

# ANNUAL INFORMATION FORM

OCTOBER 23, 2006

Annual Information Form For the fiscal year

# 06

5, PLACE VILLE MARIE  
BUREAU 915  
MONTRÉAL (QUÉBEC)  
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## FORWARD-LOOKING STATEMENTS

Certain statements contained in this AIF may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to our future outlook and anticipated events, our business, our operations, our financial performance, our financial condition or our results and, in some cases, can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue” or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding our future operating results and economic performance, our 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 we believe are reasonable as of the current date. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties, that could cause actual results to differ materially from what we currently expect. 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, the introduction of competing products having technological or other advantages, many of which are beyond our control. Therefore, future events and results may vary significantly from what we currently foresee. For more exhaustive information on these risks and uncertainties you should refer to the “Uncertainties and Main Risks Factors” section of our Annual Report for the year ended August 31, 2006 which is available at [www.sedar.com](http://www.sedar.com). You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation (and expressly disclaim any such obligation) and do not undertake to update or alter this information at any particular time.

## Glossary

DIGITAL SERVICES	DIGITAL TELEVISION SERVICES
DVR	DIGITAL VIDEO RECORDER
HD	HIGH DEFINITION
HSI	HIGH SPEED INTERNET SERVICES
HSI LITE	HIGH SPEED INTERNET SERVICE WITH DOWNLOAD SPEED OF UP TO 640 KBPS
HSI PRO	HIGH SPEED INTERNET SERVICE WITH DOWNLOAD SPEED OF UP TO 16 MBPS
HSI REGULAR	HIGH SPEED INTERNET SERVICE WITH DOWNLOAD SPEED OF UP TO 10 MBPS
IP	INTERNET PROTOCOL
MBPS	MEGABITS PER SECOND
RGU (REVENUE-GENERATING UNITS)	INCLUDES BASIC SERVICE, DIGITAL TELEVISION SERVICE, HSI SERVICE AND TELEPHONY SERVICE CUSTOMERS
SVOD	SUBSCRIPTION VIDEO ON DEMAND SERVICES
VOD	VIDEO ON DEMAND SERVICES

In this Annual Information Form (“AIF”), the terms “Cogeco Cable” and the “Corporation” refer collectively to Cogeco Cable Inc. and, unless the context otherwise requires or indicates, to its subsidiaries.

All dollar figures are in Canadian dollars, unless stated otherwise.

The information provided in this AIF is presented as at the last day of the Corporation’s most recently completed financial year (i.e. August 31, 2006), except where it is specified in the AIF that the information is presented at another date.

## 1. CORPORATE STRUCTURE

### 1.1 NAME, ADDRESS AND INCORPORATION

Cogeco Cable was incorporated under the *Canada Business Corporations Act* by certificate of incorporation dated March 24, 1992. The Corporation's articles were amended by certificates of amendment on April 13, 1992 and on August 25, 1992. On May 6, 1993, they were further amended to, among other things, delete the private corporation restrictions, change its name from 2807246 Canada Inc. to Cogeco Cable Inc., amend its share capital to create two classes of equity shares and the Class B preference shares, convert the sole issued and outstanding common share owned by its parent COGECO Inc. ("COGECO") into multiple voting shares and revise restrictions on the issue and transfer of shares. The registered office and the principal executive office of the Corporation are located at 5 Place Ville Marie, Suite 915, Montréal (Québec) H3B 2G2.

### 1.2 INTERCORPORATE RELATIONSHIPS

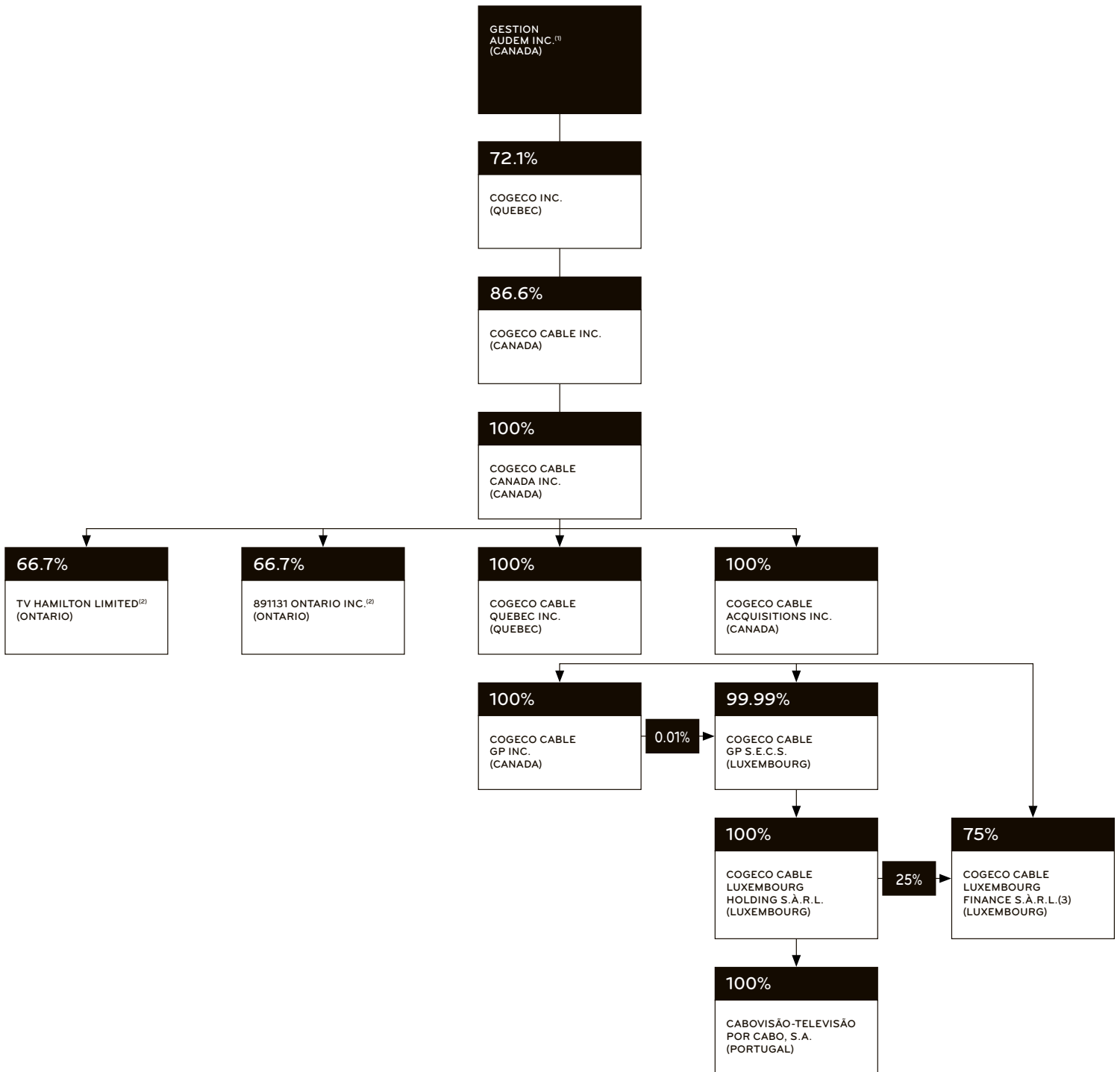
Cogeco Cable is a subsidiary of COGECO, a diversified Canadian communications company with operations in the cable and media sectors. Cogeco Cable was organized as a subsidiary of COGECO for the purpose of holding all the cable television assets of the COGECO Group of companies.

As at August 31, 2006, the only subsidiaries of the Corporation which represented more than 10% of the Corporation's consolidated assets or more than 10% of the Corporation's consolidated sales and operating revenues were Cogeco Cable Canada Inc. ("Cogeco Cable Canada"), Cogeco Cable Québec Inc. ("Cogeco Cable Québec") and Cabovisão-Televisão por Cabo, S.A. ("Cabovisão"), which are wholly-owned subsidiaries of the Corporation.

Cogeco Cable Canada is a corporation amalgamated under the authority of the *Canada Business Corporations Act* which operates all of the Corporation's systems in Ontario. Cogeco Cable Québec is a corporation amalgamated under the authority of Part 1A of the *Companies Act* (Québec) which operates all the Corporation's systems in Québec. Cabovisão is a corporation incorporated under the laws of Portugal and registered in the Commercial Registry of Palmela, which operates the Corporation's systems in Portugal.

### 1.3 CORPORATE CHART

The following chart illustrates the structure of the Corporation, including the jurisdiction of incorporation/establishment of the various entities as at September 1, 2006.



(1) A PRIVATE COMPANY CONTROLLED BY MR. HENRI AUDET.

(2) REMAINING 33.3% INTEREST IS HELD EQUALLY BETWEEN MOUNTAIN CABLEVISION LIMITED AND SOUTHMOUNT CABLE LIMITED, EACH OF WHICH OPERATES AN ADJOINING CABLE SYSTEM IN THE HAMILTON, ONTARIO AREA.

(3) ACQUIRED IN AUGUST 2006 ALL THE SENIOR DEBT AND RELATED SENIOR DEBT SECURITY PREVIOUSLY ISSUED BY CABOVISÃO.

## 2. GENERAL DEVELOPMENT OF THE BUSINESS

### 2.1 OVERVIEW

Cogeco Cable operates cable distribution systems located in the Provinces of Ontario and Québec. Cogeco Cable is the second largest cable system operator in Ontario and Québec and ranks fourth in Canada in terms of the number of basic service customers. As at August 31, 2006, Cogeco Cable provided analog video, digital video, HSI and digital telephony services to 833,177; 327,364; 343,080 and 52,315 customers respectively in such territory. Cabovisão, the second largest cable system operator in Portugal, as at the same date, provided cable, Internet and telephone services to 269,694; 136,278 and 223,069 customers, respectively.

### 2.2 HISTORY

In 1972, COGECO, the controlling shareholder of Cogeco Cable, acquired its first cable television system, *La Belle Vision Inc.*, serving Trois-Rivières, Québec and neighbouring communities. Following that initial cable acquisition, COGECO acquired from time to time, directly or through subsidiaries, a number of other cable systems in Canada. In June 1993, Cogeco Cable acquired all the cable television assets of COGECO and continued thereafter to make additional cable acquisitions. The greatest number of the communities served by Cogeco Cable can be found today in the populous Windsor to Gaspé corridor.

Cogeco Cable remains committed to its basic expansion strategy of organic growth combined with appropriate acquisition opportunities, in or outside of Canada, provided that they bring a significant number of customers at a fair price to increase the Corporation's growth and value. Accordingly, as at August 1, 2006, it acquired all the shares of Cabovisão and established a major presence in the cable business in Portugal.

### 2.3 ACQUISITION OF CABOVISÃO

As at August 1, 2006, Cogeco Cable completed its acquisition of Cabovisão, the second largest cable operator in Portugal. Through acquisition and finance subsidiaries, Cogeco Cable purchased for an agreed enterprise value of approximately €465.7 million (\$677.5 million), all the shares and all the senior secured debt of Cabovisão, and provided for the reimbursement of certain other specified liabilities of Cabovisão. The final purchase price for the shares and senior secured debt will be determined following completion of a post-closing working capital adjustment.

Cogeco Cable also concluded as of July 28, 2006 an amended and restated credit agreement providing for a \$900 million 5-year bank credit facility with a group of financial institutions. This facility is composed of four tranches: a swingline of \$25 million and a revolving tranche of \$700 million maturing on July 28, 2011; a non-revolving tranche of €17.4 million maturing on July 28, 2011; and a non-revolving tranche of \$150 million of which principal reductions are: \$15 million on July 28, 2008, \$22.5 million on July 28, 2009, \$37.5 million on July 28, 2010 and \$75 million on July 28, 2011. This facility is secured pursuant to a bond trust deed between the Corporation and Computershare Trust Company of Canada, as bond trustee, and various other security documentation in favour of the bond trustee, including a pledge of the shares of Cabovisão and of other subsidiaries of the Corporation.

## 3. DESCRIPTION OF THE CANADIAN BUSINESS

The cable assets of Cogeco Cable in Québec, referred to herein as "Cable Québec", are managed from a main office located in the City of Trois-Rivières, Québec. The cable assets of Cogeco Cable in Ontario referred to herein as "Cable Ontario", are managed from a main business office located in the City of Burlington (neighbouring Toronto), Ontario. While each operating group manages its systems for the distinctive French-language and English-language markets respectively, certain services which are not of a market-specific nature, notably in the areas of procurement, engineering, information systems, human resources, marketing and accounting, are shared by the two units for greater efficiency.

### 3.1 CUSTOMERS

The following table presents the number of homes passed, RGUs, basic service customers and the penetration rate of basic service in Québec and Ontario as at August 31, 2006:

	HOMES PASSED	RGUs	BASIC SERVICE CUSTOMERS	PENETRATION RATE OF BASIC SERVICE %
CABLE ONTARIO	1,002,187	1,104,157	587,289	58.6
CABLE QUÉBEC	474,717	451,779	245,888	51.8
TOTAL	1,476,904	1,555,936	833,177	56.4

The following table presents the number of customers subscribing to basic service and the penetration rate of basic service, digital television service, HSI service and digital telephony from August 31, 2002 to August 31, 2006:

AS AT AUGUST 31	BASIC SERVICE CUSTOMERS	BASIC SERVICE PENETRATION %	DIGITAL TELEVISION SERVICE CUSTOMERS AS A % OF BASIC SERVICE <sup>(1)</sup>	HSI SERVICE CUSTOMERS AS A % OF BASIC SERVICE <sup>(1)(2)</sup>	DIGITAL TELEPHONY CUSTOMERS AS A % OF BASIC SERVICE <sup>(1)(3)</sup>
2002	836,368	60.8	16.5	22.5	N/A
2003	820,657	58.7	20.2	27.6	N/A
2004	823,855	57.9	25.8	33.4	N/A
2005	821,433	56.7	30.7	37.7	0.2
2006	833,177	56.4	40.0	44.3	10.4

(1) CALCULATED ON THE BASIS OF THE CABLE SYSTEMS WHERE THE SERVICE IS OFFERED.

(2) THE NUMBER OF HSI CUSTOMERS, AND THEREFORE THE PENETRATION RATE, HAS BEEN RESTATED IN 2004 TO REFLECT THE NUMBER OF CUSTOMERS BASED ON THE BILLING DATES, WHICH ARE SPREAD THROUGHOUT THE MONTH, INSTEAD OF THE NUMBER OF CUSTOMERS AS AT THE END OF THE FISCAL YEAR. THIS CHANGE RESULTS IN A DOWNWARD ADJUSTMENT TO THE PENETRATION RATE.

(3) THE SERVICE WAS LAUNCHED IN JUNE 2005.

Historically, the basic service penetration rate in Québec has been lower than the basic service penetration rate in Ontario. In Québec, Cogeco Cable operates cable systems in areas that are predominantly francophone. In those areas, demand for English programming is low, thereby lessening the demand for cable television while over-the-air signals from French conventional television networks represent approximately 55-60% of Québec's television viewing.

### 3.2 SERVICES

Cogeco Cable offers a wide range of broadcasting and telecommunication services to its residential and business customers in Canada. The offering of broadcasting and telecommunication services is subject to varied and extensive regulatory requirements, mainly under the authority of federal statutes governing broadcasting, telecommunications, radiocommunication and copyright.

#### 3.2.1 BROADCASTING SERVICES

Cogeco Cable's broadcasting distribution services are offered in Canada, on a subscription basis, in analog or digital form.

##### ANALOG SERVICE

###### Basic service

Analog customers receive a basic service generally consisting of 37 channels in Ontario and 23 channels in Québec, with some variations from one area to another. The ordering of channels on the basic service must comply with the requirements of the Canadian Radio-television and Telecommunications Commission ("CRTC") and generally includes a mix of conventional Canadian and U.S. broadcast signals and specialty services. The subscription fee for the basic service offered by the Corporation is no longer regulated by the CRTC.

### **Discretionary service tiers**

Analog basic customers can obtain additional programming services by subscribing to one or more discretionary service tiers comprising a mix of Canadian and non-Canadian specialty services. Cable Ontario offers to its customers on most of its systems three discretionary service tiers including an average of 30 specialty services while Cable Québec offers to its customers on the majority of its systems two tiers consisting of 22 to 26 specialty services. Customers must first subscribe to the basic service before they can subscribe to a discretionary service tier. The linkage and distribution of discretionary service tiers remain regulated by the CRTC, but subscription fees for discretionary service tiers are not regulated.

Various service options are also available on an individual or "à la carte" basis, albeit to a more limited extent on analog than with digital service.

### **DIGITAL SERVICE**

#### **Basic digital service**

Basic digital customers in Ontario generally receive the same services as basic analog customers. In addition, for a digital upgrade fee, basic digital customers in Ontario receive the digital quality audio channels of the Max Trax/Galaxie music service including 40 separate digital music channels, an Interactive Program Guide and various additional digital specialty services including MTV Canada, Star TV, ROB TV, CLT, Casino and Gaming Television, Christian Channel and three regional Sportsnet channels.

Basic digital customers in Québec generally receive the same services as the basic analog customers except for the U.S. networks ABC, CBS, NBC and Fox. They also receive 40 Max Trax/Galaxie digital audio channels, an Interactive Program Guide and The Weather Network.

#### **Digital discretionary services**

Subject to CRTC requirements, digital service customers have a lot more flexibility to design their own programming packages, selecting from a variety of options including single specialized service subscriptions as well as various theme packages such as the Sports Theme Pack or the Family Theme Pack or other combinations including the ability to choose their own Pick Pack of specialty services.

#### **Pay television service**

Digital service customers can access a large selection of pay television services such as the four channels of *Super Écran* (one channel in Ontario) or five channels of The Movie Network and two Mpix channels.

#### **Pay-per-view service**

Digital service customers can also order movies of their choice on one of up to 8 channels in Ontario and on one of the 12 channels available in Québec offered by the pay-per-view services, Viewers Choice and Canal Indigo.

#### **VOD and SVOD Services**

With the VOD service, digital service customers can, by using the remote control of their digital terminal, order a movie or program of their choice from an inventory of approximately 850 titles. The movie or program selected by the customer remains accessible to be viewed for a period of 24 hours. The VOD service provides all the functions of a videocassette recorder or a DVD player, with pause, stop, rewind and fast-forward capabilities. There are no monthly fees. Customers are only charged for the movies they watch. Prices vary from \$0.99 for children's content, to \$5.49 for new releases and \$9.49 for adult movies. In addition, Cogeco Cable provides a selection of Free On Demand content as part of the service, including free children's programming from Treehouse On Demand and Kidz On Demand.

The SVOD services allow customers to access a wide variety of on demand content when it is convenient for them on a monthly subscription basis. The SVOD services, The Movie Network On Demand and *Super Écran sur demande*, are included at no extra cost with the subscription to the associated pay television services. The WWE 24/7 subscription video on demand service is also available for \$9.99 per month.

#### **High definition television services ("HDTV")**

Cogeco Cable offers HDTV services in most of its major markets in Ontario and Quebec with up to 24 HD channels. Digital customers who purchase or rent a HD DVR receive a free HD basic service that includes the HD signals of Canadian over-the-air broadcasters. Additional HD services from US networks and Canadian specialty services are available as a Theme Pack in Ontario for an additional monthly fee of \$6.99.

### **3.2.2 TELECOMMUNICATION SERVICES**

#### **HSI SERVICE**

Cogeco Cable offers to its residential customers in Ontario and Quebec various HSI services with different transfer speeds and service attributes:

- The HSI Regular operates at up to 10 Mbps downstream and up to 640 Kbps upstream;
- The HSI Pro operates at greater downstream speeds of up to 16 Mbps and upstream speeds of up to 1 Mbps;
- The HSI Lite operates at up to 640 Kbps downstream and up to 150 Kbps upstream.

Cogeco Cable HSI comes with a comprehensive security package including firewall, anti-virus, anti-spam, anti-spyware, pop-up blocker, parental control and Internet dial up control; all free for HSI Regular and Pro customers and only \$2 per month for HSI Lite subscribers.

Cogeco Cable also offers, in Québec and Ontario, various types of HSI access for commercial customers that are customized to fit the size of the business.

#### **THIRD-PARTY INTERNET ACCESS SERVICE**

Cogeco Cable provides Internet service providers ("ISP") access to its facilities in order for ISPs to provide their own HSI service under the terms and conditions of a tariff for third-party Internet access service approved by the CRTC in 2000 (the "TPIA Tariff"). A few ISPs have subscribed to this service. A monthly per end-user access rate of \$21.50 is currently charged to ISPs. At the request of the CRTC, the Corporation has filed in May 2006 revisions to its TPIA Tariff in which it has proposed revised end-user access rates for its HSI Standard as well as new end-user access rates for its HSI Lite and Pro services.

#### **DIGITAL PHONE SERVICE**

Cogeco Cable digital phone service in Canada is a digital telephony service which uses Internet Protocol (IP) to transport digitised voice signals over the same Cogeco Cable private digital network that brings TV and HSI into the home. Consumers are able to keep their existing phone number and their existing phones in their current locations.

This digital telephony offering includes unlimited calling in Canada and the continental US (excluding Hawaii and Alaska) and the five most popular calling features: voice mail, call display, call waiting, visual call waiting and call forwarding at no extra charge. In fiscal year 2006, the Corporation launched its digital phone service to most of its major territories. As at August 31, 2006, the service was available in Ontario in the following cities or towns: Burlington, Oakville, Windsor, Kingston, Hamilton, Chatham, Georgetown, Waterdown, Milton, Grimsby, Stoney Creek, Welland, Port Colborne, Dundas, Ancaster, Fort Erie, Pelham, Niagara Falls, Wallaceburg, Essex, Cornwall, North Bay, Peterborough, Gananoque, Sarnia and Beamsville. As at August 31, 2006, the digital phone service was available in Québec in the following cities or towns: Trois-Rivières, Drummondville, St-Hyacinthe, Rimouski, Pointe-au-Père, Mont-Joli, Price, St-Anaclet, Ste-Flavie, Matane, Sept-Iles, Port-Cartier, Baie Comeau, St-Georges-de-Beauce, Louiseville, Shawinigan, Grand-Mère, Valleyfield and Magog. Cogeco Cable digital phone service is available to Cogeco Cable residential customers as well as to non-Cogeco Cable customers.

### **3.3 CABLE NETWORKS**

The Corporation provides its broadcasting and telecommunication services in Canada through state-of-the-art broadband distribution networks. It is Cogeco Cable's general policy to fully own its distribution networks and headends as well as its amplifiers and drops. Digital and VOD services are available to 98% and 90% of households, respectively, and 93% of households passed are served by a two-way cable plant. Cogeco Cable's intercity fiber optic network extends over 8,351 kilometres and includes 79,400 kilometres of optical fiber. Cogeco Cable has deployed optical fiber to nodes serving clusters of typically 1,300 households, with many fibers per node in most cases, which allows the Corporation to further extend the fiber plant to smaller clusters of 500 homes rapidly with relative ease if and when necessary. Node splitting leads to further improvement in the quality and reliability of the network and of services and allows for increasing traffic of two-way services such as VOD and digital telephony. Cogeco Cable has implemented an infrastructure with 550 MHz or 750 MHz capacity, depending on the cable system. An infrastructure with 550 MHz capacity allows for the transmission of up to 80 analog channels, while an infrastructure of 750 MHz allows for the transmission of up to 110 analog channels. As a reference, each analog channel (representing 6 MHz of bandwidth), with the current compression, multiplexing and modulation technologies used by the Corporation, allows for the transmission of up to 13 standard definition digital television signals, or of up to 3 HD digital television signals.

### 3.4 LICENCES AND CONTRACTS

The Corporation's business in Ontario and Quebec is substantially dependent on some important licences and contracts. In order to provide distribution services, broadcasting distribution undertakings must hold broadcasting licences issued by the CRTC under the authority of the *Broadcasting Act* (Canada) as well as broadcasting certificates pursuant to the *Radiocommunication Act* (Canada), unless exempted. Broadcasting licences are issued for a maximum term of seven years and are generally renewed upon application by the licensee, except in case of serious breach. Licences are required for the operation of larger (Class 1 and 2) interconnected cable systems, while smaller (Class 3) non-interconnected cable systems are licence-exempt. The CRTC has never revoked or failed to renew a licence for an active cable system owned by Cogeco Cable.

The distribution of certain audio and video programming services such as specialty programming, pay television, VOD and SVOD services, requires the execution of various agreements, including affiliation agreements which are for the most part negotiated with a small number of large integrated broadcasting groups and major studios.

The construction and operation of cable systems also requires the execution of contracts with municipalities and public utilities in order to obtain cost-effective and timely access to municipal rights-of-way and existing public utility support structures. The use by cable companies of support structures owned by telecommunications carriers, such as Bell Canada, is subject to CRTC approved tariffs. The CRTC also has jurisdiction under the authority of the *Telecommunications Act* (Canada) to set terms for access to municipal street allowances and property for cable and other telecommunications carrier facilities in case of a dispute between the parties. The Supreme Court of Canada ruled that the CRTC cannot set terms for the use of support structures owned by electric power utilities under the authority of the *Telecommunications Act* (Canada). The Ontario Energy Board ("OEB") in a decision released on March 7, 2005 determined that all cable companies operating in Ontario shall have access to the poles of the electricity distributors at a rate of \$22.35 per pole per year.

The recent launch of the Corporation's digital phone service in Ontario and Québec required the execution of agreements with strategic providers, in order to secure the delivery as well as the growth and quality of this new service. To that end, the Corporation entered into major agreements with various suppliers.

### 3.5 RENEWAL OF CONTRACTS

The contracts with the two largest electric power utility suppliers of support structures for the Corporation's cable plant, Hydro One in Ontario and Hydro-Québec in Québec, expired on December 31, 2005. The agreement with Hydro One was renewed and executed early in 2006 and it is reasonably expected that the new agreement with Hydro-Québec should be executed in the Fall of 2006.

Several affiliation agreements with audio and video programming service suppliers are currently under negotiation. In case of a dispute between the parties, the CRTC can, in the case of Canadian programming services, set distribution terms, including wholesale fees payable to the programming service supplier. The market for audio and video programming services in Canada is characterized by high levels of supplier integration, structural rigidities imposed by the CRTC's regulatory framework for broadcasting distribution, and the resulting strong bargaining position of program suppliers. The recently announced takeover of CHUM Limited by Bell Globemedia Inc., if approved by the CRTC and the Commissioner of Competition, would significantly increase the level of concentration of Canadian conventional over-the-air, specialty and pay television programming services in the Canadian marketplace generally, and would significantly increase the market power of Bell Globemedia Inc. The renewal of Cogeco Cable's affiliation agreements for CHUM and Bell Globemedia specialty services are currently under negotiation.

Cogeco Cable uses different customer relations management tools and databases for its operations respectively in Ontario and Québec. The agreement with the main third-party supplier of information systems in Ontario will expire in 2008, and the terms that would apply for the continued use of the relevant information systems in Ontario are under negotiation.

### 3.6 EMPLOYEES

As at August 31, 2006, the number of full-time equivalent employees of the Corporation and its subsidiaries in Canada was 1,627 including the 381 full-time equivalent employees of Cable Québec who were subject to collective agreements, being approximately 23% of the Corporation's aggregate workforce. The employees of Cable Québec are grouped in three units for collective bargaining, namely: (i) technical, design, network control centre and community programming that are located across various locations of the Corporation in the Province of Québec; (ii) customer service (cable and multimedia), accounting and payroll mainly located in Trois-Rivières; and (iii) all employees at the Alma and Roberval systems. On June 29, 2005 Cogeco Cable signed new collective agreements with the employees of the first two units in Québec. These two collective agreements will expire on December 31, 2008. An agreement with the Union of the third unit has been reached and it is reasonably expected that the new collective agreement should be executed in the Fall of 2006. That collective agreement will expire on May 31, 2010.

There are no collective agreements in Cable Ontario.

### 3.7 COMPETITIVE CONDITIONS

In Canada, Cogeco Cable faces competition in its service areas mainly from two national direct-to-home satellite distribution services, Star Choice and Bell ExpressVu (the latter controlled by BCE Inc., the largest and most widely integrated Canadian telecommunications company), and from incumbent telephone companies Telus, Bell Canada (controlled by BCE Inc.) and Bell Nordiq (also controlled by BCE Inc.). Star Choice and Bell ExpressVu both offer a wide range of competitive audio and video services on a fully digital basis. Telus, Bell Canada and Bell Nordiq all offer a wide range of business and residential Internet access, voice and data telecommunications services. Rogers, Telus and Bell Canada respectively operate mobile telecommunications services in Ontario and Québec. In addition, Telus now offers audio and video distribution services in the Lower St. Lawrence area in direct competition with Cogeco Cable. Telus and Bell Canada have recently announced that they will become income trusts. However, Cogeco Cable and Telus cooperate in other parts of Cogeco Cable's footprint to offer Cogeco Cable's digital telephony service. Bell Canada offers a new digital telephone service in Ontario and Québec and is expected to launch some time in 2007 a new digital video distribution service over its wireline network, starting with larger urban centres in Ontario and Québec, some of which are included in Cogeco Cable's cable network footprint. Cogeco Cable also competes with other telecommunications service providers, including Vonage, Primus and Rogers Home Phone (formerly known as Sprint), and with alternative service providers who use resale or third-party access arrangements in effect. Although spectrum has been allocated for broadband wireless distribution alternatives for quite some time, this form of wireless competition has been slow to develop in Cogeco Cable's footprint. It may however become a more significant competitive factor in coming years. Cogeco Cable also faces illicit competition from the unauthorized reception of direct-to-home satellite signals. The level of piracy of video signals and the actual penetration of illicit reception of video distribution services in households within the Corporation's service areas may also have a significant effect on the Corporation's business and the competitiveness of its service bundles.

### 3.8 TRADEMARKS

The Corporation has registered or applied for registration of the trademarks for use in its Canadian business which the Corporation regards as having significant value or as being important factors in the marketing of its services.

### 3.9 CYCLES

Cogeco Cable's operating results are not generally subject to material seasonal fluctuations. However, the loss in basic service customers is usually greater, and the addition of HSI 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. Furthermore, the fourth quarter's operating margin is usually higher as lower or no management fees are paid to COGECO. Under the management agreement outlined in Item 13 of this AIF, Cogeco Cable pays a fee equal to 2% of its total revenue subject to a maximum amount. Since the maximum amount was reached in the third quarter of fiscal 2005 and in the third quarter of 2006, Cogeco Cable has thus paid no management fees during the fourth quarters.

## 4. DESCRIPTION OF THE EUROPEAN BUSINESS

The cable assets of Cogeco Cable in Portugal referred to herein as “Cabovisão”, are managed from a main office located in the City of Palmela (near Lisbon), Portugal. With initial services launched in 1996, Cabovisão has grown rapidly and is now the second largest cable operation in Portugal with 629,041 RGUs as of August 31, 2006. Its fiber optic ring provides direct access to the subscribers throughout Portugal. It holds licences to offer services to approximately 90% of the households in Portugal.

In 2002, the ultimate parent corporation of Cabovisão, Cable Satisfaction International Inc. (“CSII”), made a proposal, later amended in 2003, under the Companies Creditors Arrangement Act (the “CCAA Proceedings”) in Québec, Canada. In late 2003, upon the senior secured debt of Cabovisão going into default, the senior secured lenders installed a new board of directors in Cabovisão which stayed in office until new security arrangements were entered into in December 2005 in concert with Catalyst Fund Partnership I (“Catalyst”) which had acquired part of the secured debt and was leading the implementation of the amended plan in the CCAA Proceedings. Accordingly, in 2004 and most of 2005, Cabovisão’s business development was constrained by no new funding during such years and conflict between CSII and Cabovisão’s interim board and secured lenders. Cogeco Cable completed its acquisition of all the shares and all the secured debt of Cabovisão as at August 1, 2006.

### 4.1 CUSTOMERS

The following table presents the number of homes passed, RGUs, basic service, HSI and telephony service customers in Portugal as at August 31, 2006:

HOMES PASSED	RGUs	BASIC SERVICE CUSTOMERS	HSI SERVICE CUSTOMERS	TELEPHONY CUSTOMERS
<b>826,369</b>	<b>629,041</b>	<b>269,694</b>	<b>136,278</b>	<b>223,069</b>

The following table presents the number of customers subscribing to basic service and the penetration rate of basic service, HSI service and telephony service in Portugal as at August 31, 2006:

BASIC SERVICE CUSTOMERS	BASIC SERVICE PENETRATION %	HSI SERVICE CUSTOMERS AS A % OF BASIC SERVICE <sup>(1)</sup>	TELEPHONY CUSTOMERS AS A % OF BASIC SERVICE <sup>(1)</sup>
<b>269,694</b>	<b>32.6</b>	<b>50.5</b>	<b>82.7</b>

(1) CALCULATED ON THE BASIS OF THE CABLE SYSTEMS WHERE THE SERVICE IS OFFERED.

### 4.2 SERVICES

#### 4.2.1 BROADCASTING SERVICES

Cabovisão’s cable broadcasting distribution services are offered in mainland Portugal, on a subscription basis, in analog form.

##### ANALOG SERVICE

###### Basic service

Analog customers receive a basic service generally consisting of 47 channels and an optional mini-basic package with 41 television channels. The basic and mini-basic television channel packages include more than 23 thematic channels in Portuguese language (subtitled or dubbed) and several additional thematic channels in the English, French and Spanish languages. The 6 different channels included in the basic package that are not offered in the mini-basic package, are: Hollywood, History, Biography, Odisseia, MGM, Panda and Discovery.

The fee for the mini-basic and for the basic channel packages are defined by Cabovisão, based on competitive analysis. On September 1, 2006, the basic service cost was €22,45, VAT included, and the mini-basic service cost was €17,29, VAT included.

#### **Pay television service**

Analog basic or mini-basic television service customers can access a large selection of pay television services such as the 3 channels of Lusomundo movies (Premium + Gallery + Action), 2 Sport channels (SportTV 1 and SportTV 2), the Disney Children's channel and adult channels such as Hustler TV and Playboy TV. All these Pay television channels are supplied through an analog tv-box decoder.

### **4.2.2 TELECOMMUNICATION SERVICES**

#### **HSI SERVICE RESIDENTIAL**

Cabovisão offers to its residential customers various HSI services with different transfer speeds and service attributes, as follows:

- 2Mbps HSI Service, operates at up to 2Mbps downstream and up to 256Kbps upstream and includes 10GB traffic per month;
- 4Mbps HSI Service operates at up to 4Mbps downstream and up to 512Kbps upstream and includes 15GB traffic per month;
- 8Mbps HSI Service operates at up to 8Mbps downstream and up to 512Kbps upstream and includes 30GB traffic per month.

#### **HSI SERVICE BUSINESS**

Cabovisão also offers to its commercial and business customers various HSI services with differing transfer speeds and service attributes, as follows:

a) For commercial companies:

- 2Mbps HSI Service, which operates at up to 2Mbps downstream and up to 512Kbps upstream, and includes unlimited traffic per month during business hours (09h00 to 19h00);
- 4Mbps HSI Service, which operates at up to 4Mbps downstream and up to 512Kbps upstream, and includes unlimited traffic per month during business hours (09h00 to 19h00);
- 8Mbps HSI Service, which operates at up to 8Mbps downstream and 1Mbps upstream, and includes unlimited traffic per month during business hours (09h00 to 19h00);
- VPN 512Kbps point-to-point data service for commercial shops networks.

b) For SME and large business companies:

- 2Mbps HSI Symmetric Service with 2Mbps downstream and 2Mbps Upstream, and includes unlimited traffic per month during business hours (09h00 to 19h00);
- From 2Mbps up to 100Mbps Optical Fiber HSI and Data Leased Lines, with unlimited traffic 24 hours per day.

#### **PHONE SERVICE - RESIDENTIAL**

Cabovisão's phone service in Portugal is a telephony service which uses a mix of proprietary technologies and Internet Protocol (IP) to transport voice signals over the same Cabovisão private network that brings cable television and HSI into the home. Consumers are able to keep their existing phone number and their existing phones in their current locations.

As at August 31, 2006 Cabovisão's residential phone service was available as a stand alone, at a cost of €15,56, or within double and triple bundle packages (mix and max), at a cost of €5,00 included in the package monthly fee.

This telephony offering includes 6 optional fixed telephony plans for subscribers, as follows:

- 200 free minutes per month for fixed national calls.
- 60 free minutes per month for fixed international calls to France, Spain, UK, Germany, Luxembourg and Switzerland
- 30 free minutes per month for mobile national calls.
- 30 free minutes per month for fixed international calls to the US, Canada, Brazil and Venezuela.
- 30 free minutes per month for fixed international calls to Eastern European countries, as Ukraine, Russia, Moldavia and Romania.
- 30 free minutes per month for fixed international calls to African countries with important emigration to Portugal, such as Angola, Mozambique, Cape Verde and South Africa.

Residential customers can choose 1 of these 6 options at no extra cost. Each additional option costs €5,00 per month, VAT included.

#### **PHONE SERVICE - BUSINESS**

For commercial customers, Cabovisão's offering includes various types of phone access lines with different rating plans, each with minimum monthly usage/month.

The lowest plan is the package which includes 1 phone line + 1 ATM line + minibasic tv service + SportTv channel service, all for only €42,99 per month, VAT included.

For the remaining business customers, Cabovisão offers different phone rating plans, from €25 minimum usage spend per month to 1000 € minimum spend per month.

Cabovisão also offers a special on-net rating plan for business customers with a network of shops/offices within Cabovisão footprint.

#### **4.3 CABLE NETWORKS**

The Corporation provides its cable and telecommunication services in Portugal through state-of-the-art 750 MHz broadband distribution networks. Cabovisão fully owns its distribution networks and headends as well as its amplifiers and drops. Digital and VOD services are not currently offered but are planned for launch progressively over the next few years. HSI service using fully certified DOCSIS technology is available to 100% of homes passed and served by a two-way cable plant. Phone service is also available to 100% of homes passed. Cabovisão's intercity fiber optic network extends to over 1,811 kilometres and includes 173,856 kilometres of optical fiber. Cabovisão has deployed optical fiber to nodes serving clusters of typically 1,215 households, with many fibers per node in most cases, which allows Cabovisão to further extend the fiber plant to smaller clusters of 500 homes rapidly with relative ease if and when necessary. Node splitting leads to further improvement in the quality and reliability of the network and of services and allows for increasing traffic of two-way services such as HSI and digital telephony. Cabovisão has implemented an infrastructure with 750MHz capacity essentially in all its systems. In Portugal and in most of Europe, PAL B and PAL G television standards are used and each analog channel requires 7 MHz in PAL B (PAL B is used up to 300 MHz) and 8 MHz in PAL G (PAL G is used above 300 MHz) of bandwidth versus 6 MHz in North America where the NTSC television standard is used. An infrastructure with 750 MHz capacity in Portugal allows for the transmission of up to 83 analog channels.

#### 4.4 LICENCES AND CONTRACTS

Cabovisão holds several licenses for its activities as cable TV distributor, Internet Service provider and telephony operator. Historically, under the terms of the Decree-Law 241/97, the fixed assets owned by Cabovisão for the service of network cable television distribution authorized by the Portuguese telecommunications regulator, *Autoridade Nacional de Comunicações* ("ANACOM"), were limited to its license period, so that in the case of non-renewal of its licence, many of the assets would have reverted or been transferred to public authorities, other public service telecommunications operators or other entities, without compensation.

A broad reform of national legislation respecting electronic communications occurred in 2004 with the publication of Law 5/2004 (*Electronic Communications Law*, known as REGICOM) on February 10, 2004, in line with the basic requirements of applicable European Commission directives. This law established new rules for electronic networks and communication services and the related resources and services and replaced several other laws including Decree-Law n. 241/97. Under this new national legislation, ANACOM has implemented a general authorization regime which no longer involves the issuance of licences for wireline telecommunications activities. The new law established a streamlined general authorization framework under which companies interested in deploying electronic networks and communication services need only to provide to ANACOM a concise description of the network or service intended to be provided and the expected initial launching date. Under this framework, Cabovisão obtained licenses from ANACOM for offering of cable television services in 233 municipalities in Portugal, as well as a license to operate public telecommunications networks and fixed telephone services. The new law does not establish expiry terms for the exercise of these activities, neither does it provide for asset reversions, as could have happened in the previous legal regime described above. Cabovisão is also licensed by ANACOM to provide Internet services.

The construction and operation of cable systems requires the execution of contracts with municipalities and public utilities in order to obtain cost-effective and timely access to municipal rights-of-way and existing public utility support structures. The use by cable companies of support structures owned by telecommunications carriers, such as Portugal Telecom, is subject to ANACOM approved tariffs. The use of support structures owned by *Energias de Portugal* ("EDP"), the Portugal electricity provider, is governed by a private agreement with EDP.

The distribution of certain audio and video programming services such as pay television requires the execution of various agreements, including affiliation agreements which are for the most part negotiated with a small number of large integrated broadcasting groups and major studios.

The offering of HSI services requires the execution of several contracts of IP transit with some of the major world providers such as Verizon, which are renewed annually by direct negotiation. For its telephony service, Cabovisão has several interconnection agreements with telephony operators in Portugal; under ANACOM rules, no operator having significant market power can deny interconnection to another licence operator for call termination.

#### 4.5 RENEWAL OF CONTRACTS

The Company regularly negotiates renewals of programming affiliation agreements. Where the programme content is recognized by the Portuguese Competition Authority as being of public interest, and especially where the supplier has significant market power, the continuity of supply is safeguarded by regulation.

The offering of new digital audio and video services by Cabovisão will require the negotiation of suitable arrangements with program suppliers. Although affiliation arrangements and program service bundling and retailing are less constrained by regulation in Portugal than in Canada, the negotiation of such new arrangements has not yet taken place.

#### 4.6 EMPLOYEES

As at August, 31, 2006, the number of full-time equivalent employees of Cabovisão was 278. There are no collective agreements in Cabovisão and, therefore, all employees are governed by the Portuguese Labour Code.

#### 4.7 COMPETITIVE CONDITIONS

Cabovisão faces competition in its service areas mainly from incumbent telecommunications carrier Portugal Telecom, SGPS, S.A. ("PT") and its subsidiaries, from diversified Portuguese conglomerate Sonae, SGPS, S.A. (Sonae) and its subsidiaries, and from telecommunications operator ONI, whose main shareholder is EDP, the incumbent electricity service provider in Portugal. In addition to the national telephone network operator PT Comunicações, PT owns TV Cabo, the largest cable broadband operator in Portugal, which also offers a direct-to-home satellite distribution service to the Portuguese market. Sonae owns and operates the Clix and Novis services, which provide voice, data, and high-speed Internet services respectively to the residential and business markets. PT, Sonae and ONI provide mobile telecommunications services in Portugal, through their respective subsidiaries, as well as Vodaphone. Other competitors include AR Telecom (formerly known as Jazztel), Tele 2 and Redvo Telecom, a recently launched broadband microwave distribution service using Wi-Max technology. The ownership and operating conditions of various entities of PT, including PT Multimedia, may however change in the foreseeable future as a result of the pending takeover bid by Sonae, alternative bids by other interested parties, or ownership or restructuring proposals put forward by PT itself. There is a possible scenario of having two full triple play companies, PT Comunicações and PT Multimedia, owned by separate groups, with the conclusion of the pending takeover bid by Sonae, with each significant market power, and possible new regulatory requirements as a result.

Until recently, Cabovisão has been the only provider of full "triple-play" service bundles in its footprint, but Clix has recently launched a digital video distribution service over telephone lines, and its competitive "triple-play" service bundles are expected to extend progressively to approximately 60% of Cabovisão's footprint. TV Cabo has started offering digital telephone services on Session Initiation Protocol (SIP) as well as digital video service, and is thus also in a position to offer competitive "triple-play" service bundles to approximately 60% of Cabovisão's footprint. Cabovisão's video distribution services are analog only, and do not include true VOD at this time, but Cabovisão is actively considering the opportunity and timing for the roll-out of its own digital services, as its HFC plant has the capacity to accommodate digital services in addition to all its existing analog services.

The broadband telecommunications competitive landscape in Portugal differs from that prevailing in Canada mainly in the following respects: the density of urban dwelling units within the Corporation's footprint in Portugal is approximately double that of its footprint in Canada, there is overlapping competitive cable plant over approximately 60% of Cabovisão's footprint and this competitive cable plant is presently controlled by the incumbent telephone company, but there is only one Portuguese direct-to-home satellite competitor, and direct-to-home satellite service penetration is very limited in urban areas.

#### 4.8 TRADEMARKS

Cabovisão has registered or applied for registration of certain trademarks for use in its Portuguese business which it regards as having significant value or as being important factors in the marketing of its services.

#### 4.9 CYCLES

Cabovisão results are subject to some seasonal fluctuations, such as holiday periods in a month, national or world soccer championships or special periods such as Christmas and Back to School. The Back to School period (September & October) and the Christmas period (November to December) are, however, positive months for new service subscribers, mostly for HSI. The addition of cable television and HSI customers is generally slower from June to the end of August due to summer holidays in all areas, especially in university cities, such as Aveiro, Covilhã, Evora, Guarda and Coimbra. Also the loss of pay television customers is higher from June to the end of August, after the end of the national soccer championship and during the summer holiday period. March or April results are slightly negatively affected by Easter, Independence and Labour day holidays, due to the common occurrence of families taking mini-holidays.

#### 4.10 TAX LOSS CARRY FORWARDS

Under applicable tax legislation in Portugal, tax losses can be carried forward to offset against taxable profits during a period of six years unless the following conditions apply: on the date of termination of the taxation period in which the deduction is used there have occurred changes in the Cabovisão's social purpose during the fiscal year in which tax losses are deducted, or there are substantial changes to the business activity of Cabovisão or there is a change of ownership of at least 50% in the shares of Cabovisão or a change in the majority of the voting rights. As at December 31, 2005, the available tax losses totalled approximately €204,432,000, subject to possible correction by the Portuguese tax authorities. While there was a change in ownership of 100% of the shares of Cabovisão in August 2006, there was, in advance of such change, a request made to the Portuguese tax authorities to permit the tax losses to continue to be available notwithstanding changes in the ownership of the shares. It is anticipated that such request will likely be granted.

#### 5. REORGANIZATIONS

On September 1, 2003, the Corporation completed two corporate reorganizations in order to consolidate its cable operations in Ontario and in Québec. Those reorganizations involved the amalgamation of some subsidiaries of the Corporation. In Ontario, the subsidiaries Cogeco Cable Brockville Inc., Cogeco Cable Canada and Cogeco Cable Lindsay Inc. amalgamated together into a new company, which continued to be named Cogeco Cable Canada Inc. In Québec, the subsidiaries Cogeco Câble Trois-Rivières inc., Cogeco Câble Mauricie inc. and Cogeco Câble Nicolet inc. amalgamated together into a new company named Cogeco Câble Mauricie (2003) inc.

On September 1, 2004, the Corporation further consolidated the Québec operations by amalgamating all subsidiaries of the Corporation in Québec (namely Cogeco Câble Beauce inc., Cogeco Câble Estrie inc., Cogeco Câble Gaspésie inc., Cogeco Câble Lac Saint-Jean inc., Cogeco Câble Laurentides inc., Cogeco Câble Mauricie (2003) inc., Cogeco Câble Montérégie inc. and Cogeco Câble Rimouski inc.) into a new company named Cogeco Cable Québec Inc.

On September 1, 2005, the Corporation further consolidated the Ontario operations by amalgamating Cogeco Cable Canada Inc. and Cogeco Cable Halton Inc. into a new company which continued to be named Cogeco Cable Canada Inc.

For the purposes of the Cabovisão acquisition completed on August 1, 2006, Cogeco Cable has set up the structure described in section 1.3 of this AIF, involving one of its operating Canadian subsidiaries and intermediate holding and financing entities located in Luxembourg, with a view to maximizing returns for Cogeco Cable.

On September 1, 2006, the Corporation amalgamated an intermediate holding company used for the Cabovisão acquisition, Cogeco Cable Holdings Inc. and Cogeco Cable Canada Inc. into a new company which continued to be named Cogeco Cable Canada Inc.

#### 6. RISK FACTORS

The business conducted by the Corporation involves numerous risks and uncertainties. The main risk factors and uncertainties facing the Corporation are disclosed in the "Uncertainties and Main Risk Factors" section on pages 15 to 20 of the Corporation's Annual Report for the year ended August 31, 2006 which is incorporated herein by reference, as supplemented in the "Risk Factors and Uncertainties" section of the Corporation's quarterly reports to shareholders. These risks and uncertainties should be considered in conjunction with the other information included in this AIF.

## 7. DIVIDENDS

Cogeco Cable declared a quarterly dividend during the first quarter of fiscal 2005 for the first time since fiscal 2001 as a result of a significant improvement in its financial results leading to strong free cash flow. A quarterly dividend of \$0.02 per share was declared for the first three quarters of fiscal 2005 for subordinate and multiple shares and a dividend of \$0.04 per share was declared for the fourth quarter due to the substantial improvement in the Corporation's results.

The Corporation maintained the payment of a quarterly dividend of \$0.04 per share during fiscal 2006 and expects to do so during the current fiscal year. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Corporation based upon the Corporation's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, in its sole discretion, deems relevant.

## 8. CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of subordinate voting shares (the "Subordinate Shares"), multiple voting shares (the "Multiple Shares"), Class A preference shares (the "Class A shares") and Class B preference shares (the "Class B shares"). As at August 31, 2006, 15,691,100 Multiple Shares and 24,308,112 Subordinate Shares were issued and outstanding. No Class A shares or Class B shares are presently issued and outstanding. The following is a summary of the material characteristics attached to the authorized classes of shares of the capital stock of the Corporation:

### 8.1 GENERAL DESCRIPTION OF CAPITAL STRUCTURE

#### 8.1.1 SUBORDINATE SHARES AND MULTIPLE SHARES

Except for voting rights, Subordinate Shares and Multiple Shares carry and are subject to the same rights, privileges, restrictions and conditions.

#### VOTING RIGHTS

The Subordinate Shares are entitled to one vote per share and the Multiple Shares are entitled to ten votes per share.

#### DIVIDENDS

Subject to the prior rights of the holders of the Class A shares, Class B shares and any other class of shares of the Corporation ranking senior to the Subordinate Shares and Multiple Shares, the holders of Subordinate Shares and Multiple Shares shall be entitled, on a share-for-share basis, to any dividend which, in the discretion of the Board of Directors, may be declared, paid or set aside for payment during any fiscal year with respect to such shares, without preference or distinction between the Subordinate Shares and the Multiple Shares.

#### DISSOLUTION

The holders of Subordinate Shares and Multiple Shares shall be entitled to share equally in any distribution of the assets of Cogeco Cable upon its liquidation, dissolution or winding-up or other distribution of its assets. Such participation is subject to the rights, privileges, restrictions and conditions attached to any issued and outstanding Class A shares and Class B shares.

#### CONVERSION RIGHTS

Each Multiple Share is convertible at any time at the holder's option into one fully paid and non-assessable Subordinate Share.

#### RIGHTS IN THE EVENT OF A TAKE-OVER

While, under applicable law, an offer to purchase Multiple Shares would not necessarily result in an offer to purchase Subordinate Shares, the principal shareholder of the Corporation, COGECO, has entered into a trust agreement for the benefit of the holders of Subordinate Shares under which COGECO has agreed, among other things, not to sell its Multiple Shares, except in certain circumstances, unless an offer on at least equivalent terms is made to the holders of Subordinate Shares.

## **8.1.2 CLASS A SHARES**

### **VOTING RIGHTS**

The Class A shares are not entitled to any voting rights, unless the meeting is called to consider any matter in respect of which the holders of the Class A shares would be entitled to vote separately as a class.

### **DIVIDENDS**

The holders of Class A shares are entitled to receive, in priority to the Class B shares, the Subordinate Shares and the Multiple Shares, a cumulative cash dividend at the rate of 11 per cent of the Redemption Amount (as defined in the Articles of the Corporation) per share, per annum payable annually on a date to be determined by the Board of Directors.

### **DISSOLUTION**

The holders of the Class A shares shall be entitled to receive from the assets of the Corporation a sum equivalent to the aggregate Redemption Amount (as defined in the Articles of the Corporation) of all the Class A shares held by them respectively before any amount shall be paid or any assets of the Corporation distributed to the holders of the Class B shares, the Subordinate Shares and the Multiple Shares.

## **8.1.3 CLASS B SHARES**

### **SERIES**

Class B shares may be issued from time to time in one or more series. The Board of Directors of the Corporation shall be entitled, by resolution, but subject to the provisions of the *Canada Business Corporations Act*, the provisions in the Articles and the provisions attaching to any series of Class B shares outstanding, to determine, from time to time, prior to issue, the number of shares of each series of Class B shares and the consideration per share, as well as their designation and the rights, privileges, conditions and restrictions attaching thereto.

### **VOTING RIGHTS**

The Class B shares are not entitled to any voting rights, unless the meeting is called to consider any matter in respect of which the holders of the Class B shares would be entitled to vote separately as a class or series.

### **DIVIDENDS**

The holders of Class B shares are entitled to receive, after the holders of Class A shares but before the holders of Subordinate Shares and Multiple Shares, a dividend, which dividend may or may not be cumulative and payable in cash or by way of stock dividends or in any other manner not prohibited by the *Canada Business Corporations Act*.

### **DISSOLUTION**

Subject however to the prior rights of the holders of the Class A shares, the holders of the Class B shares shall be entitled to receive, to the extent provided with respect to each series, (i) an amount equal to the price at which the said shares were issued, (ii) the premium, if any, provided for with respect to the shares of such series, and (iii) in the case of cumulative Class B shares, all unpaid cumulative dividends, and, in the case of non-cumulative Class B shares, all non-cumulative dividends declared but unpaid, before any amount shall be paid or any assets of the Corporation distributed to the holders of the Subordinate Shares and the Multiple Shares.

## 8.2 CONSTRAINTS ON ISSUE AND TRANSFER OF SHARES

The issue and transfer of Subordinate Shares and Multiple Shares of the Corporation are constrained by its Articles in accordance with section 174 of the *Canada Business Corporations Act*, in order to ensure that the Corporation and its subsidiaries comply with the directions or the conditions of the Corporation's licences granted by the CRTC. The Corporation is subject to Canadian ownership and control requirements that limit the extent to which equity can be issued or transferred to non-Canadian residents and that preclude control by non-Canadian residents.

In summary, each subscriber or transferee of any shares of the Corporation is required to supply a declaration stating certain facts with respect to citizenship and ownership and control over the shares. No share may be issued or transferred if this would prevent the Corporation or its subsidiaries from holding licences or approvals for commercial activity and, in particular, cable television, or if the issue or transfer would be in contravention of the *Broadcasting Act* (Canada) or any instruction issued by the Governor-in-Council by virtue of such Act or any licence or authorization of the Corporation. In the event of any contravention of the foregoing, the holder of the shares may not exercise the voting rights attached thereto so long as the contravention subsists.

## 8.3 CREDIT RATINGS

On August 3, 2006, Standard & Poor's Ratings Services ("S&P") lowered their rating on the Senior Secured Debentures and Notes of the Corporation from BBB- to BB+ and their rating on the Second Secured Debentures from BB+ to BB. Obligations rated in the "BB" category are in the fifth highest category and are regarded as having speculative characteristics. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions. The ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. According to S&P, the downgrade reflects the Corporation's weakened consolidated risk profile, given higher leverage and the weak business risk profile of Cabovisão. Nevertheless, the rating credits reflect Cogeco Cable management's previous track record of deleveraging and presumes that the relatively high pro forma adjusted debt leverage will steadily improve to levels more consistent with the rating within the next three years. S&P has assigned a recovery rating of '1' to Cogeco Cable's credit facility and other senior secured first-priority debt. The '1' recovery rating indicates expectations of full recovery (100%) of principal in the event of payment default. Cogeco Cable's second-priority debt has been assigned a recovery rating of '2' which indicates expectations of substantial recovery (80%-100%) of principal in the event of default.

On August 3, 2006, Dominion Bond Rating Service ("DBRS") downgraded their rating on the Senior Secured Debentures and Notes from BB (high) to BB and their rating on the Second Secured Debentures from BB to BB (low). Obligations rated in the "BB" category are in the fifth highest category and are regarded as speculative and non investment-grade, where the degree of protection afforded interest and principal is uncertain, particularly during periods of economic recession. The downgrade follows the announcement that Cogeco Cable has successfully purchased the second-largest cable-operator in Portugal, Cabovisão, for €465 million, using 100% bank debt financing. According to DBRS, the downgrade reflects a weakening of the balance sheet, together with increased business risks involved with operations outside of the Company's incumbent territory.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

The table below shows Cogeco Cable's credit ratings:

AS AT AUGUST 31, 2006	DBRS <sup>(1)</sup>	S&P <sup>(1)</sup>
SENIOR SECURED NOTES, SERIES A AND B	BB	BB+
SENIOR SECURED DEBENTURES, SERIES 1	BB	BB+
SECOND SECURED DEBENTURES, SERIES A	BB (LOW)	BB

(1) STABLE OUTLOOK

## 9. MARKET FOR SECURITIES

The Subordinate Shares of Cogeco Cable are listed on the Toronto Stock Exchange under the symbol CCA.

The table below shows the price ranges and trading volume of the Subordinate Shares for each month of the last fiscal year:

### PRICE RANGES AND TRADING VOLUME OF THE SUBORDINATE SHARES

MONTH	HIGH \$	LOW \$	VOLUME #
SEPTEMBER 2005	32.61	30.27	910,399
OCTOBER 2005	31.10	25.06	1,168,514
NOVEMBER 2005	26.00	23.05	1,567,016
DECEMBER 2005	24.75	23.00	1,951,527
JANUARY 2006	27.75	23.65	1,016,024
FEBRUARY 2006	29.74	26.70	916,147
MARCH 2006	29.11	26.75	784,159
APRIL 2006	29.70	27.75	701,359
MAY 2006	29.74	28.89	637,041
JUNE 2006	29.32	20.21	3,298,608
JULY 2006	24.60	20.45	1,061,528
AUGUST 2006	25.33	23.52	429,874

## 10. DIRECTORS AND EXECUTIVE OFFICERS

### 10.1 DIRECTORS

The table below lists Cogeco Cable's directors, their municipality of residence and their current principal occupation on August 31, 2006. Each director is elected at the annual meeting of shareholders to serve until the next annual meeting or until a successor is elected or appointed:

NAME AND MUNICIPALITY OF RESIDENCE	DIRECTOR SINCE	CURRENT PRINCIPAL OCCUPATION
HENRI AUDET, ENG., C.M., B.A., B.A.SC., M.SC., D.SC. MONTRÉAL (QUÉBEC)	1992	CHAIRMAN EMERITUS OF THE CORPORATION
LOUIS AUDET, ENG., M.B.A. WESTMOUNT (QUÉBEC)	1992	PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE CORPORATION AND OF COGECO
JACQUELINE L. BOUTET, C.M., M.M. <sup>(1)</sup> MONTRÉAL (QUÉBEC)	1993	PRESIDENT, JACQUELINE L. BOUTET INC. (REAL ESTATE COMPANY)
WILLIAM PRESS COOPER, B.SC., P.ENG., F.C.S.C.E. <sup>(2)</sup> OAKVILLE (ONTARIO)	2003	PRESIDENT AND CHIEF EXECUTIVE OFFICER, COOPER CONSTRUCTION LIMITED (REAL ESTATE DEVELOPMENT AND CONSTRUCTION COMPANY)
CLAUDE A. GARCIA, B.A., B.COM. MONTRÉAL (QUÉBEC)	2004	CORPORATE DIRECTOR
GERMAINE GIBARA MONTRÉAL (QUÉBEC)	2003	PRESIDENT, AVVIO MANAGEMENT INC. (MANAGEMENT CONSULTING FIRM)
HARRY A. KING, B.A., C.A. VANCOUVER (BRITISH COLUMBIA)	1993	PRESIDENT, HARKING INVESTMENTS LTD. (HOLDING COMPANY)
HENRI P. LABELLE, B. ARCH., M.B.A. MONTRÉAL (QUÉBEC)	1993	ARCHITECT AND CERTIFIED ARBITRATOR
DAVID MCAUSLAND, B.C.L., LL.B. BEAUNSFIELD (QUÉBEC)	1999	EXECUTIVE VICE PRESIDENT, CORPORATE DEVELOPMENT AND CHIEF LEGAL OFFICER, ALCAN INC. (ALUMINIUM AND PACKAGING MANUFACTURER)
JAN PEETERS MONTRÉAL (QUÉBEC)	1998	BOARD CHAIR OF THE CORPORATION AND OF COGECO, PRESIDENT AND CHIEF EXECUTIVE OFFICER AND BOARD CHAIR, OLAMETER INC. (TELEMETRY)

(1) M.M.: MASTERS DEGREE FROM IMPM (INTERNATIONAL MASTERS PROGRAM IN PRACTICING MANAGEMENT) OF MCGILL UNIVERSITY. MRS. BOUTET ALSO HOLDS A DIPLOMA FROM CIREM (CENTRE INTERNATIONAL DE RECHERCHE EN MANAGEMENT).

(2) MR. COOPER IS A FORMER DIRECTOR OF LAIDLAW INC. WHICH FILED FOR PROTECTION UNDER THE COMPANIES CREDITORS ARRANGEMENT ACT ("CCAA") AND CHAPTER 11, IN JUNE 2001, AND EMERGED FROM SUCH PROCEEDINGS IN 2003. HE IS ALSO A FORMER DIRECTOR OF STELCO INC. WHICH FILED FOR PROTECTION UNDER THE CCAA ON JANUARY 29, 2004 AND EMERGED FROM SUCH PROCEEDINGS IN 2006.

## PAST OCCUPATION

Cogeco Cable's directors have held the position listed in the table above or other executive functions with the same corporation during the past five years or more, except for Mr. Claude A. Garcia who was, until December 31, 2004, President, Canadian Operations of The Standard Life Assurance Company.

## COMMITTEES OF THE BOARD

The Board has established four standing Committees and one *ad hoc* Committee to facilitate the carrying out of its duties and responsibilities and meet applicable statutory and policy requirements. The Committees are currently comprised of the following directors:

EXECUTIVE COMMITTEE	AUDIT COMMITTEE	HUMAN RESOURCES COMMITTEE	CORPORATE GOVERNANCE COMMITTEE	STRATEGIC OPPORTUNITIES COMMITTEE
HENRI AUDET <sup>(1)</sup>	WILLIAM PRESS COOPER	CLAUDE A. GARCIA <sup>(1)</sup>	JACQUELINE L. BOUTET	CLAUDE A. GARCIA
LOUIS AUDET	GERMAINE GIBARA	GERMAINE GIBARA	CLAUDE A. GARCIA	GERMAINE GIBARA
JAN PEETERS	HARRY A. KING <sup>(1)</sup>	JAN PEETERS	DAVID McAUSLAND <sup>(1)</sup>	DAVID McAUSLAND
			JAN PEETERS	JAN PEETERS <sup>(1)</sup>

(1) COMMITTEE CHAIR

## 10.2 EXECUTIVE OFFICERS

The table below lists Cogeco Cable's executive officers, their municipality of residence and the office that they held at Cogeco Cable on August 31, 2006:

NAME	MUNICIPALITY OF RESIDENCE	POSITION OCCUPIED
LOUIS AUDET	WESTMOUNT (QUÉBEC)	PRESIDENT AND CHIEF EXECUTIVE OFFICER
J. FRANÇOIS AUDET	LAVAL (QUÉBEC)	VICE PRESIDENT, TELECOMMUNICATIONS
DENIS BÉLANGER	MONTRÉAL (QUÉBEC)	VICE PRESIDENT, ENGINEERING AND DEVELOPMENT
PIERRE GAGNÉ	BEACONSFIELD (QUÉBEC)	VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER
GASTON GERMAIN	CAMPBELLVILLE (ONTARIO)	VICE PRESIDENT, ONTARIO
JACQUES GRAVEL	TERREBONNE (QUÉBEC)	VICE PRESIDENT, QUÉBEC
JULES GRENIER	SAINT-LAMBERT (QUÉBEC)	VICE PRESIDENT, PORTUGAL
HÉLÈNE LAURIN	MONTRÉAL (QUÉBEC)	VICE PRESIDENT, ADMINISTRATION AND CONTROL
YVES MAYRAND	MONTRÉAL (QUÉBEC)	VICE PRESIDENT, CORPORATE AFFAIRS
RON A. PERROTTA	WESTMOUNT (QUÉBEC)	VICE PRESIDENT, MARKETING
LOUISE ST-PIERRE	BEACONSFIELD (QUÉBEC)	VICE PRESIDENT AND CHIEF INFORMATION OFFICER

## PAST OCCUPATION

All the executive officers of Cogeco Cable have held their present position or other executive positions with the Corporation during the past five years or more, except as follows:

- Gaston Germain has been, since June 1, 2002, Vice President, Ontario. Previously, Mr. Germain was a self-employed contract management consultant acting principally in the telecommunications/media sectors.
- Jacques Gravel has been, since August 3, 2006, Vice President, Québec. Previously, he was Vice President, Technical Operations of Cogeco Cable Québec from November 26, 2001 to August 3, 2006.
- Jules Grenier has been, since August 3, 2006, Vice President, Portugal. Previously, he was Vice President, Québec from June 4, 2001 to August 3, 2006.
- Ron A. Perrotta has been, since March 11, 2002, Vice President, Marketing of the Corporation. Previously, he was Vice President and Brand Director at BCP Advertising from 2000 to 2002.

As at August 31, 2006, certain of the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, controlled or directed 100% of the multiple voting shares of COGECO which, in turn, owned all of the Multiple Shares of the Corporation, representing 86.6% of all the voting rights attached to all shares of the Corporation.

As at August 31, 2006, the directors and executive officers of the Corporation named above, as a group, beneficially owned, directly or indirectly, controlled or directed, 47,284 Subordinate Shares of the Corporation, representing 0.19% of the outstanding shares of such class.

## 11. MATERIAL CONTRACTS

On June 1, 2006, Cogeco Cable entered into with CSII, Catalyst and Cabovisão a Plan Implementation, Share Purchase and Proceeds Distribution Agreement (as amended) (the "Share Purchase Agreement"). By the terms of the Share Purchase Agreement, among other things, CSII agreed to implement the amended plan in the CCAA Proceedings of CSII following the obtaining of a court order approving the Share Purchase Agreement and the transactions contemplated by it, dispensing with any requirement for CSII shareholders or rights holders to approve the sale to Cogeco Cable of all the shares and all the debt of Cabovisão and vesting in Cogeco Cable all the interest of CSII in the shares of Cabovisão free and clear of all encumbrances other than the security for secured debt of Cabovisão. Through acquisition and finance subsidiaries, Cogeco Cable purchased for an agreed enterprise value of approximately €465.7 million (\$677.5 million), all the shares and all the senior secured debt of Cabovisão, and provided for the reimbursement of certain other specified liabilities of Cabovisão. The final purchase price for the shares and senior secured debt of Cabovisão will be determined following completion of a post-closing working capital adjustment. The Corporation is assuming a €20 million working capital deficiency of Cabovisão. The Share Purchase Agreement contained representations and warranties of CSII and of Catalyst in favour of Cogeco Cable and certain routine representations of Cogeco Cable in favour of CSII and Catalyst. During the interim period pending completion of the transactions, Cabovisão was to carry on its business in the ordinary course and was subject to certain protective restrictions on actions that it could take during such period. The conditions of closing in favour of the purchaser included *inter alia* a requirement that all inter-company indebtedness of Cabovisão to CSII and its intermediate holding company would be converted into voluntary accessory contributions in the capital account of Cabovisão. CSII was also required to cause the audited financial statements of Cabovisão for the 2005 year to be converted to Canadian GAAP and delivered to Cogeco Cable. The Share Purchase Agreement was filed by Cogeco Cable and by CSII on SEDAR on or about the 5th day of June 2006 so that the full details of the agreement are available there for review.

In July 2006, the requested court order was granted. On July 31, 2006, the amended plan in the CCAA proceedings of CSII was implemented and as at August 1, 2006, Cogeco Cable, through subsidiaries, acquired all the shares of Cabovisão and all the secured debt of Cabovisão together with the accompanying security.

## 12. LEGAL PROCEEDINGS

The Corporation is involved in various claims and litigation as a regular part of its business. Management believes that the resolution of these claims and litigation (which in certain cases are, subject to applicable deductibles, covered by insurance) will not have a material adverse effect on its financial position or results of operations.

## 13. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Cogeco Cable is a subsidiary of COGECO which holds 39.2% of the Corporation's equity shares. On September 1, 1992, Cogeco Cable executed a management agreement with COGECO under which the parent company agreed to provide certain executive, administrative, financial and strategic planning, legal, regulatory and various additional services to the Corporation and its subsidiaries (the "Management Agreement"). These services are provided by COGECO's officers, including the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Vice President, Corporate Affairs. No direct remuneration is payable to such officers by the Corporation. The Corporation granted 31,743 stock options to its officers who are also officers of COGECO, during the 2006 fiscal year, compared to 38,397 in the 2005 fiscal year.

Under the Management Agreement, the Corporation pays monthly fees equal to 2% of its total revenue to COGECO for the above mentioned services. In 1997, the management fee was capped at \$7,000,000 per year, subject to annual upward adjustment based on increases in the Consumer Price Index in Canada. Accordingly, for the year ended August 31, 2006, the maximum amount of \$8,392,000 was paid to COGECO, compared to \$8,179,000 million in 2005, which represented about 1.4% of the Corporation's total revenue. The Audit Committee of the Corporation can increase the cap under certain circumstances upon request to that effect by COGECO. In addition, the Corporation reimburses COGECO's out-of-pocket expenses incurred in respect of services provided to the Corporation under the Management Agreement.

In fiscal 2007, the management fee will be increased, pursuant to the Management Agreement, by 2.1% which is equal to the increase in the Consumer Price Index in Canada for the twelve-month period ended August 2006.

## 14. TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Corporation is Computershare Trust Company of Canada at its principal offices in Montréal and in Toronto.

## 15. AUDIT COMMITTEE DISCLOSURE

### 15.1 CHARTER

#### **PURPOSE**

Financial reporting and disclosure by Cogeco Cable represents a major aspect of the management of the Corporation's business and affairs. The purpose of the Board of Directors' oversight of the Corporation's financial reporting and disclosure is to gain reasonable assurance that the following objectives are being met:

- a) that the Corporation complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- b) that the accounting policies and practices, significant judgments and disclosures which underlie or are incorporated in the Corporation's financial statements are the most appropriate in the prevailing circumstances;
- c) that the Corporation's quarterly and annual financial statements are accurate and present fairly the Corporation's financial position and performance in accordance with Canadian generally accepted accounting principles ("GAAP");
- d) that there is an effective system of internal controls; and
- e) that appropriate information concerning the financial position and performance of the Corporation is disseminated to the public in a timely manner.

To assist the Board of Directors in its monitoring of the Corporation's financial reporting and disclosure, the Board of Directors has established, and hereby continues the existence of, a committee of the Board of Directors known as the Audit Committee for the purpose of overseeing the accounting and financial reporting processes and audits of the financial statements of the Corporation.

Although the Audit Committee has the powers and responsibilities set forth in this Charter, the role of the Audit Committee is oversight. The members of the Audit Committee are not full-time employees of the Corporation and may or may not be accountants or auditors by profession and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Audit Committee to conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate, and in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management, the External Auditors and other specialists retained by the Corporation.

#### **COMPOSITION AND QUALIFICATION**

The Audit Committee is appointed annually by the Board of Directors and consists of a minimum of three directors from among the directors of the Corporation. Every Audit Committee member must be independent, as defined in Multilateral Instrument 52-110 ("MI 52-110") and subject to the independence exemptions provided for therein.

The members of the Audit Committee are appointed at the first meeting after the annual meeting of the shareholders, or at any other meeting if a vacancy arises. The Board of Directors appoints one of the members of the Audit Committee each year as its Chair.

Subject to the exemptions provided for in MI 52-110, all members of the Audit Committee should be "financially literate" and, as such, able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breath and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

In contributing to the Audit Committee's discharging of its duties under this mandate, each member of the Audit Committee shall be entitled to rely in good faith upon:

- a) financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the External Auditors to present fairly the financial position of the Corporation in accordance with GAAP; and
- b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

In contributing to the Audit Committee's discharging of its duties under this mandate, each member of the Audit Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this mandate is intended, or may be construed, to impose on any member of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board of Directors members are subject. The essence of the Audit Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the fundamental accounting and reporting activities are being conducted effectively, that the financial reporting and disclosure objectives are being met, so as to report accordingly to the Board of Directors.

#### **OPERATING PRINCIPLES AND GUIDELINES**

The Audit Committee fulfills its responsibilities within the context of the following principles and guidelines:

- a) The Committee Chair and the other Audit Committee members have direct, open and frank communications throughout the year with management, other committee chairs and Board members, the External Auditors, the Internal Auditor and other key committee advisors as applicable.
- b) The Committee, in consultation with management and the External Auditors, develop annually an Audit Committee Work Plan responsive to the Audit Committee's responsibilities as set out in this Charter.
- c) The Audit Committee, in consultation with management and the External Auditors, participates in a process for review of important financial topics and emerging standards that have the potential to impact the Corporation's financial presentation and disclosure.
- d) The Audit Committee meeting agendas are the responsibility of the Committee Chair in consultation with Committee members, senior management and the External Auditors.
- e) The Committee communicates its expectations to management and the External Auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials and notes assembled in a binder will be received from management and the External Auditors one week in advance of meeting dates for all the topics on the agenda.
- f) The External Auditor's ultimate responsibility is to the Board of Directors and the Audit Committee, as representatives of the shareholders. The External Auditors must report directly to the Audit Committee.
- g) The Committee may, in addition to the External Auditors, at the expense of the Corporation and after consultation with management, engage independent counsel or other advisors, which the Committee determines, are necessary to carry out its duties.
- h) At each meeting of the Committee, the Committee members meet in private sessions among themselves only; with the External Auditors only; and with management only.
- i) The Committee, through its Chair, reports after each Committee meeting to the Board of Directors at its next regular meeting or earlier if required.

- j) The Audit Committee meets at least four times per year on a quarterly basis and holds special meetings as circumstances require. The timing of the meetings, and calling of and procedure at meetings, are determined by the Committee, provided that:
- (i) at all Audit Committee meetings a majority of the members shall constitute a quorum; and
  - (ii) the acts of the Audit Committee at a duly constituted meeting require no more than the vote of a majority of the members present and that, in any circumstances, a resolution or other instrument in writing signed by all members of the Audit Committee shall avail as the act of the Audit Committee.

The Vice President, Finance and Chief Financial Officer of the Corporation, the Internal Auditor of the Corporation and the External Auditors usually attend all Audit Committee meetings.

The minutes of meetings of the Audit Committee are approved by the Committee and delivered to the Board of Directors for its information.

The Secretary or Assistant Secretary of the Corporation acts as the secretary of the Audit Committee.

#### **RESPONSIBILITIES AND DUTIES**

The Committee is responsible for the following:

##### **FINANCIAL REPORTING**

- Review, before they are released, the annual financial statements included in the annual report to shareholders and the External Auditors' report thereon and recommend their approval to the Board of Directors.
- Review, before they are released, the interim and year end financial statements, the Management's Discussion and Analysis and related news releases and recommend their approval to the Board of Directors.
- Review, before they are released, public disclosure documents, such as a prospectus or annual information form, containing consolidated financial statements of the Corporation, and recommend their approval to the Board of Directors.
- Review, before they are released, a Summary Statement containing the highlights of interim or yearly financial information and earnings guidance provided to financial markets and financial institutions.
- Review the reports of the Disclosure Committee of the Corporation.
- Discuss with management and the External Auditors the acceptability and the appropriateness of the Corporation's accounting policies.
- Discuss with management any significant variances between comparative reporting periods and across comparable business units.
- Review the annual financial statements of the Corporation's pension plans and, when required, actuarial valuations of such plans.

##### **ACCOUNTING POLICIES**

- Proactively discuss and review the impact of proposed changes in accounting standards or securities policies or regulations dealing with accounting policies and disclosure.
- Review, with management and the External Auditors, any proposed changes in major accounting policies, and key estimates and judgments that may be material to financial reporting and probe whether the underlying accounting policies, disclosures and key estimates and judgments are considered to be the most appropriate in the circumstances.
- Discuss with management and the External Auditors the clarity and completeness of the Corporation's financial disclosures.
- Review benchmarks submitted by management of the Corporation's accounting policies and disclosure to those followed in its industry.

## **RISK AND UNCERTAINTIES**

Recognizing that it is the Board's responsibility, in conjunction with management, to (1) identify the principal business risks facing the Corporation, (2) determine the Corporation's tolerance for risk and (3) approve risk management policies, the Audit Committee focuses on the significant financial risks and develops reasonable assurance that such risks are being effectively managed and controlled by management.

- Develop reasonable assurance that these significant financial risks are effectively being mitigated and controlled by:
  - i) reviewing with management, at least every quarter, an updated list of such financial risks as well as ongoing or special actions undertaken to manage each one of these identified risks;
  - ii) discussing with management its assessment of the residual financial exposure to the Corporation if any, ensuing from their management of such financial risks; and
  - iii) enquiring of management whether existing policies, processes and programs are appropriate to identify, manage and control such financial risks.
- Review, at least once a year, the appropriateness of insurance coverage maintained by the Corporation.
- Review quarterly updates of the Corporation's outstanding contingencies, including legal claims, tax assessments and others, that could have a material effect upon the financial results and condition of the Corporation and the manner in which these matters are being disclosed in the financial statements.
- Review, at least once a year, the appropriateness of foreign currency, interest rate and other financial risk mitigation practices such as the use of derivative financial instruments.
- Review, at least once a year, the policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board of Directors in a timely fashion.

## **FINANCIAL CONTROLS AND DEVIATIONS**

- Review annually the plans of the Internal Auditor and External Auditors to gain reasonable assurance that the proposed combined evaluation and testing of the Internal Controls are appropriate to risks, comprehensive, coordinated and cost effective.
- Review, quarterly, with management its program regarding planned Internal Control development and status update with regards to planned initiatives as well as status regarding corrections to control deviations.
- Review procedures for public disclosure of financial information extracted from the Corporation's financial statements, other than the public disclosure referred to under Financial Reporting above, and periodically assess the adequacy of these procedures.
- Establish procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting, internal accounting controls or auditing matters.
- Receive reports on all complaints and anonymous submissions of concern by employees regarding accounting, internal accounting controls or auditing matters, results of any inquiry carried to that effect, and how such matters have or will be corrected.
- Review and understand the processes that support the Chief Executive Officer's and the Chief Financial Officer's certification and be satisfied that they constitute a reasonable approach and are diligently performed.
- Review all design weaknesses in Internal Control over Financial Reporting that could have a material impact on the financial reporting, understand the assessment of these weaknesses and the decision process supporting whether identified weaknesses should be disclosed or not in the MD&A and review the completeness and accuracy of the disclosures provided in the MD&A.
- Review, approve and monitor the remediation plan proposed by the Chief Executive Officer and the Chief Financial Officer.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

- Review regular reports from management, Internal Auditor, External Auditors and legal counsel concerning the Corporation's compliance with tax and financial reporting laws and regulations including those necessitating withholdings requirements which can have a material impact on financial statements.

#### **RELATIONSHIP WITH THE EXTERNAL AUDITORS**

- Recommend annually to the Board the nomination of the External Auditors for the purpose of preparing or issuing an auditor's report or any other related work of the Corporation.
- Recommend annually to the Board the compensation of the External Auditors.
- Receive annually from the External Auditors an acknowledgement in writing that the shareholders, as represented by the Board and the Committee, are their primary client.
- Receive a report annually from the External Auditors with respect to their independence and objectivity, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services rendered to the Corporation.
- Review with the External Auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, the extent to which the external audit can be coordinated with internal audit activities and the materiality levels which the External Auditors propose to employ.
- Establish effective communication processes with management and the Corporation's Internal and External Auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the External Auditors, management and the Committee.
- Oversee the work of the External Auditors, receive reports from the External Auditors on the progress against the approved audit plan, important findings, management letter recommendations for improvement and the Auditors' final report.
- Resolve disagreements between management and the External Auditors regarding financial reporting.
- Meet regularly with the External Auditors in the absence of management.
- Establish annually a list of services that may not be provided by the External Auditors as a measure to safeguard their objectivity and independence. Ensure compliance with such list of proscribed services with regulatory requirements.
- Pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the External Auditors, subject to the exemptions provided for in MI 52-110.
- Review and approve the Corporation's hiring policy regarding partners, employees and former partners or employees of the present and former External Auditors of the Corporation.
- Review reports of External Auditors concerning planned rotation of partners assigned to the Corporation's affairs.
- In the case of resignation or termination of the External Auditors or their replacement, review and approve the change of auditor notice within 30 days after the date of termination, resignation or replacement.
- Receive notice from the External Auditors of defects in their quality control systems according to the Canadian Public Accountability Board (CPAB) and/or that they are subject to sanction by the CPAB.

#### **RELATIONSHIP WITH THE INTERNAL AUDITOR**

- Review the appointment and replacement of the Internal Auditor. Report such to the Board.
- Review the Internal Auditor's terms of reference, annual plan and schedule of audit assignments and annual budget.
- Review list of external audit firms from which Internal Audit can outsource employees on a contractual basis for parts or all of its planned assignments.
- Review the reports of the Corporation's Internal Auditor with respect to control, financial risk and any other matters appropriate to the Committee's duties. Receive management's responses to these audit observations and recommendations.
- Review and approve the reporting relationship of the Internal Auditor to ensure that an appropriate segregation of duties is maintained and that the Internal Auditor has direct reporting and access to the Committee on matters affecting the Committee's duties.
- Encourage the Internal Auditor to share its planning and findings with the External Auditors in order to maximize audit coverage of the Corporation's operations and financial condition, in a cost-effective manner.

#### **OTHER RESPONSIBILITIES AND ISSUES**

- Review and reassess annually the adequacy of this Charter.
- Review disclosure of the Committee's Charter and of the Committee's activities presented in the Corporation's statement of corporate governance practices.
- After consultation with the Vice President, Finance and Chief Financial Officer and the External Auditors, gain reasonable assurance, at least annually, of the quality and sufficiency of the Corporation's accounting and financial personnel and other resources.
- Be informed of the appointment of the Corporation's senior financial executives.
- Perform such other functions as may from time to time be assigned to the Committee by the Board.

## 15.2 COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is currently formed of three directors, i.e. Messrs. Harry A. King, the Committee Chair, William Press Cooper and Mrs. Germaine Gibara. Messrs. King and Cooper and Mrs. Gibara are independent directors as required by MI 52-110.

## 15.3 EDUCATION AND EXPERIENCE OF AUDIT COMMITTEE MEMBERS

The following describes the relevant education and experience of each member of the Audit Committee that provides him or her with (a) an understanding of the accounting principles used by the Corporation to prepare its financial statements, (b) the ability to assess the general application of such accounting principles, (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by the Corporation's financial statements or experience actively supervising one or more persons engaged in such activities and (d) an understanding of internal controls and procedures for financial reporting.

**William Press Cooper** – Mr. Cooper has been, since 1980, President and Chief Executive Officer of Cooper Construction Limited, a real estate development and construction company located in Oakville, Ontario. As President and Chief Executive Officer of Cooper Construction Limited, he was responsible for all aspects of its business and financial operations. He is also a director of Atlas Cold Storage Income Trust which is a reporting issuer, and serves as a member of its Human Resource and Compensation and Governance committees. He is an Honorary Trustee of The Hospital for Sick Children, Toronto and is a Fellow of the Canadian Society of Civil Engineers.

**Germaine Gibara** – Mrs. Gibara has been, since 1995, President of Avvio Management Inc., a management consulting firm. She is a director of Sun Life Financial, Agrium Inc. and St. Lawrence Cement Inc., which are reporting issuers. She serves as a member of the audit and conduct review and governance committees of Sun Life Financial; corporate governance & nominating and human & compensation committees of Agrium Inc.; and the audit committee of St-Lawrence Cement Inc. She is also director of Canada Pension Plan Investment Board.

**Harry A. King** – Mr. King is the President of Harking Investments Inc, a holding company. He held several positions within Continental Lime Ltd. from 1976 to 1992, including as Vice President, Administration and Corporate Secretary from 1982 to 1992. From 1984 to 1991, he was also a director of Allarcom Pay Television, the then provider of pay television movie services in Western Canada. He is also a director of Churchill Corporation, which is a reporting issuer, and serves as a member of its Audit Committee.

## 15.4 POLICY REGARDING NON-AUDIT SERVICES RENDERED BY AUDITORS

The Charter of the Audit Committee requires the Audit Committee to pre-approve all non-audit services to be provided by the external auditors to the Corporation or its subsidiaries. The Audit Committee also establishes annually a list of proscribed services that may not be provided by the external auditors as a measure to safeguard their objectivity and independence. The list of proscribed services includes the following services:

- Bookkeeping or other services related to the accounting records of financial statements of the Corporation;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions;
- Human resources;
- Broker-dealer, investment adviser or investment banking services;
- Legal services;
- Expert services related to the audit, except for tax services.

## 15.5 REMUNERATION OF AUDITORS

The following table presents, by category, the fees billed by the external auditors of the Corporation, Deloitte & Touche LLP, for the fiscal years 2006 and 2005:

### CATEGORY OF FEES

	2006	2005
	\$	\$
AUDIT FEES	631,442	185,400
AUDIT-RELATED FEES	234,516	584,814
TAX FEES	862,389	80,400
OTHER FEES	4,754	46,212
<b>TOTAL</b>	<b>1,733,101</b>	<b>896,826</b>

“Audit-Related Fees” include fees for financial information presentation and certification, fees for preliminary diligence on possible acquisitions and annual audit fees in respect of the Corporation’s pension benefit plans. “Tax Fees” include tax compliance services and tax advisory and planning services. “Other Fees” include principally translation services.

## 16. ADDITIONAL INFORMATION

Additional information including directors’ and officers’ remuneration and indebtedness, principal holders of the Corporation’s securities and the securities authorized for issuance under equity compensation plans, if applicable, is contained in the Corporation’s information circular dated October 27, 2006. Additional financial information is provided in the Corporation’s comparative financial statements and the Management’s Discussion and Analysis for the year ended on August 31, 2006. This and other information relating to the Corporation is available on Internet at [www.sedar.com](http://www.sedar.com) or [www.cogeco.ca](http://www.cogeco.ca).