made during the first quarter of 2009 related to the 2008 fiscal year.

In the first quarter of fiscal 2009, investing activities from continuing operations including assets acquired under capital leases stood at \$73.8 million due to capital expenditures of \$66.6 million and from an increase of \$7.2 million in deferred charges in the cable sector. The capital expenditures, stemming essentially from the cable sector, increased compared to the same period last year due to the following factors:

- An increase in customer premise equipment capital spending resulting from RGU growth fuelled in part by increased interest for the HD Television service for the Canadian operations combined with the deployment of Digital Television in Portugal;
- An increase in support capital spending due to the acquisition of a power generator for the newly acquired Canadian data communications subsidiary;
- An increase in scalable infrastructure capital spending mainly due to the timing of the expansion and head-end improvements, system powering and equipment reliability to sustain increased customer demand for HSI and Telephony services in Canada;
- The appreciation of the US dollar and the Euro over the Canadian dollar also had a significant impact on the total capital expenditures in the first quarter of 2009.

Deferred charges and others are mainly attributable to reconnect costs in the cable sector. The increase in deferred charge for the first quarter amounted to \$7.2 million compared to \$7.5 million for the same period the year before. Slower RGU growth explained the lower increase recorded in fiscal 2009.

In the first quarter, the Company generated free cash flow amounting to \$21.8 million compared to \$23 million for the same period of the preceding year. The lower free cash flow is mainly due to the cable sector and attributable to an increase in capital expenditures, partly offset by an increase in operating income before amortization net of financial expense. The aggregate amount of total capital expenditures and deferred charges increased by \$15.4 million for the quarter ended November 30, 2008 compared to the corresponding period of last year due to the factors explained above.

In the first quarter of 2009, Indebtedness affecting cash increased by \$43.8 million due to the reduction of non-cash operating items of \$65.2 million, partly offset by the free cash flow of \$21.8 million. Indebtedness was increased through the issuance on October 1, 2008, in the cable sector, of Senior Secured Notes, Series A and B, maturing October 1, 2015 and October 1, 2018, respectively, for net proceeds of approximately \$255 million, net of the repayment of US\$150 million Senior Secured Notes Series A and the related derivative financial instrument of \$88.7 million, both maturing on October 31, 2008, for a total of \$238.7 million, and by an increase of \$23.5 million in bank indebtedness. For the same period of the prior year, Indebtedness affecting cash decreased by \$34.4 million due to the use of cash and cash equivalents of \$48.1 million and generated free cash flow of \$23 million partly offset by the net disbursement of \$34.8 million arising from changes in non-cash operating items. In addition, dividends of \$0.08 per share for subordinate and multiple voting shares, totalling \$1.3 million, were paid by the Company during the first quarter of fiscal 2009, compared to \$0.07 per share, totalling \$1.2 million in the first quarter of fiscal 2008. Dividends paid by a subsidiary to non-controlling interests amounted to \$3.9 million during the first quarter of fiscal 2009, for consolidated dividend payments of \$5.3 million.

As at November 30, 2008, the Company had a working capital deficiency of \$337.2 million compared to \$611.8 million as at August 31, 2008. The decrease in the deficiency is mainly attributable to the cable sector and is due to the repayment of the US\$150 million Senior Secured Notes, Series A and the related derivative financial instrument for a total of \$238.7 million on October 31, 2008 using the proceeds of issuance of the Senior Secured Notes, Series A and B. As part of the usual conduct of its cable business, COGECO maintains a working capital deficiency due to a low level of accounts receivable as a large portion of the cable subsidiary's customers pay before their services are rendered, unlike accounts payable and accrued liabilities, which are paid after products are delivered or services are rendered, thus enabling Cogeco Cable to use cash and cash equivalents to reduce Indebtedness.

As at November 30, 2008, Cogeco Cable had used \$513.7 million of its \$885 million Term Facility for a remaining availability of \$371.3 million and the Company had drawn \$16.4 million of its \$50 million Term Facility, for a remaining availability of \$33.6 million.

Transfers of funds from non-wholly owned subsidiaries to COGECO are subject to approval by the subsidiaries' Board of Directors and may also be restricted under the terms and conditions of certain debt instruments. In accordance with applicable corporate and securities laws, significant transfers of funds from COGECO may be subject to approval by minority shareholders.

## FINANCIAL POSITION

Since August 31, 2008, there have been major changes to the balance of "fixed assets", "accounts payable and accrued liabilities", "income tax liabilities", "Indebtedness" and "non-controlling interest".

The \$14.5 million increase in fixed assets is mainly related to the cable sector and attributable to increased capital expenditures to sustain RGU growth, to the recent acquisitions in Canada and to the appreciation of the Euro and the US dollar over the Canadian dollar. The \$43.9 million decrease in accounts payable and accrued liabilities is related to the timing of payments made to suppliers net of the impact of the recent acquisitions in the cable sector. The \$17 million decrease in income tax liabilities is mainly due to income tax payments relating to fiscal 2008 that were made in the first quarter of fiscal 2009. Indebtedness has increased by \$51,9 million as a result of the unfavourable impact of the appreciation of the US dollar and the Euro over the Canadian dollar and to the factors previously discussed in the "Cash Flow and Liquidity" section, partly offset by the increase of \$29.2 million in the fair value of the cross-currency swaps related to the Senior Secured Notes Series A issued on October 1, 2008. The \$12.5 million increase in non-controlling interest is mainly due to the improved results in the cable sector.

A description of COGECO's share data as at December 31, 2008 is presented in the table below:

	Number of shares/options	Amount (\$000)
Common shares		
Multiple voting shares	1,842,860	12
Subordinate voting shares	14,898,762	120,058
Options to purchase subordinate voting shares		
Outstanding options	123,758	
Exercisable options	123,758	

In the normal course of business, COGECO has incurred financial obligations, primarily in the form of long-term debt, operating and capital leases and guarantees. COGECO's obligations, discussed in the 2008 annual MD&A, have not materially changed since August 31, 2008, except for the new financing in the cable sector discussed in the "Cash Flow and Liquidity" section.

## DIVIDEND DECLARATION

At its January 13, 2009 meeting, the Board of Directors of COGECO declared a quarterly eligible dividend of \$0.08 per share for subordinate and multiple voting shares, payable on February 10, 2009, to shareholders of record on January 27, 2009. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Company based upon the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, their amount and periodicity may vary.

## FINANCIAL MANAGEMENT

The Company's subsidiary, Cogeco Cable entered into cross-currency swap agreements to set the liability for interest and principal payments on its US\$190 million Senior Secured Notes, Series A maturing in October 1, 2015. These agreements have the effect of converting the U.S. interest coupon rate of 7.00% per annum to an average Canadian dollar interest rate of 7.24% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CA\$1.0625 per US dollar. Since the issuance on October 1, 2008, amounts due under the US\$190 million Senior Secured Notes Series A increased by \$33.2 million due to the US dollar's appreciation over the Canadian dollar. The fair value of cross-currency swaps increased by a net amount of \$29.2 million, which offsets the foreign exchange loss of \$33.2 million on the US dollar denominated debt. The difference of \$4 million was recorded as a decrease of other comprehensive income, net of income taxes of \$1.1 million and non-controlling interest of \$2 million.

Cogeco Cable's net investment in the self-sustaining foreign subsidiary, Cabovisão, is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the value of the Canadian dollar versus the Euro. This risk is mitigated since the major part of the purchase price for Cabovisão was borrowed directly in Euros. This debt is designated as a hedge of net investments in self-sustaining foreign subsidiaries and, accordingly, Cogeco Cable realized a foreign exchange gain of \$2.7 million in the first quarter of fiscal 2009, which is presented net of non-controlling interest of \$1.8 million in other comprehensive income. The exchange rate used to convert the Euro into Canadian dollars for the balance sheet accounts as at November 30, 2008 was \$1.5711 per Euro compared to \$1.5580 per Euro as at August 31, 2008. The average exchange rates prevailing during the first quarter used to convert the operating results of the European operations was \$1.5462 per Euro, compared to \$1.4119 per Euro for the same period last year.

The following table shows the Canadian dollar impact of a 10% change in the average exchange rate of the Euro currency into Canadian dollars on European operating results in the cable sector for the first quarter ended November 30, 2008:

Quarter ended November 30, 2008 ( <i>\$000</i> )	As reported \$ (unaudited)	Exchange rate impact \$ (unaudited)
Revenue	62,064	6,206
Operating income before amortization	20,857	2,086
Net income	1,754	175

## CABLE SECTOR

### CUSTOMER STATISTICS

	November 30, 2008	Net additions Quarters ended November 30,		% of Penetration <sup>(1)</sup>	
		2008	2007	November 30, 2008	2007
RGU	2,769,588	52,714	83,024	-	-
Basic Cable service customers	1,154,027	798	12,997	-	-
HSI service customers <sup>(2)</sup>	647,068	14,300	29,100	58.1	54.8
Digital Television service customers	489,815	23,617	16,253	43.0	47.3
Telephony service customers <sup>(3)</sup>	478,678	13,999	24,674	45.9	42.5

(1) As a percentage of Basic Cable service customers in areas served.

(2) Customers subscribing only to the HSI service totalled 84,730 as at November 30, 2008 compared to 79,499 at November 30, 2007.

(3) Customers subscribing only to the Telephony service totalled 11,141 as at November 30, 2008 compared to 9,640 at November 30, 2007

In the cable sector, first-quarter RGU net additions were lower than for the same period last year and reflect an early sign of maturation in some services. The number of net additions for Basic Cable stood at 798 customers compared to 12,997 customers for the same period last year. This decrease is primarily due to net customer losses in the European operations reflecting a continuing unfavourable economic environment in the Iberian Peninsula, aggressive advertising campaigns by competitors and the emergence of multiple triple-play service providers in the Portuguese market, net of increases in Canadian operations stemming from continuous improvements to the service offering, targeted marketing activities and an upswing in subscription activity in border markets due to the impending over-the-air digital conversion in the United States. The number of net additions to HSI service stood at 14,300 customers compared to 29,100 customers for the same period last year. The growth in HSI customer net additions continues to stem from the enhancement of the product offering, the impact of the bundled offer (Cogeco Complete Connection) of Television, HSI and Telephony services, and promotional activities in Canadian operations offset by net customer losses in European operations due to the factors mentioned above. The Digital Television service net additions stood at 23,617 customers compared to 16,253 customers for the same period in the prior year due to targeted marketing initiatives in the second half of fiscal 2008 and in 2009 to improve market penetration and to the continuing strong interest for the HD Television service in Canadian operations, as well as the launch of the Digital Television service in Portugal in the third quarter of fiscal 2008. Telephony customers grew by 13,999 to reach 478,678 compared to a growth of 24,674 for the same period last year. The lower growth is mostly attributable to the increased penetration in areas where the service is already offered and to fewer new areas where the service was launched in Canadian operations offset by net customer losses in European operations due to the unfavourable economic environment. Telephony service coverage in Canada, as a percentage of homes passed,

has now reached 87% compared to 78% at November 30, 2007. The service is offered in all of the Company's territories in Portugal.

## OPERATING RESULTS

(\$000, except percentages)	Quarters ended November 30,		
	2008	2007 <sup>(1)</sup>	Change
	\$	\$	%
	(unaudited)	(unaudited)	
Revenue	299,438	251,833	18.9
Operating costs	173,734	149,496	16.2
Management fees - COGECO Inc.	5,981	5,035	18.8
Operating income from continuing operations before amortization	119,723	97,302	23.0
Operating margin	40.0%	38.6%	

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement), and to reflect the presentation of foreign exchange gains or losses as financial expense instead of operating costs.

### Revenue

Fiscal 2009 first-quarter consolidated revenue improved by \$47.6 million, or 18.9%, to reach \$299.4 million. Driven by an increased number of RGU combined with rate increases and the recent acquisitions in the second half to fiscal 2008, 2009 first-quarter Canadian operations revenue went up by \$41.1 million, or 21%.

Fiscal 2009 first-quarter European operations revenue increased by \$6.5 million, or 11.6%, to reach \$62.1 million compared to the same period last year. The increase is essentially due to the strength of the Euro against the Canadian dollar. Rate increases also generated higher revenue despite a RGU loss in the first quarter.

### Operating costs

For the first quarter of fiscal 2009, operating costs, excluding management fees payable to COGECO Inc., increased by \$24.2 million, or 16.2% compared to the prior year, to reach \$173.7 million. Operating costs increased due to the servicing of additional RGU and the impact of the recent acquisitions in Canada.

### Operating income before amortization

Operating income before amortization increased by \$22.4 million, or 23%, to reach \$119.7 million in the first quarter of fiscal 2009, as a result of various rate increases, recent acquisitions, and RGU growth generating additional revenues which outpaced operating cost increases. Cogeco Cable's 2009 first-quarter operating margin increased to 40% from 38.6% for the same period of fiscal 2008. The operating margin in Canada increased for the first quarter of 2009 to 41.6% compared to 40.7% and in Europe improved to 33.6% from 31.3% in the same period of the prior year.

## UNCERTAINTIES AND MAIN RISK FACTORS

There has been no significant change in the uncertainties and main risk factors faced by the Company since August 31, 2008, except as described below. A detailed description of the uncertainties and main risk factors faced by COGECO can be found in the 2008 annual MD&A.

Cogeco Cable's footprint includes certain regions in Ontario (Burlington and Windsor) and in Portugal (Palmela) where the automobile industry is a significant driver of economic activity. The sharp downturn experienced by the automobile industry in recent months may have an adverse impact on the level of economic activity and consumer expenditures on goods and services within those communities. In previous recessionary periods, demand for cable telecommunications services has generally proved to be resilient. However, there is no assurance that demand will remain resilient in a prolonged global recession.

Despite Cogeco Cable's strong balance sheet and the proactive management of debt maturities, the present situation in financial markets and the credit crisis may result in reduced availability of capital in both the debt and equity markets in

the coming years. As Cogeco Cable's current credit facilities and other sources of financing reach their respective maturities, the terms of bank and other debt facilities may be less favourable upon renewal.

The Company is exposed to interest rate risks for both fixed interest rate and floating interest rate instruments. Fluctuations in interest rates will have an effect on the valuation and the collection or repayment of these instruments which could result in a significant impact on the Company's financial expense.

The current volatility of currency exchange and interest rates in the financial markets is unusually high and could lead to an increase in the level of risk on hedging instruments to which Cogeco Cable is a party should one or more of the counterparts to these instruments become financially distressed and unable to meet their obligations.

## **ACCOUNTING POLICIES AND ESTIMATES**

There has been no significant change in COGECO's accounting policies, estimates and future accounting pronouncements since August 31, 2008, except as described below. A description of the Company's policies and estimates can be found in the 2008 annual MD&A.

### ***Financial instruments***

Effective September 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*.

#### *Capital disclosures*

Section 1535 of the CICA Handbook requires that an entity disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences for non-compliance. These new disclosures are included in note 13 of the Company's interim consolidated financial statements.

#### *Financial instruments*

Section 3862 on financial instrument disclosures requires the disclosure of information about the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have any impact on the classification and measurements of the Company's financial instruments. The new disclosures pursuant to these new Sections are included in note 13 of the Company's interim consolidated financial statements.

### ***General standards of financial statement presentation***

The CICA amended Section 1400 of the CICA Handbook, *General Standards of Financial Statement Presentation*, to include a requirement for management to make an assessment of the entity's ability to continue as a going concern when preparing financial statements. These changes, including the related disclosure requirements, were adopted by the Company on September 1, 2008 and had no impact on the interim consolidated financial statements.

## FUTURE ACCOUNTING PRONOUNCEMENTS

### *Harmonization of Canadian and International accounting standards*

In March 2006, the Accounting Standards Board of the CICA released its new strategic plan, which proposed to abandon Canadian GAAP and effect a complete convergence to the International Financial Reporting Standards (“IFRS”) for publicly accountable entities.

In April 2008, the CICA published an exposure draft as guidance which requires the transition to IFRS to replace Canadian GAAP as currently employed by Canadian publicly accountable enterprises. The changeover will occur no later than fiscal years beginning on or after January 1, 2011. Accordingly, the Company expects that its first interim consolidated financial statements presented in accordance with IFRS will be for the three-month period ending November 30, 2011, and its first annual consolidated financial statements presented in accordance with IFRS will be for the year ending August 31, 2012.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Company is developing a plan to convert its consolidated financial statements to IFRS. The plan highlights the need to identify key accounting policy changes as the first step in the conversion process. Once these changes have been identified, other elements of the plan will be addressed. The Company has selected an external advisor to assist with the project and is currently in the process of assessing the differences between IFRS and the Company’s current accounting policies.

As implications of the conversion are identified, information technology and data system impacts as well as impacts on business activities will be assessed. Changes in accounting policies are likely. These changes may materially impact the Company’s consolidated financial statements. The conversion project is progressing according to the plan established by management.

## NON-GAAP FINANCIAL MEASURES

This section describes non-GAAP financial measures used by COGECO throughout this MD&A. It also provides reconciliations between these non-GAAP measures and the most comparable GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and may not be comparable with similar measures presented by other companies. These measures include “cash flow from operations from continuing operations”, “free cash flow”, “operating income from continuing operations before amortization” and “operating margin”.

### *Cash flow from operations from continuing operations and free cash flow*

Cash flow from operations from continuing operations is used by COGECO’s management and investors to evaluate cash flows generated by operating activities excluding the impact of changes in non-cash operating items. This allows the Company to isolate the cash flows from operating activities from the impact of cash management decisions. Cash flow from operations from continuing operations is subsequently used in calculating the non-GAAP measure “free cash flow”. Free cash flow is used by COGECO’s management and investors to measure COGECO’s ability to repay debt, distribute capital to its shareholders and finance its growth.

The most comparable Canadian GAAP financial measure is cash flow from operating activities from continuing operations. Cash flow from operations from continuing operations is calculated as follows:

(\$000)	Quarters ended November 30,	
	2008	2007 <sup>(1)</sup>
	\$	\$
	(unaudited)	(unaudited)
Cash flow from operating activities from continuing operations	30,470	46,604
Changes in non-cash operating items	65,156	34,773
<b>Cash flow from operations from continuing operations</b>	<b>95,626</b>	<b>81,377</b>

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year’s presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement).

Free cash flow is calculated as follows:

(\$000)	Quarters ended November 30,	
	2008 \$	2007 <sup>(1)</sup> \$
	(unaudited)	(unaudited)
Cash flow from operations from continuing operations	95,626	81,377
Acquisition of fixed assets	(65,709)	(50,813)
Increase in deferred charges	(7,207)	(7,517)
Assets acquired under capital leases – as per note 11 b)	(939)	(73)
<b>Free cash flow</b>	<b>21,771</b>	<b>22,974</b>

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement).

**Operating income from continuing operations before amortization and operating margin**

Operating income from continuing operations before amortization is used by COGECO's management and investors to assess the Company's ability to seize growth opportunities in a cost effective manner, to finance its ongoing operations and to service its debt. Operating income from continuing operations before amortization is a proxy for cash flows from operations excluding the impact of the capital structure chosen, and is one of the key metrics used by the financial community to value the business and its financial strength. Operating margin is a measure of the proportion of the Company's revenue which is left over, before taxes, to pay for its fixed costs, such as interest on Indebtedness. Operating margin is calculated by dividing operating income from continuing operations before amortization by revenue.

The most comparable Canadian GAAP financial measure is operating income from continuing operations. Operating income from continuing operations before amortization and operating margin are calculated as follows:

(\$000, except percentages)	Quarters ended November 30,	
	2008 \$	2007 <sup>(1)</sup> \$
	(unaudited)	(unaudited)
Operating income from continuing operations	60,641	47,135
Amortization	64,063	53,039
<b>Operating income from continuing operations before amortization</b>	<b>124,704</b>	<b>100,174</b>
Revenue	308,375	260,255
<b>Operating margin</b>	<b>40.4%</b>	<b>38.5%</b>

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement), and to reflect the presentation of foreign exchange gains or losses as financial expense instead of operating costs.

**ADDITIONAL INFORMATION**

This MD&A was prepared on January 13, 2009. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

/s/ Jan Peeters

Jan Peeters  
Chairman of the Board

/s/ Louis Audet

Louis Audet  
President and Chief Executive Officer

**Cogeco Inc.**

Montréal, Québec

January 14, 2009

**Supplementary Quarterly Financial Information**  
**(unaudited)**

Quarters ended <i>(\$000, except percentages and per share data)</i>	November 30,		August 31,		May 31,		February 29 / 28,	
	2008	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	308,375	260,255	292,873	251,300	283,878	249,424	271,894	238,378
Operating income from continuing operations before amortization <sup>(2)</sup>	124,704	100,174	122,019	100,755	117,206	94,533	109,523	88,065
Operating margin <sup>(2)</sup>	40.4%	38.5%	41.7%	40.1%	41.3%	37.9%	40.3%	36.9%
Amortization	64,063	53,039	61,775	54,723	58,564	47,725	56,346	44,018
Operating income from continuing operations	60,641	47,135	60,244	46,032	58,642	46,808	53,177	44,047
Financial expense	23,778	16,333	19,066	19,084	17,748	20,345	17,550	24,502
Income taxes	9,848	9,277	9,849	(7,480)	10,285	8,055	(14,426)	4,233
Loss (gain) on dilution	26	107	19	(27,011)	3	64	(25)	(30,990)
Non-controlling interest	15,936	13,762	21,559	24,240	21,068	13,318	33,763	9,647
Income from continuing operations	11,053	7,656	9,656	37,097	9,538	5,025	16,315	36,655
Loss from discontinued operations	-	(17,632)	-	(6,713)	-	(1,966)	(425)	(2,109)
Net income (loss)	11,053	(9,976)	9,656	30,384	9,538	3,059	15,890	34,546
Cash flow from operations from continuing operations <sup>(2)</sup>	95,626	81,377	99,969	78,153	96,068	76,862	85,374	63,353
Cash flow from operating activities from continuing operations	30,470	46,604	146,052	107,155	112,893	51,669	92,942	61,484
Free cash flow <sup>(2)</sup>	21,771	22,974	20,981	9,131	37,107	19,052	19,374	10,461
Earnings (loss) per share								
Basic								
Income from continuing operations	0.66	0.46	0.58	2.23	0.57	0.30	0.98	2.21
Loss from discontinued operations	-	(1.06)	-	(0.40)	-	(0.12)	(0.03)	(0.13)
Net income (loss)	0.66	(0.60)	0.58	1.83	0.57	0.18	0.95	2.08
Diluted								
Income from continuing operations	0.66	0.46	0.58	2.21	0.57	0.30	0.97	2.20
Loss from discontinued operations	-	(1.06)	-	(0.40)	-	(0.12)	(0.03)	(0.13)
Net income (loss)	0.66	(0.60)	0.58	1.81	0.57	0.18	0.95	2.07

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the first quarter of fiscal 2008 and the second through fourth quarters of fiscal 2007 has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14 to the consolidated financial statement). Financial information for the four quarters of fiscal 2008 and second through fourth quarters of fiscal 2007 reflects the presentation of foreign exchange gains or losses as financial expense instead of operating costs.

<sup>(2)</sup> The indicated terms do not have standardized definitions prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section of the Management's discussion and analysis.

The cable sector's operating results are not generally subject to material seasonal fluctuations. However, the loss in Basic Cable service customers is usually greater, and the addition of HSI service customers is generally lower in the third quarter, mainly because students leave their campus at the end of the school year. Cogeco Cable offers its services in several university and college towns such as Kingston, Windsor, St. Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada, and Aveiro, Covilhã, Evora, Guarda and Coimbra in Portugal.

The radio activities' operating results may be subject to significant seasonal variations. Advertising revenue depends on audience ratings and the market for radio advertising expenditures in the Province of Québec. Audience ratings may vary due to a number of factors, including on-air personalities, programming content and promotional activities. Advertising level may also vary due to many factors, including general economic and consumer retail market conditions and cycles. Advertising sales, mainly for national advertising, are normally weaker in the second and fourth quarters and, accordingly, the operating margin is generally lower in those quarters.

**COGECO INC.**  
**Customer Statistics**

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	November 30, 2008	August 31, 2008
<b>Homes Passed</b>		
Ontario	1 033 452	1 029 121
Québec	506 850	502 490
<b>Canada</b>	<u>1 540 302</u>	<u>1 531 611</u>
<b>Portugal</b>	900 328	895 923
<b>Total</b>	<u><u>2 440 630</u></u>	<u><u>2 427 534</u></u>
<b>Revenue Generating Units</b>		
Ontario	1 428 230	1 387 054
Québec	629 141	604 854
<b>Canada</b>	<u>2 057 371</u>	<u>1 991 908</u>
<b>Portugal</b>	712 217	724 966
<b>Total</b>	<u><u>2 769 588</u></u>	<u><u>2 716 874</u></u>
<b>Basic Cable Service Customers</b>		
Ontario	601 511	596 229
Québec	264 416	260 865
<b>Canada</b>	<u>865 927</u>	<u>857 094</u>
<b>Portugal</b>	288 100	296 135
<b>Total</b>	<u><u>1 154 027</u></u>	<u><u>1 153 229</u></u>
<b>Discretionary Service Customers</b>		
Ontario	493 642	493 858
Québec	220 916	215 820
<b>Canada</b>	<u>714 558</u>	<u>709 678</u>
<b>Portugal</b>	-	-
<b>Total</b>	<u><u>714 558</u></u>	<u><u>709 678</u></u>
<b>Pay TV Service Customers</b>		
Ontario	103 745	97 753
Québec	50 009	47 075
<b>Canada</b>	<u>153 754</u>	<u>144 828</u>
<b>Portugal</b>	59 398	57 715
<b>Total</b>	<u><u>213 152</u></u>	<u><u>202 543</u></u>
<b>High Speed Internet Service Customers</b>		
Ontario	365 810	352 553
Québec	127 166	120 914
<b>Canada</b>	<u>492 976</u>	<u>473 467</u>
<b>Portugal</b>	154 092	159 301
<b>Total</b>	<u><u>647 068</u></u>	<u><u>632 768</u></u>
<b>Digital Television Service Customers</b>		
Ontario	299 887	288 345
Québec	160 079	153 401
<b>Canada</b>	<u>459 966</u>	<u>441 746</u>
<b>Portugal</b>	29 849	24 452
<b>Total</b>	<u><u>489 815</u></u>	<u><u>466 198</u></u>
<b>Telephony Service Customers</b>		
Ontario	161 022	149 927
Québec	77 480	69 674
<b>Canada</b>	<u>238 502</u>	<u>219 601</u>
<b>Portugal</b>	240 176	245 078
<b>Total</b>	<u><u>478 678</u></u>	<u><u>464 679</u></u>

**COGECO INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

*(unaudited)*

	Three months ended November 30,	
<i>(In thousands of dollars, except per share data)</i>	2008	2007
	\$	\$
<b>Revenue</b>	<b>308,375</b>	260,255
Operating costs	<b>183,671</b>	160,081
<b>Operating income from continuing operations before amortization</b>	<b>124,704</b>	100,174
Amortization (note 3)	<b>64,063</b>	53,039
<b>Operating income from continuing operations</b>	<b>60,641</b>	47,135
Financial expense (note 4)	<b>23,778</b>	16,333
<b>Income from continuing operations before income taxes and the following items</b>	<b>36,863</b>	30,802
Income taxes (note 5)	<b>9,848</b>	9,277
Loss on dilution resulting from shares issued by a subsidiary	<b>26</b>	107
Non-controlling interest	<b>15,936</b>	13,762
<b>Income from continuing operations</b>	<b>11,053</b>	7,656
Loss from discontinued operations (note 14)	—	(17,632)
<b>Net income (loss)</b>	<b>11,053</b>	(9,976)
<b>Earnings (loss) per share (note 6)</b>		
Basic		
Income from continuing operations	<b>0.66</b>	0.46
Loss from discontinued operations	—	(1.06)
Net income (loss)	<b>0.66</b>	(0.60)
Diluted		
Income from continuing operations	<b>0.66</b>	0.46
Loss from discontinued operations	—	(1.06)
Net income (loss)	<b>0.66</b>	(0.60)

**COGECO INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(unaudited)*

<i>(In thousands of dollars)</i>	Three months ended November 30,	
	2008	2007
	\$	\$
<b>Net income (loss)</b>	<b>11,053</b>	<b>(9,976)</b>
<b>Other comprehensive income</b>		
Unrealized gains (losses) on derivative financial instruments designated as cash flow hedges, net of income taxes expense of \$3,387,000 and non-controlling interest of \$17,451,000 (income taxes recovery of \$1,143,000 and non-controlling interest of \$4,500,000 in 2007)	8,338	(2,153)
Reclassification to net income of realized gains (losses) on derivative financial instruments designated as cash flow hedges, net of income taxes expense of \$4,323,000 and non-controlling interest of \$19,211,000 (income taxes recovery of \$1,345,000 and non-controlling interest of \$4,792,000 in 2007)	(9,180)	2,293
Unrealized gains on translation of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of \$4,114,000 (\$6,994,000 in 2007)	1,966	3,346
Unrealized losses on translation of long-term debts designated as hedges of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of \$2,273,000 (\$4,313,000 in 2007)	(1,086)	(2,063)
	38	1,423
<b>Comprehensive income (loss)</b>	<b>11,091</b>	<b>(8,553)</b>

**COGECO INC.**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
*(unaudited)*

<i>(In thousands of dollars)</i>	Three months ended November 30,	
	2008	2007
	\$	\$
<b>Balance at beginning, as reported</b>	<b>295,808</b>	274,946
Changes in accounting policies	—	424
<b>Balance at beginning, as restated</b>	<b>295,808</b>	275,370
Net income (loss)	<b>11,053</b>	(9,976)
Dividends on multiple voting shares	<b>(147)</b>	(129)
Dividends on subordinate voting shares	<b>(1,192)</b>	(1,038)
<b>Balance at end</b>	<b>305,522</b>	264,227

**COGECO INC.**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited)

<i>(In thousands of dollars)</i>	November 30, 2008	August 31, 2008
	\$	\$
<b>Assets</b>		
Current		
Cash and cash equivalents	34,505	37,472
Accounts receivable	68,220	64,910
Income taxes receivable	6,479	3,569
Prepaid expenses	11,944	13,271
Future income tax assets	5,378	8,661
	<b>126,526</b>	<b>127,883</b>
Investments	739	739
Fixed assets	1,276,137	1,261,610
Deferred charges	58,864	57,841
Intangible assets (note 7)	1,113,006	1,116,382
Goodwill (note 7)	490,923	487,805
Derivative financial instruments	29,176	—
Future income tax assets	6,089	7,221
	<b>3,101,460</b>	<b>3,059,481</b>
<b>Liabilities and Shareholders' equity</b>		
<b>Liabilities</b>		
Current		
Bank indebtedness	33,761	10,302
Accounts payable and accrued liabilities	215,129	259,038
Income tax liabilities	3,797	20,793
Deferred and prepaid income	33,180	32,859
Derivative financial instruments	—	79,791
Current portion of long-term debt (note 8)	177,832	336,858
	<b>463,699</b>	<b>739,641</b>
Long-term debt (note 8)	1,033,513	737,055
Deferred and prepaid income and other liabilities	12,767	11,859
Pension plan liabilities and accrued employees benefits	10,220	9,645
Future income tax liabilities	253,945	256,307
Non-controlling interest	896,428	883,948
	<b>2,670,572</b>	<b>2,638,455</b>
<b>Shareholders' equity</b>		
Capital stock (note 9)	120,049	120,049
Treasury shares (note 9)	(1,522)	(1,522)
Contributed surplus	1,837	1,727
Retained earnings	305,522	295,808
Accumulated other comprehensive income (note 10)	5,002	4,964
	<b>430,888</b>	<b>421,026</b>
	<b>3,101,460</b>	<b>3,059,481</b>

**COGECO INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

	Three months ended November 30,	
<i>(In thousands of dollars)</i>	2008	2007
	\$	\$
<b>Cash flow from operating activities</b>		
Income from continuing operations	11,053	7,656
Adjustments for:		
Amortization (note 3)	64,063	53,039
Amortization of deferred transaction costs	717	722
Future income taxes (note 5)	2,824	5,178
Non-controlling interest	15,936	13,762
Loss on dilution resulting from shares issued by a subsidiary	26	107
Stock-based compensation	89	388
Loss on disposal of fixed assets	223	342
Other	695	183
	<b>95,626</b>	<b>81,377</b>
Changes in non-cash operating items (note 11 a))	<b>(65,156)</b>	<b>(34,773)</b>
Cash flow from operating activities from continuing operations	<b>30,470</b>	<b>46,604</b>
Cash flow from operating activities from discontinued operations (note 14)	—	(5,743)
	<b>30,470</b>	<b>40,861</b>
<b>Cash flow from investing activities</b>		
Acquisition of fixed assets (note 11 b))	<b>(65,709)</b>	<b>(50,813)</b>
Increase in deferred charges	<b>(7,207)</b>	<b>(7,517)</b>
Other	<b>16</b>	<b>1</b>
Cash flow from investing activities from continuing operations	<b>(72,900)</b>	<b>(58,329)</b>
Cash flow from investing activities from discontinued operations (note 14)	—	(85)
	<b>(72,900)</b>	<b>(58,414)</b>
<b>Cash flow from financing activities</b>		
Increase in bank indebtedness	<b>23,459</b>	<b>206</b>
Increase in long-term debt, net of transaction costs	<b>277,457</b>	<b>51</b>
Repayment of long-term debt	<b>(257,139)</b>	<b>(34,663)</b>
Acquisition of treasury shares	—	(468)
Dividends on multiple voting shares	<b>(147)</b>	<b>(129)</b>
Dividends on subordinate voting shares	<b>(1,192)</b>	<b>(1,038)</b>
Issue of shares by a subsidiary to non-controlling interest	<b>278</b>	<b>3,056</b>
Dividends paid by a subsidiary to non-controlling interest	<b>(3,940)</b>	<b>(3,272)</b>
Cash flow from financing activities from continuing operations	<b>38,776</b>	<b>(36,257)</b>
Cash flow from financing activities from discontinued operations (note 14)	—	5,828
	<b>38,776</b>	<b>(30,429)</b>
<b>Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies</b>	<b>687</b>	<b>(153)</b>
<b>Net change in cash and cash equivalents</b>	<b>(2,967)</b>	<b>(48,135)</b>
Cash and cash equivalents at beginning	<b>37,472</b>	<b>66,279</b>
<b>Cash and cash equivalents at end</b>	<b>34,505</b>	<b>18,144</b>

See supplemental cash flow information in note 11.

## **COGECO INC.**

### **Notes to Consolidated Financial Statements**

**November 30, 2008**

*(unaudited)*

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

#### **1. Basis of Presentation**

In the opinion of management, the accompanying unaudited interim consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, present fairly the financial position of COGECO Inc. ("the Company") as at November 30, 2008 and August 31, 2008 as well as its results of operations and its cash flows for the three month periods ended November 30, 2008 and 2007.

While management believes that the disclosures presented are adequate, these unaudited interim consolidated financial statements and notes should be read in conjunction with COGECO Inc.'s annual consolidated financial statements for the year ended August 31, 2008. These unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements, except for the adoption of the new accounting policies described below.

##### Financial instruments

Effective September 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*.

##### **Capital disclosures**

Section 1535 of the CICA Handbook requires that an entity disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences for non-compliance. These new disclosures are included in note 13.

##### **Financial instruments**

Section 3862 on financial instrument disclosures requires the disclosure of information about the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have any impact on the classification and measurements of the Company's financial instruments. The new disclosures pursuant to these new Sections are included in note 13.

##### General standards of financial statement presentation

The CICA amended Section 1400 of the CICA Handbook, *General Standards of Financial Statement Presentation*, to include a requirement for management to make an assessment of the entity's ability to continue as a going concern when preparing financial statements. These changes, including the related disclosure requirements, were adopted by the Company on September 1, 2008 and had no impact on the consolidated financial statements.

# COGECO INC.

## Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

### 2. Segmented Information

The principal financial information per business segment is presented in the tables below:

	Cable		Other <sup>(1)</sup>		Consolidated	
	2008	2007	2008	2007	2008	2007
Three months ended November 30,	\$	\$	\$	\$	\$	\$
Revenue	<b>299,438</b>	251,833	<b>8,937</b>	8,422	<b>308,375</b>	260,255
Operating costs	<b>179,715</b>	154,531	<b>3,956</b>	5,550	<b>183,671</b>	160,081
Operating income from continuing operations before amortization	<b>119,723</b>	97,302	<b>4,981</b>	2,872	<b>124,704</b>	100,174
Amortization	<b>63,922</b>	52,687	<b>141</b>	352	<b>64,063</b>	53,039
Operating income from continuing operations	<b>55,801</b>	44,615	<b>4,840</b>	2,520	<b>60,641</b>	47,135
Financial expense	<b>23,394</b>	15,877	<b>384</b>	456	<b>23,778</b>	16,333
Income taxes	<b>8,856</b>	8,375	<b>992</b>	902	<b>9,848</b>	9,277
Loss on dilution resulting from shares issued by a subsidiary	—	—	<b>26</b>	107	<b>26</b>	107
Non-controlling interest	—	—	<b>15,936</b>	13,762	<b>15,936</b>	13,762
Income (loss) from continuing operations	<b>23,551</b>	20,363	<b>(12,498)</b>	(12,707)	<b>11,053</b>	7,656
Loss from discontinued operations	—	—	—	(17,632)	—	(17,632)
Total assets <sup>(2)</sup>	<b>3,059,451</b>	3,019,155	<b>42,009</b>	40,326	<b>3,101,460</b>	3,059,481
Fixed assets <sup>(2)</sup>	<b>1,272,586</b>	1,257,965	<b>3,551</b>	3,645	<b>1,276,137</b>	1,261,610
Intangible assets <sup>(2)</sup>	<b>1,087,666</b>	1,091,042	<b>25,340</b>	25,340	<b>1,113,006</b>	1,116,382
Goodwill <sup>(2)</sup>	<b>490,923</b>	487,805	—	—	<b>490,923</b>	487,805
Acquisition of fixed assets <sup>(3)</sup>	<b>66,606</b>	50,727	<b>42</b>	159	<b>66,648</b>	50,886

(1) Includes radio operations, head office activities and eliminations.

(2) At November 30, 2008 and August 31, 2008.

(3) Includes capital leases that are excluded from the consolidated statements of cash flows.

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

## 2. Segmented Information (continued)

The following tables set out certain geographic market information based on client location:

	Three months ended November 30,	
	2008	2007
	\$	\$
Revenue		
Canada	246,311	204,663
Europe	62,064	55,592
	308,375	260,255

	November 30, 2008	August 31, 2008
	\$	\$
Fixed assets		
Canada	963,578	944,328
Europe	312,559	317,282
	1,276,137	1,261,610
Intangible assets		
Canada	1,051,414	1,052,608
Europe	61,592	63,774
	1,113,006	1,116,382
Goodwill		
Canada	116,890	116,890
Europe	374,033	370,915
	490,923	487,805

## 3. Amortization

	Three months ended November 30,	
	2008	2007
	\$	\$
Fixed assets	54,406	45,022
Deferred charges	5,788	5,574
Intangible assets	3,869	2,443
	64,063	53,039

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

#### 4. Financial expense

	Three months ended November 30,	
	2008	2007
	\$	\$
Interest on long-term debt	20,270	16,843
Foreign exchange losses (gains)	3,784	(1,035)
Amortization of deferred transaction costs	407	407
Other	(683)	118
	<b>23,778</b>	<b>16,333</b>

#### 5. Income Taxes

	Three months ended November 30,	
	2008	2007
	\$	\$
Current	7,024	4,099
Future	2,824	5,178
	<b>9,848</b>	<b>9,277</b>

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

	Three months ended November 30,	
	2008	2007
	\$	\$
Income before income taxes	36,863	30,802
Combined income tax rate	32.46%	34.03 %
Income taxes at combined income tax rate	11,966	10,481
Adjustments for loss or income subject to lower or higher tax rates	(194)	(387)
Income taxes arising from non-deductible expenses	117	124
Effect of foreign income tax rate differences	(1,604)	(1,164)
Other	(437)	223
Income taxes at effective income tax rate	<b>9,848</b>	<b>9,277</b>

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

#### 6. Earnings (Loss) per Share

The following table provides a reconciliation between basic and diluted earnings (loss) per share:

	Three months ended November 30,	
	2008	2007
	\$	\$
Income from continuing operations	11,053	7,656
Loss from discontinued operations	—	(17,632)
Net income (loss)	11,053	(9,976)
Weighted average number of multiple voting and subordinate voting shares outstanding	16,740,446	16,672,652
Effect of dilutive stock options <sup>(1)</sup>	20,386	—
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	16,761,832	16,672,652
<b>Earnings (loss) per share</b>		
Basic		
Income from continuing operations	0.66	0.46
Loss from discontinued operations	—	(1.06)
Net income (loss)	0.66	(0.60)
Diluted		
Income from continuing operations	0.66	0.46
Loss from discontinued operations	—	(1.06)
Net income (loss)	0.66	(0.60)

<sup>(1)</sup> For the three month period ended November 30, 2008, 32,782 stock options (36,443 in 2007) were excluded from the calculation of diluted earnings per share as the exercise price of the options was greater than the average share price of the subordinate voting shares. The weighted average dilutive number of subordinate voting shares, which were anti-dilutive for the three month period ended November 30, 2007, amounted to 82,154.

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

#### 7. Goodwill and Other Intangible Assets

	November 30, 2008	August 31, 2008
	\$	\$
Customer relationships	98,114	101,490
Broadcasting licenses	25,120	25,120
Customer base	989,772	989,772
	1,113,006	1,116,382
Goodwill	490,923	487,805
	1,603,929	1,604,187

##### a) Intangible assets

During the first three months, intangible assets variations were as follows:

	Customer relationships	Broadcasting licenses	Customer Base	Total
	\$	\$	\$	\$
Balance as at August 31, 2008	101,490	25,120	989,772	1,116,382
Amortization	(3,869)	—	—	(3,869)
Foreign currency translation adjustment	493	—	—	493
Balance as at November 30, 2008	98,114	25,120	989,772	1,113,006

##### b) Goodwill

During the first three months, goodwill variation was as follows:

	\$
Balance as at August 31, 2008	487,805
Foreign currency translation adjustment	3,118
Balance as at November 30, 2008	490,923

**COGECO INC.****Notes to Consolidated Financial Statements****November 30, 2008***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***8. Long-Term Debt**

	Maturity	Interest rate	November 30, 2008	August 31, 2008
		%	\$	\$
<b>Parent company</b>				
Term Facility	2011 <sup>(1)</sup>	4.68 <sup>(2)</sup>	15,814	18,748
Obligations under capital leases	2010	6.49 – 6.61	69	77
<b>Subsidiaries</b>				
Term Facility				
Term loan – €94,096,350	2011	5.94 <sup>(2)</sup>	147,166	145,832
Term loan – €17,358,700	2011	5.94 <sup>(2)</sup>	27,108	26,881
Revolving loan – €117,000,000 (€126,000,000 as at August 31, 2008)	2011	5.81 <sup>(2)</sup>	183,819	196,308
Revolving loan	2011	3.62 <sup>(2)</sup>	116,980	94,375
Senior Secured Debentures Series 1	2009	6.75	149,873	149,814
Senior Secured Notes				
Series A – US\$150 million	2008	6.83 <sup>(3)</sup>	—	159,233
Series B	2011	7.73	174,386	174,338
Senior Secured Notes <sup>(4)</sup>				
Series A – US\$190 million	2015	7.00	233,417	—
Series B	2018	7.60	54,552	—
Senior Unsecured Debenture	2018	5.94	99,772	99,768
Obligations under capital leases	2013	6.42 – 8.30	8,347	8,492
Other	—	—	42	47
			<b>1,211,345</b>	<b>1,073,913</b>
Less current portion			<b>177,832</b>	<b>336,858</b>
			<b>1,033,513</b>	<b>737,055</b>

<sup>(1)</sup> In December 2008, the Term Facility has been extended for an additional year.

<sup>(2)</sup> Average interest rate on debt as at November 30, 2008, including stamping fees.

<sup>(3)</sup> Cross-currency swap agreements have resulted in an effective interest rate of 7.254% on the Canadian dollar equivalent of the US denominated debt of the Company's subsidiary, Cogeco Cable Inc.

<sup>(4)</sup> On October 1, 2008, the Company's subsidiary, Cogeco Cable Inc., issued US\$190 million Senior Secured Notes Series A maturing October 1, 2015, and \$55 million Senior Secured Notes Series B maturing October 1, 2018, net of transaction costs of \$2.1 million. The Senior Secured Notes Series B bear interest at the coupon rate of 7.60% per annum, payable semi-annually. The Company's subsidiary has entered into cross-currency swap agreements to fix the liability for interest and principal payments on the Senior Secured Notes Series A in the amount of US\$190 million, which bear interest at the coupon rate of 7.00% per annum, payable semi-annually. Taking into account these agreements, the effective interest rate on the Senior Secured Notes Series A is 7.24% and the exchange rate applicable to the principal portion of the US dollar-denominated debt has been fixed at \$1.0625.

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

## 9. Capital Stock

### Authorized, an unlimited number

*Preferred shares of first and second rank, issuable in series and non-voting, except when specified in the Articles of Incorporation of the Company or in the Law.*

*Multiple voting shares, 20 votes per share.*

*Subordinate voting share, 1 vote per share.*

	November 30, 2008	August 31, 2008
	\$	\$
<b>Issued</b>		
1,842,860 multiple voting shares	12	12
14,897,586 subordinate voting shares	120,037	120,037
	<b>120,049</b>	<b>120,049</b>

### Stock-based plans

The Company offers, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives, which are described in the Company's annual consolidated financial statements. During the first quarter of 2009 and 2008, no stock options were granted to employees by COGECO Inc. However, the Company's subsidiary, Cogeco Cable Inc., granted 133,381 stock options (97,214 in 2007) with an exercise price of \$34.46 (\$49.82 in 2007), of which 29,711 stock options (22,683 in 2007) were granted to COGECO Inc.'s employees. The Company records compensation expense for options granted on or after September 1, 2003. As a result, a compensation expense of \$101,000 (\$320,000 in 2007) was recorded for the three month period ended November 30, 2008.

The fair value of stock options granted by the Company's subsidiary, Cogeco Cable Inc., for the three months period ended November 30, 2008 was \$8.96 (\$12.88 in 2007) per option. The fair value was estimated at the grant date for purposes of determining the stock-based compensation expense using the binomial option pricing model based on the following assumptions:

	2008	2007
	%	%
Expected dividend yield	1.40	0.90
Expected volatility	29	27
Risk-free interest rate	4.22	4.25
Expected life in years	4.0	4.0

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

#### 9. Capital Stock (continued)

At November 30, 2008, the Company had outstanding stock options providing for the subscription of 123,358 subordinate voting shares. These stock options can be exercised at various prices ranging from \$20.95 to \$37.50 and at various dates up to October 19, 2011.

The Company also offers a senior executives and designated employee incentive unit plan (the "Incentive Share Unit Plan") which is described in the Company's annual consolidated financial statements. During the first quarter, the Company granted 17,702 Incentive Share Units (12,852 in 2007). These shares were purchased in December 2008 for a cash consideration of \$326,000 (\$468,000 in 2007) and are held in trust for participants until they are completely vested. The trust, considered as a variable interest entity, is consolidated in the Company's financial statements with the value of the acquired shares presented as treasury shares in reduction of capital stock. A compensation expense of \$108,000 (\$68,000 in 2007) was recorded for the three month period ended November 30, 2008 related to this plan.

The Company and its subsidiary, Cogeco Cable Inc., offer deferred share unit plans ("DSU Plans") which are described in the Company's annual consolidated financial statements. During the first quarter, the Company and its subsidiary did not award any deferred share unit to the participants in connection with the DSU Plans. A reduction of \$120,000 was recorded for the three month period ended November 30, 2008 for the liabilities related to these plans.

#### 10. Accumulated Other Comprehensive Income

	Translation of a net investment in self- sustaining foreign subsidiaries	Cash flow hedges	Total
	\$	\$	\$
Balance as at August 31, 2008	5,064	(100)	4,964
Other comprehensive income	880	(842)	38
Balance as at November 2008	5,944	(942)	5,002

**COGECO INC.**

**Notes to Consolidated Financial Statements**

**November 30, 2008**

*(unaudited)*

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

**11. Statements of Cash Flows**

a) Changes in non-cash operating items

	Three months ended November 30,	
	2008	2007
	\$	\$
Accounts receivable	(3,189)	(1,899)
Income taxes receivable	(2,885)	827
Prepaid expenses	1,337	1,836
Accounts payable and accrued liabilities	(44,644)	(38,794)
Income tax liabilities	(17,001)	2,282
Deferred and prepaid income and other liabilities	1,226	975
	<b>(65,156)</b>	<b>(34,773)</b>

b) Other information

	Three months ended November 30,	
	2008	2007
	\$	\$
Fixed asset acquisitions through capital leases	939	73
Interest paid	21,751	21,194
Income taxes paid	26,916	478

**12. Employees Future Benefits**

The Company and its Canadian subsidiaries offer their employees contributory defined benefit pension plans, a defined contribution pension plan or collective registered retirement savings plans, which are described in the Company's annual consolidated financial statements. The total expenses related to these plans are as follows:

	Three months ended November 30,	
	2008	2007
	\$	\$
Contributory defined benefit pension plans	747	658
Defined contribution pension plan and collective registered retirement savings plans	923	708
	<b>1,670</b>	<b>1,366</b>

**COGECO INC.****Notes to Consolidated Financial Statements****November 30, 2008***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***13. Financial and Capital Management**

## a) Financial management

Management's objectives are to protect COGECO Inc. and its subsidiaries against material economic exposures and variability of results and against certain financial risks including credit risk, liquidity risk, interest rate risk and foreign exchange risk.

**Credit risk**

Credit risk represents the risk of financial loss for the Company if a customer or counterpart to a financial asset fails to meet its contractual obligations. The Company is exposed to credit risk arising from the derivative financial instruments, cash equivalents and trade accounts receivable, the maximum exposure of which is represented by the carrying amounts reported on the balance sheet.

Credit risk from the derivative financial instruments arises from the possibility that counterparts to the cross-currency swap agreements may default on their obligations in instances where these agreements have positive fair values for the Company. The Company reduces this risk by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. The Company assesses the creditworthiness of the counterparts in order to minimize the risk of counterparts default under the agreements. At November 30, 2008, management believes that the credit risk relating to cross-currency swaps is minimal, since the lowest credit rating of the counterparts to the agreements is A<sup>-</sup>.

Cash equivalents consist mainly of highly liquid investments, such as money market deposits. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company is also exposed to credit risk in relation to its trade accounts receivable. The Company continuously monitors the financial condition of its customers and reviews the credit history or worthiness of each new major customer. At November 30, 2008, no customer balance represents a significant portion of the Company's consolidated trade receivables. The Company establishes an allowance for doubtful accounts based on specific credit risk of its customers by examining such factors as the number of overdue days of the customer's balance outstanding as well as the customer's collection history. The Company believes that its allowance for doubtful accounts is sufficient to cover the related credit risk. The Company 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. Since the Company has a large and diversified clientele dispersed throughout Canada and Portugal, there is no significant concentration of credit risk. The following table provides further details on the Company's accounts receivable balances:

	November 30, 2008	August 31, 2008
	\$	\$
Trade accounts receivable	77,185	73,160
Allowance for doubtful accounts	(15,144)	(13,181)
	62,041	59,979
Other accounts receivable	6,179	4,931
	68,220	64,910

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

### 13. Financial and Capital Management (continued)

The following table provides further details on trade accounts receivable, net of allowance for doubtful accounts. Trade accounts receivable past due is defined as amount outstanding beyond normal credit terms and conditions for the respective customers. A large portion of Cogeco Cable Inc.'s customers are billed in advance and are required to pay before their services are rendered. The Company considers amount outstanding at the due date as trade accounts receivable past due.

	November 30, 2008	August 31, 2008
	\$	\$
Net trade accounts receivable not past due	43,997	43,659
Net trade accounts receivable past due	18,044	16,320
	<b>62,041</b>	<b>59,979</b>

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure and access to different capital markets. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure sufficient liquidity to meet its obligations when due. At November 30, 2008, the available amount of the Company's Term Facilities was \$404.9 million. Management believes that the committed Term Facilities will, until their maturities in July 2011 and December 2011, provide sufficient liquidity to manage its long-term debt maturities and support working capital requirements.

The following table summarizes the contractual maturities of the financial liabilities and related capital amounts:

	2009	2010	2011	2012	2013	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Bank indebtedness	33,761	-	-	-	-	-	33,761
Accounts payable and accrued liabilities	215,129	-	-	-	-	-	215,129
Long-term debt <sup>(1)</sup>	174,657	41,089	410,221	191,000	-	390,030	1,206,997
Derivative financial instruments							
Cash outflows (Canadian dollar)	-	-	-	-	-	201,875	201,875
Cash inflows (Canadian dollar equivalent of US dollar)	-	-	-	-	-	(235,030)	(235,030)
Obligations under capital leases <sup>(2)</sup>	2,961	3,178	1,929	1,195	25	-	9,288
	<b>426,508</b>	<b>44,267</b>	<b>412,150</b>	<b>192,195</b>	<b>25</b>	<b>356,875</b>	<b>1,432,020</b>

<sup>(1)</sup> Principal excluding obligations under capital leases.

<sup>(2)</sup> Including interest.

**COGECO INC.****Notes to Consolidated Financial Statements****November 30, 2008***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***13. Financial and Capital Management (continued)**

The following table is a summary of interest payable on long-term debt (excluding interest on capital leases) that are due for each of the next five years and thereafter, based on the current debt at November 30, 2008 and their respective maturities:

	2009	2010	2011	2012	2013	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Interest payments on long-term debt	54,559	64,492	60,472	29,040	26,568	82,236	317,367
Interest payments on derivative financial instruments	10,960	14,614	14,614	14,614	14,614	30,445	99,861
Interest receipts on derivative financial instruments	(12,339)	(16,452)	(16,452)	(16,452)	(16,452)	(34,275)	(112,422)
	53,180	62,654	58,634	27,202	24,730	78,406	304,806

***Interest rate risk***

The Company is exposed to interest rate risks for both fixed interest rate and floating interest rate instruments. Fluctuations in interest rates will have an effect on the valuation and collection or repayment of these instruments. At November 30, 2008, all of the Company's long-term debt was at fixed rate, except for the Company's Term Facilities. The sensitivity of the Company's annual financial expense to a variation of 1% in the interest rate applicable to the Term Facilities is approximately \$4.9 million based on the current debt at November 30, 2008.

***Foreign exchange risk***

The Company is exposed to foreign exchange risk related to its long-term debt denominated in US dollars. In order to mitigate this risk, the Company has established guidelines whereby currency swap agreements can be used to fix the exchange rates applicable to its US dollar denominated long-term debt. All such agreements are exclusively used for hedging purposes. Accordingly, on October 2, 2008, the Company's subsidiary, Cogeco Cable Inc., entered into cross-currency swap agreements to set the liability for interest and principal payments on its US\$190 million Senior Secured Notes Series A issued on October 1, 2008. These agreements have the effect of converting the US interest coupon rate of 7.00% per annum to an average Canadian dollar interest rate of 7.24% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at \$1.0625.

The Company is also exposed to foreign exchange risk on cash and cash equivalents, bank indebtedness and accounts payable denominated in US dollars or Euros. At November 30, 2008, cash and cash equivalents denominated in US dollars amounted to US\$240,000 (bank indebtedness of US\$286,000 as at August 31, 2008) while accounts payable denominated in US dollars amounted to US\$9,946,000 (US\$16,121,000 as at August 31, 2008). At November 30, 2008, Euro-denominated cash and cash equivalents amounted to €670,000 (€219,000 as at August 31, 2008) while accounts payable denominated in Euros amounted to €1,767,000 (€163,000 as at August 31, 2008). Due to their short-term nature, the risk arising from fluctuations in foreign exchange rates is usually not significant, except for the unusual high volatility of the US dollar compared to the Canadian dollar during the first three months of fiscal 2009. During the three month period ended November 30, 2008, the exchange rate increased from \$1.0620 at September 1, 2008, to \$1.2370 at November 30, 2008, reaching a maximum of \$1.2935 on November 20, 2008. The impact of a 10% change in the foreign exchange rates (US dollar and Euros) would change financial expense by approximately \$1.4 million.

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

### 13. Financial and Capital Management (continued)

Furthermore, the Company's net investment in self-sustaining foreign subsidiaries is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the Euro. This risk is mitigated since the major part of the purchase price for Cabovisão-Televisão por Cabo, S.A. was borrowed directly in Euros. At November 30, 2008, the net investment amounted to €437,051,000 (€446,051,000 as at August 31, 2008) while long-term debt denominated in Euros amounted to €228,455,000 (€237,455,000 as at August 31, 2008). The exchange rate used to convert the Euro currency into Canadian dollars for the balance sheet accounts at November 30, 2008 was \$1.5711 per Euro compared to \$1.5580 per Euro at August 31, 2008. The impact of a 10% change in the exchange rate of the Euro into Canadian dollars would change financial expense by approximately \$2.1 million and other comprehensive income by approximately \$10.6 million.

#### Fair value

Fair value is the amount at which willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. Fair values are estimated at a specific point in time, by discounting expected cash flows at rates for debts of the same remaining maturities and conditions. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore, cannot be determined with precision. In addition, income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were settled. The carrying value of all of the Company's financial instruments approximates fair value, except as otherwise noted in the following table.

	November 30, 2008		August 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	1,211,345	1,169,090	1,073,913	1,068,469

#### b) Capital management

The Company's objectives in managing capital are to ensure sufficient liquidity to support the capital requirements of its various businesses, including growth opportunities. The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. Management of the capital structure involves the issuance of new debt, the repayment of existing debts using cash generated by operations and the level of distribution to shareholders.

The capital structure of the Company is composed of shareholders' equity, bank indebtedness, long-term debt and assets or liabilities related to derivative financial instruments.

The provisions under the Term Facilities provide for restrictions on the operations and activities of the Company. Generally, the most significant restrictions relate to permitted investments and dividends on multiple and subordinate voting shares, as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense and total Indebtedness. At November 30, 2008, the Company was in compliance with all debt covenants and was not subject to any other externally imposed capital requirements.

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2008

(unaudited)

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

### 13. Financial and Capital Management (continued)

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

	November 30, 2008	August 31, 2008
Net indebtedness <sup>(1)</sup> / Shareholders' equity	2.7	2.7
Net indebtedness <sup>(1)</sup> / Operating income before amortization <sup>(2)</sup>	2.5	2.5
Operating income before amortization / Financial expense	5.2	6.3

<sup>(1)</sup> Net indebtedness is defined as the total of bank indebtedness, long-term debt and derivative financial instrument liability, less cash and cash equivalents and assets related to derivative financial instruments.

<sup>(2)</sup> Calculation based on operating income before amortization for the last twelve month period ended November 30, 2008.

### 14. Discontinued Operations

In October 2007, the Board of Directors of TQS, an indirect subsidiary of the Company, engaged CIBC World Markets to advise on and assess strategic options for the TQS network in the face of financial difficulties. On December 18, 2007, the Québec Superior Court issued an order under the *Companies' Creditors Arrangement Act* (Canada) protecting TQS, its subsidiaries and its parent 3947424 Canada Inc. ("TQS Group") from claims by their creditors. On June 26, 2008, the Canadian Radio-television and Telecommunications Commission ("CRTC") approved the proposed transfer of ownership and control of TQS to Remstar Corporation Inc. ("Remstar") and on August 29, 2008, the transfer of ownership and control of TQS to Remstar was completed, which allowed the new ownership group to pursue the broadcasting activities of TQS.

Effective December 18, 2007, the Company has ceased to consolidate the financial statements of the TQS Group. Accordingly, the results of operations and cash flows for the three month period ended November 30, 2007, has been reclassified as discontinued operations. The results of the discontinued operations were as follows:

	Three months ended November 30,	
	2008	2007
	\$	\$
Revenue	—	32,758
Operating costs	—	29,957
Operating income before amortization	—	2,801
Amortization	—	1,116
Operating income	—	1,685
Financial expense	—	238
Impairment of assets	—	30,298
Loss before income taxes and the following items	—	(28,851)
Income taxes	—	—
Non-controlling interest	—	11,219
Loss from discontinued operations	—	(17,632)

## **COGECO INC.**

### **Notes to Consolidated Financial Statements**

**November 30, 2008**

*(unaudited)*

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

#### **15. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for the previous year has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 14), and to reflect the reclassification of foreign exchange gains or losses from operating costs to financial expense.