

SHAREHOLDERS' REPORT
Second quarter ended February 28, 2010



FINANCIAL HIGHLIGHTS

| (\$000, except percentages and per share data) | Quarters ended February 28, | | | Six months ended February 28, | | |
|---|-----------------------------|--|-------------|-------------------------------|--|-------------|
| | 2010 \$ (unaudited) | 2009 ⁽¹⁾ \$ (unaudited) | Change % | 2010 \$ (unaudited) | 2009 ⁽¹⁾ \$ (unaudited) | Change % |
| Operations | | | | | | |
| Revenue | 329,087 | 311,825 | 5.5 | 657,090 | 620,200 | 5.9 |
| Operating income before amortization ⁽²⁾ | 124,363 | 123,505 | 0.7 | 253,626 | 244,216 | 3.9 |
| Operating margin ⁽²⁾ | 37.8% | 39.6% | - | 38.6% | 39.4% | - |
| Operating income | 58,370 | 60,171 | (3.0) | 121,932 | 120,000 | 1.6 |
| Impairment of goodwill and intangible assets | - | 399,648 | - | - | 399,648 | - |
| Net income (loss) | 10,511 | (115,210) | - | 33,259 | (104,349) | - |
| Adjusted net income ⁽²⁾ | 10,511 | 8,741 | 20.2 | 23,639 | 19,602 | 20.6 |
| Cash Flow | | | | | | |
| Cash flow from operating activities | 117,498 | 117,322 | 0.2 | 116,088 | 143,799 | (19.3) |
| Cash flow from operations ⁽²⁾ | 120,331 | 97,193 | 23.8 | 255,849 | 188,826 | 35.5 |
| Free cash flow ⁽²⁾ | 45,782 | 32,089 | 42.7 | 112,913 | 53,860 | - |
| Financial condition⁽³⁾ | | | | | | |
| Total assets | - | - | - | 2,666,853 | 2,670,128 | (0.1) |
| Indebtedness ⁽⁴⁾ | - | - | - | 1,065,659 | 1,064,542 | 0.1 |
| Shareholders' Equity | - | - | - | 360,893 | 332,122 | 8.7 |
| RGU growth | | | | | | |
| | 68,782 | 60,410 | 13.9 | 158,567 | 113,124 | 40.2 |
| Per Share Data⁽⁵⁾ | | | | | | |
| Earnings (loss) per share | | | | | | |
| Basic | 0.63 | (6.90) | - | 1.99 | (6.25) | - |
| Diluted | 0.63 | (6.88) | - | 1.98 | (6.23) | - |
| Adjusted earnings per share ⁽²⁾ | | | | | | |
| Basic | 0.63 | 0.52 | 21.2 | 1.41 | 1.17 | 20.5 |
| Diluted | 0.63 | 0.52 | 21.2 | 1.41 | 1.17 | 20.5 |

(1) Certain comparative figures have been restated to reflect the application of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064. Please refer to the "Accounting policies and estimates" section of the Management's discussion and analysis for more details.

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

(3) At February 28, 2010 and August 31, 2009.

(4) Indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments.

(5) Per multiple and subordinate voting share.

FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to COGECO's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. In particular, statements regarding the Company's future operating results and economic performance and its objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which COGECO believes are reasonable as of the current date. While management considers these assumptions to be reasonable based on information currently available to the Company, they may prove to be incorrect. The Company cautions the reader that the current adverse economic conditions make forward-looking information and the underlying assumptions subject to greater uncertainty and that, consequently, they may not materialize, or the results may significantly differ from the Company's expectations. It is impossible for COGECO to predict with certainty the impact that the current economic downturn may have on future results. Forward-looking information is also subject to certain factors, including risks and uncertainties (described in the "Uncertainties and main risk factors" section of the Company's 2009 annual Management's Discussion and Analysis (MD&A)) that could cause actual results to differ materially from what COGECO currently expects. These factors include technological changes, changes in market and competition, governmental or regulatory developments, general economic conditions, the development of new products and services, the enhancement of existing products and services, and the introduction of competing products having technological or other advantages, many of which are beyond the Company's control. Therefore, future events and results may vary significantly from what management currently foresees. The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While management may elect to, the Company is under no obligation (and expressly disclaims any such obligation), and does not undertake to update or alter this information before the next quarter.

This analysis should be read in conjunction with the Company's consolidated financial statements, and the notes thereto, prepared in accordance with Canadian GAAP and the MD&A included in the Company's 2009 Annual Report. Throughout this discussion, all amounts are in Canadian dollars unless otherwise indicated.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

CORPORATE STRATEGIES AND OBJECTIVES

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

Cable sector

During the first six months of fiscal 2010, Cogeco Cable invested approximately \$67.8 million in its network infrastructure and equipment to upgrade its capacity, improve its robustness and extend its territories in order to better serve and increase its service offerings for new and existing clientele.

RGU growth and service offerings in the cable sector

During the first six months ended February 28, 2010, the number of RGU increased by 158,567, or 5.5%, to reach 3,050,805 RGU. In light of the strong RGU growth during the first six months of fiscal 2010, Cogeco Cable has revised its guidelines to 200,000 net additions, or approximately 6.9% when compared to August 31, 2009, from 150,000 RGU as issued on January 12, 2010. Please consult the "Fiscal 2010 financial guidelines" section for further details.

Operating income before amortization and operating margin

For the second quarter of fiscal 2010, operating income before amortization grew by \$0.9 million, or 0.7%, to reach \$124.4 million, however operating margin decreased to 37.8%, from 39.6%. For the first half of fiscal 2010, operating income before amortization increased by \$9.4 million, or 3.9%, to reach \$253.6 million, while operating margin decreased to 38.6% from 39.4%. Management maintains its revised projection of \$512 million in operating income before amortization for the 2010 fiscal year as issued on January 12, 2010.

⁽¹⁾ The indicated terms do not have standardized definitions prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section.

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

Free cash flow

In the three month period ended February 28, 2010, COGECO generated free cash flow of \$45.8 million, compared to \$32.1 million in the second quarter of the prior fiscal year. In the first half of fiscal 2010, free cash flow amounted to \$112.9 million, compared to \$53.9 million in the first six months of fiscal 2009. Free cash flow growth results mainly from the cable sector and is due to an increase in cash flow from operations⁽¹⁾, including the reduction in current income taxes stemming from modifications made to the corporate structure, partly offset by the increase in capital expenditures. Management expects to achieve its revised free cash flow guidelines of \$140 million for the 2010 fiscal year.

Other

BBM Canada's winter survey in the Montréal region, conducted with the Portable People Meter ("PPM"), shows that Rythme FM has maintained its leadership position in this competitive market.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

During the second quarter of fiscal 2009, the competitive position of Cogeco Cable's subsidiary, Cabovisão – Televisão por Cabo, S.A. ("Cabovisão"), in the Iberian Peninsula further deteriorated due to the continuing difficult competitive environment and recurring intense promotions and advertising initiatives from competitors in the Portuguese market. Please refer to the "Cable sector" section for further details. In accordance with current accounting standards, management considered that the continued customer, local currency revenue and operating income before amortization decline were more severe and persistent than expected, resulting in a decrease in the value of Cogeco Cable's investment in the Portuguese subsidiary. As a result, Cogeco Cable tested goodwill and all long-lived assets for impairment at February 28, 2009.

Goodwill is tested for impairment using a two step approach. The first step consists of determining whether the fair value of the reporting unit to which goodwill is assigned exceeds the net carrying amount of that reporting unit, including goodwill. In the event that the net carrying amount exceeds the fair value, a second step is performed in order to determine the amount of the impairment loss. The impairment loss is measured as the amount by which the carrying amount of the reporting unit's goodwill exceeds its fair value. Cogeco Cable completed its impairment tests on goodwill and concluded that goodwill was impaired at February 28, 2009. As a result, a non-cash impairment loss of \$339.2 million was recorded in the second quarter of the 2009 fiscal year. Fair value of the reporting unit was determined using the discounted cash flow method. Future cash flows were based on internal forecasts and consequently, considerable management judgement was necessary to estimate future cash flows. Significant future changes in circumstances could result in further impairments of goodwill.

Intangible assets with finite useful lives, such as customer relationships, must be tested for impairment by comparing the carrying amount of the asset or group of assets to the expected future undiscounted cash flow to be generated by the asset or group of assets. The impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value. Accordingly, Cogeco Cable completed its impairment test on customer relationships at February 28, 2009, and determined that the carrying value of customer relationships exceeded its fair value. As a result, a non-cash impairment loss of \$60.4 million was recorded in the second quarter of the 2009 fiscal year.

The impairment loss affected the Company's financial results as follows during the second quarter of fiscal 2009:

| <i>(\$000)</i> | \$ |
|--|-------------|
| | (unaudited) |
| Impairment of goodwill | 339,206 |
| Impairment of customer relationships | 60,442 |
| Future income taxes | (16,018) |
| Impairment loss net of related income taxes | 383,630 |
| Non-controlling interest | (259,679) |
| Impairment loss net of related income taxes and non-controlling interest | 123,951 |

⁽¹⁾ The indicated terms do not have standardized definitions prescribed by Canadian GAAP and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section.

OPERATING RESULTS – CONSOLIDATED OVERVIEW

| (\$000, except percentages) | Quarters ended February 28 | | | Six months ended February 28, | | |
|--------------------------------------|----------------------------|---------------------|--------|-------------------------------|---------------------|--------|
| | 2010 | 2009 ⁽¹⁾ | Change | 2010 | 2009 ⁽¹⁾ | Change |
| | \$ | \$ | % | \$ | \$ | % |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | |
| Revenue | 329,087 | 311,825 | 5.5 | 657,090 | 620,200 | 5.9 |
| Operating costs | 204,724 | 188,320 | 8.7 | 403,464 | 375,984 | 7.3 |
| Operating income before amortization | 124,363 | 123,505 | 0.7 | 253,626 | 244,216 | 3.9 |
| Operating margin | 37.8% | 39.6% | | 38.6% | 39.4% | |

⁽¹⁾ Certain comparative figures have been restated to reflect the application of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064. Please refer to the "Accounting policies and estimates" section for more details.

Revenue

Fiscal 2010 second-quarter and first six months, revenue improved, mainly in its cable sector, by \$17.3 million, or 5.5%, and by \$36.9 million, or 5.9%, to reach \$329.1 million and \$657.1 million, respectively. Cable revenue, driven by increased RGU, the introduction of HSI usage billing, the revenue related to the additional levy amounting to 1.5% of gross Cable Television service revenue imposed by the Canadian Radio-television and Telecommunications Commission ("CRTC") in order to finance the new Local Programming Improvement Fund ("LPIF") for the benefit of conventional television broadcasters operating local stations in Canada, and rate increases implemented at the end of fiscal 2009 in its Canadian operations, went up by \$15.5 million, or 5.1% for the second quarter and by \$33.4 million, or 5.5% for the first six months when compared to the prior year.

Canadian cable operations revenue increased by \$27.8 million in the second quarter and by \$54.7 million in the first half of the fiscal year, both representing increases of 11.4% over the comparable periods of the prior year. However, cable sector revenue growth has been curtailed by its European operations which recorded declines of \$12.3 million, or 20%, in the quarter and \$21.3 million, or 17.3% in the first six months mainly due to a lower number of Basic Cable service customers compared to the same periods of fiscal 2009 year, to the impact of retention strategies implemented in the second half of the prior year in order to reduce customer attrition, and to a decrease in the value of the Euro compared to the Canadian dollar.

Operating costs

For the second quarter and first six months of fiscal 2010, operating costs amounted to \$204.7 million and \$403.5 million, respectively, increases of \$16.4 million, or 8.7%, and of \$27.5 million, or 7.3%, when compared to the prior year, mainly due to the cable sector. Operating costs in the Canadian operations of the cable sector increased due to the servicing of additional RGU, the launch of new HD channels and the additional levy amounting to 1.5% of gross Cable Television service revenue imposed by the CRTC in order to finance the new LPIF. In Europe, operating costs decreased due to the decline of the value of the Euro over the Canadian dollar which surpassed increases in operating costs related to marketing initiatives and the launch of new channels net of the impact of cost reduction initiatives implemented by Cabovisão, such as a headcount reduction plan.

Operating income before amortization and operating margin

Operating income before amortization grew, essentially in its cable segment, by \$0.9 million, or 0.7%, to reach \$124.4 million in the second quarter of fiscal 2010, and by \$9.4 million, or 3.9%, in the first six months of the year when compared to the corresponding periods of the prior year. The cable sector contributed to the growth by \$0.3 million during the second quarter of the fiscal year, and by \$7.2 million in the first half of fiscal 2010. COGECO's second-quarter operating margin decreased to 37.8%, from 39.6%, and in the first six months decreased to 38.6% from 39.4% in the first six months of the previous year.

FIXED CHARGES

| (\$000, except percentages) | Quarters ended February 28, | | | Six months ended February 28, | | |
|-----------------------------|-----------------------------|---------------------|--------|-------------------------------|---------------------|--------|
| | 2010 | 2009 ⁽¹⁾ | Change | 2010 | 2009 ⁽¹⁾ | Change |
| | \$ | \$ | % | \$ | \$ | % |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | |
| Amortization | 65,993 | 63,334 | 4.2 | 131,694 | 124,216 | 6.0 |
| Financial expense | 15,187 | 18,028 | (15.8) | 31,464 | 41,806 | (24.7) |

⁽¹⁾ Certain comparative figures have been restated to reflect the application of the CICA Handbook Section 3064. Please refer to the "Accounting policies and estimates" section for more details.

Second-quarter and first six months 2010 amortization amounted to \$66 million and \$131.7 million, compared to \$63.3 million and \$124.2 million for the same periods of the prior year. The increases are mainly due to the cable sector and due to additional capital expenditures arising from customer premise equipment acquisitions to sustain RGU growth.

Second-quarter and first six months financial expense amounted to \$15.2 million and \$31.5 million, compared to \$18 million and \$41.8 million for the prior year. The financial expense of the current year includes foreign exchange gains in the cable sector of \$0.4 million and \$0.9 million for the quarter and first six months, compared to foreign exchange losses of \$0.6 million and \$4.4 million in the prior year. The losses in the prior year were essentially due to the unusually high and sudden US dollar volatility, as the majority of customer premise equipment is purchased and subsequently paid in US dollars. The remaining decreases of \$1.8 million and \$5.1 million, respectively, are due to interest rate reductions and a decrease in Indebtedness (defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments) when compared with the comparable periods of the previous fiscal year.

INCOME TAXES

Fiscal 2010 second-quarter income tax expense amounted to \$12.5 million, compared to \$0.2 million in the prior year, and for the first six months, the income tax recovery amounted to \$1.3 million compared to an expense of \$9.9 million in the prior year. The income tax recovery in the first six months of fiscal 2010 includes the impact, in the cable sector, of the reduction in corporate income tax rates announced on March 26, 2009 by the Ontario provincial government and considered substantively enacted on November 16, 2009 (the "reduction of Ontario provincial corporate income tax rates"). These lower corporate income tax rates reduced future income tax expense by \$29.8 million in the first six months of fiscal 2010. The income tax amounts for the second quarter and first six months of the prior year include a future income tax recovery of \$16 million related to the impairment loss recorded in the second quarter of fiscal 2009. Excluding the impact of the reduction of Ontario provincial corporate income tax rates in the current year and of the income tax recovery related to the impairment loss in the prior year, income tax expense would have amounted to \$12.5 million and \$28.5 million for the second quarter and first six months of fiscal 2010, respectively, compared to \$16.2 million for the second quarter and \$25.9 million for the first half of fiscal 2009. The decrease in income tax expense for the second quarter of fiscal 2010 is mainly due to the reduction of Ontario provincial corporate income tax rates. The increase in income tax expense for the first half of the fiscal year is mainly due to the improvement in operating income before amortization and a reduction in fixed charges in the Canadian operations of the cable sector.

NON-CONTROLLING INTEREST

The non-controlling interest represents a participation of approximately 67.7% in Cogeco Cable's results. During the second quarter and first six months of fiscal 2010, the income attributable to non-controlling interest amounted to \$20.2 million and \$58.5 million due to the strong cable sector's results. The loss attributable to non-controlling interest for the comparable periods of last year amounted to \$242.5 million and \$227 million due to the impairment loss recorded in the cable sector.

NET INCOME

Fiscal 2010 second quarter net income amounted to \$10.5 million, or \$0.63 per share, compared to a net loss of \$115.2 million, or \$6.90 per share, for the same period in 2009. For the first half of fiscal 2010, net income amounted to \$33.3 million, or \$1.99 per share, compared to a net loss of \$104.3 million, or \$6.25 per share. Net income for the first six months of fiscal 2010 includes the reduction of Ontario provincial corporate income tax rates described above. Fiscal 2009 net losses were due to the impairment loss, net of related income taxes and non-controlling interest, of \$124 million recorded in the second quarter, as described in the "Impairment of goodwill and intangible assets" section.

Excluding the effect of the reduction of Ontario provincial income tax rates in the current year and the impairment loss recorded in the prior year, adjusted net income⁽¹⁾ would have amounted to \$10.5 million, or \$0.63 per share⁽¹⁾, and \$23.6 million, or \$1.41 per share, for the quarter and first six months ended February 28, 2010, respectively. These amounts represent increases of 20.2% and 21.2%, respectively, over adjusted net income of \$8.7 million, or \$0.52 per share for the quarter, and of 20.6% and 20.5% over adjusted net income of \$19.6 million, or \$1.17 per share for the first six months of fiscal 2009. Net income progression has resulted mainly from the decrease in the Ontario provincial corporate income tax rates, coupled with the growth in operating income before amortization and a reduction of fixed charges in the cable sector in the first six months of the fiscal year.

CASH FLOW AND LIQUIDITY

| (\$000) | Quarters ended February 28, | | Six months ended February 28, | |
|--|-----------------------------|---------------------|-------------------------------|---------------------|
| | 2010 | 2009 ⁽¹⁾ | 2010 | 2009 ⁽¹⁾ |
| | \$ | \$ | \$ | \$ |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Operating activities | | | | |
| Cash flow from operations | 120,331 | 97,193 | 255,849 | 188,826 |
| Changes in non-cash operating items | (2,833) | 20,129 | (139,761) | (45,027) |
| | 117,498 | 117,322 | 116,088 | 143,799 |
| Investing activities⁽²⁾ | (74,447) | (64,737) | (142,673) | (133,644) |
| Financing activities⁽²⁾ | (42,694) | (36,365) | 4,759 | 2,411 |
| Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies | (1,102) | 641 | (900) | 1,328 |
| Net change in cash and cash equivalents | (745) | 16,861 | (22,726) | 13,894 |
| Cash and cash equivalents, beginning of period | 17,477 | 34,505 | 39,458 | 37,472 |
| Cash and cash equivalents, end of period | 16,732 | 51,366 | 16,732 | 51,366 |

(1) Certain comparative figures have been restated to reflect the application of the CICA Handbook Section 3064. Please refer to the "Accounting policies and estimates" section for more details.

(2) Excludes assets acquired under capital leases.

Fiscal 2010 second quarter cash flow from operations reached \$120.3 million, 23.8% higher than the comparable period last year, primarily attributable to the cable sector and due to the reduction in current income taxes stemming from modifications to the corporate structure and the reduction in financial expense. Changes in non-cash operating items required cash outflows of \$2.8 million, mainly as a result of increases in income taxes receivable and accounts receivable, partly offset by increases in accounts payable and accrued liabilities and deferred and prepaid revenue and other liabilities. In the prior year, the cash inflows of \$20.1 million were mainly the result of increases in accounts payable and accrued liabilities and income tax liabilities.

For the first six months of fiscal 2010, cash flow from operations reached \$255.8 million, 35.5% higher than the comparable period last year, primarily due to the reduction in current income taxes stemming from modifications to the corporate structure, the increase in operating income before amortization and the reduction in financial expense, all in the cable sector. Changes in non-cash operating items required cash outflows of \$139.8 million, mainly as a result of decreases in accounts payable and accrued liabilities and income tax liabilities and increases in income taxes receivable and accounts receivable. In the prior year, the cash outflows of \$45 million were mainly the result of decreases in accounts payable and accrued liabilities and in income tax liabilities and an increase in income taxes receivable..

(1) The indicated terms do not have standardized definitions prescribed by Canadian GAAP and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section.

In the second quarter of fiscal 2010, investing activities, including mainly capital expenditures and the increase in deferred charges, amounted to \$74.4 million, an increase of \$9.7 million, or 15% when compared to \$64.7 million for the corresponding period of last year. For the first six months, investing activities increased by \$9 million, or 6.8%, to reach \$142.7 million when compared to \$133.6 million in the first half of the prior year. The most significant variations are due to the following factors:

- An increase in customer premise equipment spending in the European operations in order to support the continued growth of Digital Television service customers, partly offset by a decrease in Canadian operations which reflects lower customer growth for this same service;
- An increase in scalable infrastructure spending in the Canadian operations to increase DOCSIS network bandwidth capacity in order to support the internet traffic growth;
- An increase in upgrade and rebuild to improve network capacity in new and existing areas served;
- A decrease in support capital spending as the prior year reflected improvements to the information systems to sustain the business activities, the acquisition of a new facility in the Canadian operations, and in the first six months, the acquisition of a power generator for the Canadian data communications subsidiary.

In the second quarter and first six months, COGECO generated free cash flows of \$45.8 million and \$112.9 million, compared to \$32.1 million and \$53.9 million in the prior year, representing increases of \$13.7 million and \$59.1 million, respectively. The growth in free cash flow over the prior year is mainly from the cable sector and is due to an increase in cash flow from operations including the reduction in current income taxes stemming from modifications made to Cogeco Cable's corporate structure, partly offset by the increase in capital expenditures.

In the second quarter of fiscal 2010, Indebtedness affecting cash decreased by \$37.1 million mainly due to the free cash flow of \$45.8 million, partly offset by the dividend payment of \$6.3 million described below and the decrease in non-cash operating items of \$2.8 million. Indebtedness mainly decreased through a net repayment of \$36.5 million on Cogeco Cable's revolving loans. In the second quarter of fiscal 2009, indebtedness affecting cash decreased by \$31.5 million due to the free cash flow of \$32.1 million and the increase of non-cash operating items of \$20.1 million, net of the increase in cash and cash equivalents of \$16.9 million and the dividend payment of \$5.3 million described below.

During the second quarter of fiscal 2010, a dividend of \$0.10 per share was paid by the Company to the holders of subordinate and multiple voting shares, totalling \$1.7 million, compared to a dividend of \$0.08 per share, or \$1.3 million the year before. In addition, dividends paid by a subsidiary to non-controlling interests in the second quarter of fiscal 2010 amounted to \$4.6 million, for consolidated dividend payments of \$6.3 million.

For the first six months of fiscal 2010, Indebtedness affecting cash increased by \$19.5 million mainly due to the decrease in non-cash operating items of \$139.8 million and the dividend payment of \$12.6 million described below, partly offset by the free cash flow of \$112.9 million and the decrease in cash and cash equivalents of \$22.7 million. Indebtedness mainly increased through an increase of \$49.6 million in bank indebtedness, partly offset by net repayments totalling \$28.1 million on the Company's revolving loans, including net repayments of \$21.6 million by the cable subsidiary. During the first half of fiscal 2009, Indebtedness affecting cash increased by \$12.3 million due to the reduction of non-cash operating items of \$45 million, the increase in cash and cash equivalents of \$13.9 million and the payment of dividends totalling \$10.6 million, partly offset by the free cash flow of \$53.9 million. Indebtedness was increased through the issuance on October 1, 2008, in the cable sector, of Senior Secured Notes for net proceeds of approximately \$255 million, and by an increase of \$28.1 million in bank indebtedness, net of the repayment of US\$150 million Senior Secured Notes Series A and the related derivative financial instruments for a total of \$238.7 million, and of net repayments on the cable subsidiary's revolving loans of \$23 million.

During the first six months of fiscal 2010, quarterly dividends of \$0.10 per share were paid by the Company to the holders of subordinate and multiple voting shares, totalling \$3.4 million, compared to quarterly dividends of \$0.08 per share, or \$2.7 million the year before. In addition, dividends paid by a subsidiary to non-controlling interests in the first half of fiscal 2010 amounted to \$9.2 million, for consolidated dividend payments of \$12.6 million.

As at February 28, 2010, the Company had a working capital deficiency of \$220.1 million compared to \$245.8 million as at August 31, 2009. The decrease in the deficiency is mainly attributable to the cable sector and caused by reductions in accounts payable and accrued liabilities due to the timing of supplier payments and in income tax liabilities stemming from income tax payments relating to the 2009 fiscal year, and to an increase in income taxes receivable as a result of modifications to the corporate structure. These decreases have been partially offset by the increase in bank indebtedness and the decreases in cash and cash equivalents resulting from the above mentioned payments, and by the increase in the current portion of future income tax liabilities also stemming from modifications to the corporate structure. As part of the usual conduct of its business, COGECO maintains a working capital deficiency due to a low level of accounts receivable as a large portion of the cable subsidiary's customers pay before their services are rendered, unlike accounts payable and

accrued liabilities, which are paid after products are delivered or services are rendered, thus enabling the Company to use cash and cash equivalents to reduce Indebtedness.

At February 28, 2010, Cogeco Cable had used \$194.7 million of its \$862.5 million Term Facility for a remaining availability of \$667.8 million and the Company had drawn \$3.3 million of its \$50 million Term Facility, for a remaining availability of \$46.7 million.

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

FINANCIAL POSITION

Since August 31, 2009, there have been significant changes to the balances of "accounts receivable", "fixed assets", "goodwill", "accounts payable and accrued liabilities", "deferred and prepaid revenue", "income taxes receivable", "income tax liabilities", "future income tax liabilities", "bank indebtedness", "long-term debt", "derivative financial instruments", "cash and cash equivalents" and "non-controlling interest".

The \$10.7 million increase in accounts receivable is due to the increase in revenues and the timing of payments received from customers in the cable sector. The \$12.2 million decrease in fixed assets is also attributable to the cable sector and is primarily due to the decline in the relative value of the Euro over the Canadian dollar, partly offset by the increase in capital expenditures previously discussed. The \$7.3 million dollar decrease in goodwill is due to the utilization of pre-acquisition tax losses and the decline in the value of the Euro relative to the Canadian dollar. The \$70.1 million decrease in accounts payable and accrued liabilities is related to the timing of payments made to suppliers in the cable sector. The increase of \$7.4 million in deferred and prepaid revenue is mainly due to advance billing in Cogeco Cable's data telecommunications subsidiary for services to be provided in the remainder of the fiscal year. The increases of \$31.6 million in income taxes receivable and \$53.7 million in the current portion of future income tax liabilities are mainly due to modifications to Cogeco Cable's corporate structure. The \$39.3 million decrease in income tax liabilities is due to income tax payments made in the first half of fiscal 2010 relating to the 2009 fiscal year. The \$28 million decrease in long-term future income tax liabilities is mainly attributable to the cable sector and is due to reduction of Ontario provincial corporate income tax rates. The increases of \$49.6 million in bank indebtedness and the decreases of \$55.9 million in long-term debt, \$22.7 million in cash and cash equivalents and \$7.4 million in net derivative financial instruments are due to the factors previously discussed in the "Cash Flow and Liquidity" section combined with the fluctuations in foreign exchange and interest rates. The \$46.4 million increase in non-controlling interest is due to improvements in the cable subsidiary's operating results in the current fiscal year.

A description of COGECO's share data as at March 31, 2010 is presented in the table below:

| | Number of shares/options | Amount (\$000) |
|--|--------------------------|-------------------|
| Common shares | | |
| Multiple voting shares | 1,842,860 | 12 |
| Subordinate voting shares | 14,959,338 | 121,347 |
| Options to purchase subordinate voting shares | | |
| Outstanding options | 62,782 | |
| Exercisable options | 62,782 | |

In the normal course of business, COGECO has incurred financial obligations, primarily in the form of long-term debt, operating and capital leases and guarantees. COGECO's obligations, discussed in the 2009 Annual Report, have not materially changed since August 31, 2009, except as mentioned below.

On March 4, 2010, the Company's subsidiary, Cogeco Cable Inc., issued a letter of credit amounting to €2.2 million to guarantee the payment by Cabovisão of withholding taxes for the 2005 year assessed by the Portuguese tax authorities, which are currently being challenged by Cabovisão. Although the principal amount in dispute is fully recorded in the books of its subsidiary Cabovisão, the Company's subsidiary, Cogeco Cable Inc., may be required to pay the amount following final judgement, up to a maximum aggregate amount of €2.2 million (\$3.1 million), should Cabovisão fail to pay such required amount.

DIVIDEND DECLARATION

At its April 7, 2010 meeting, the Board of Directors of COGECO declared a quarterly eligible dividend of \$0.10 per share for subordinate and multiple voting shares, payable on May 5, 2010, to shareholders of record on April 21, 2010. The declaration, amount and date of any future dividend will continue to be considered and approved by the Board of Directors of the Company based upon the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors, at its sole discretion, deems relevant. There is therefore no assurance that dividends will be declared, and if declared, their amount and frequency may vary.

FINANCIAL MANAGEMENT

During fiscal 2009, the Company's cable subsidiary, Cogeco Cable, entered into a swap agreement with a financial institution to fix the floating benchmark interest rate with respect to the Euro-denominated Term Loan facilities for a notional amount of €111.5 million. The interest rate swap to hedge the Term Loans has been fixed at 2.08% until their maturity at July 28, 2011. The notional value of the swap will decrease in line with the amortization schedule of the Term Loans and stood at €95.8 million at February 28, 2010. In addition to the interest rate swap of 2.08%, Cogeco Cable will continue to pay the applicable margin on these Term Loans in accordance with its Term Facility. In the first six months of the fiscal year, the fair value of interest rate swap decreased by \$0.2 million, which is recorded as a decrease of other comprehensive income net of income taxes and non-controlling interest.

In the previous fiscal year, Cogeco Cable entered into cross-currency swap agreements to set the liability for interest and principal payments on its US\$190 million Senior Secured Notes, Series A maturing in October 1, 2015. These agreements have the effect of converting the U.S. interest coupon rate of 7.00% per annum to an average Canadian dollar interest rate of 7.24% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at \$1.0625 per US dollar. In the first half of the 2010 fiscal year, amounts due under the US\$190 million Senior Secured Notes Series A decreased by \$8.1 million due to the US dollar's depreciation compared to the Canadian dollar. The fair value of cross-currency swaps decreased by a net amount of \$7.2 million, resulting in an increase, net of income taxes and non-controlling interest, of \$0.7 million recorded in other comprehensive income.

Cogeco Cable's net investment in the self-sustaining foreign subsidiary, Cabovisão, is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the Euro. This risk is mitigated since the major part of the purchase price for Cabovisão was borrowed directly in Euros. This debt is designated as a hedge of the net investment in self-sustaining foreign subsidiaries and accordingly, Cogeco Cable realized a foreign exchange loss of \$5 million in the first six months of fiscal 2010, which is presented in other comprehensive income net of non-controlling interest of \$3.4 million. The exchange rate used to convert the Euro into Canadian dollars for the balance sheet accounts at February 28, 2010 was \$1.4330 per Euro compared to \$1.5698 per Euro at August 31, 2009. The average exchange rate prevailing during the second quarter and first six months used to convert the operating results of the European operations were \$1.4905 per Euro and \$1.5318 per Euro, respectively, compared to \$1.6265 per Euro and \$1.5864 per Euro for the same periods of the prior year.

The following table shows the Canadian dollar impact of a 10% change in the average exchange rate of the Euro currency into Canadian dollars on European operating results in the cable sector for the first six months ended February 28, 2010:

| Quarter ended February 28, 2010 (\$000) | As reported | Exchange rate impact |
|--|-------------------|-------------------------|
| | \$ (unaudited) | \$ (unaudited) |
| Revenue | 101,972 | 10,197 |
| Operating income before amortization | 18,194 | 1,819 |

The Company is also impacted by foreign currency exchange rates, primarily changes in the values of the US dollar relative to the Canadian dollar with regards to purchases of equipment, as the majority of customer premise equipment in the cable sector is purchased and subsequently paid in US dollars. Please consult the "Fixed charges" section of this MD&A and the "Foreign Exchange Risk" section in note 14 of the consolidated financial statements for further details.

CABLE SECTOR

CUSTOMER STATISTICS

| | February 28, 2010 | Net additions (losses) | | | | % of Penetration ⁽¹⁾ | |
|---|----------------------|-----------------------------|---------|-------------------------------|---------|---------------------------------|------|
| | | Quarters ended February 28, | | Six months ended February 28, | | February 28, | |
| | | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| RGU ⁽²⁾ | 3,050,805 | 68,782 | 60,410 | 158,567 | 113,124 | - | - |
| Basic Cable service customers | 1,131,848 | (794) | (9,953) | 7,563 | (9,155) | - | - |
| HSI service customers | 698,242 | 16,861 | 3,030 | 39,576 | 17,330 | 63.6 | 58.8 |
| Digital Television service customers ⁽²⁾ | 659,614 | 26,243 | 59,886 | 58,463 | 83,503 | 59.0 | 48.6 |
| Telephony service customers | 561,101 | 26,472 | 7,447 | 52,965 | 21,446 | 53.3 | 46.5 |

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

⁽²⁾ The number of Digital Television service customers in the European operations of the cable sector for the second quarter of fiscal 2009 has been restated in order to conform to the presentation adopted in the Canadian operations. This restatement increased the number of net additions to the Digital Television service customers and RGU for the second quarter and first six months of the previous year by 34,784.

In the cable sector, second quarter and first six months RGU net additions amounted to 68,782 RGU and 158,567 RGU, respectively, compared to 60,410 RGU and 113,124 RGU in the comparable periods of the previous fiscal year.

The Canadian operations' net additions of 47,274 RGU in the quarter and 110,446 RGU in the first six months were essentially the same as compared to 47,577 RGU and 113,040 RGU for the same periods of the prior year, and continue to generate RGU growth despite early signs of maturation of some of its services. The net customer losses for Basic Cable service customers stood at 54 for the quarter, compared to net customer additions of 1,955 in the second quarter of the prior year. For the first six months, Basic Cable service customers grew by 8,865, compared to 10,788 in the prior year. Basic Cable service net additions in the first half of the fiscal year were mainly due to the beginning of the school year for college and university students and to expansions in the network. In the quarter, Telephony service customers grew by 22,206 compared to 16,411 for the same period last year, and the number of net additions to HSI service stood at 11,068 customers for the quarter, compared to 10,518 customers for the same period last year. For the first six months of the fiscal year, Telephony service customers grew by 42,847 and HSI service customer net additions amounted to 28,574, compared to 35,312 and 30,027 net additions, respectively, for the same period last year. HSI and Telephony net additions continue to stem from the enhancement of the product offering, the impact of the bundled offer (Cogeco Complete Connection) of Television, HSI and Telephony services, and promotional activities. The Digital Television service net additions stood at 14,054 customers for the quarter and 30,160 customers for the first half of the year, compared to 18,693 and 36,913 customers for the three and six month periods of the prior year. Digital Television service net additions are due to targeted marketing initiatives to improve penetration and to the continuing interest for high definition ("HD") television service.

The European operations Basic Cable service customer base has begun to stabilize and reflect the benefits of the Portuguese subsidiary's customer retention and acquisition strategies launched at the end of the 2009 fiscal year in order to reduce the customer attrition brought on by the difficult competitive landscape in Portugal and the economic environment in the Iberian Peninsula throughout the previous fiscal year. For the three and six month periods ended February 28, 2010, net additions amounted to 21,508 RGU and 48,121 RGU, respectively, compared to 12,833 RGU and 84 RGU for the same periods of the previous year. Fiscal 2010 second quarter Basic Cable service customers decreased by 740 customers compared to a decrease of 11,908 customers in the comparable period of the prior year. In the first half of the fiscal year, Basic Cable customer losses amounted to 1,302 compared to 19,943 in the 2009 fiscal year. HSI service customers increased by 5,793 and 11,002 customers for the quarter and first six months, respectively, compared to decreases of 7,488 and 12,697 customers in the second quarter and first half of fiscal 2009. The number of Digital Television service customers grew by 12,189 customers in the second quarter and by 28,303 customers in the six months ended February 28, 2010, compared to 41,193 and 46,590 customers in the three and six months ended February 28 of the previous fiscal year. Telephony service customers increased by 4,266 customers in the quarter and 10,118 in the first half of fiscal 2010, compared to losses of 8,964 and 13,866 customers for the comparable periods of the preceding year.

OPERATING RESULTS

| (\$000, except percentages) | Quarters ended February 28, | | | Six months ended February 28,, | | |
|---|-----------------------------|---------------------------|-------------|--------------------------------|---------------------------|-------------|
| | 2010 \$ | 2009 ⁽¹⁾ \$ | Change % | 2010 \$ | 2009 ⁽¹⁾ \$ | Change % |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | |
| Revenue | 320,397 | 304,920 | 5.1 | 637,762 | 604,358 | 5.5 |
| Operating costs | 195,106 | 179,579 | 8.6 | 383,524 | 357,306 | 7.3 |
| Management fees – COGECO Inc. | 2,678 | 3,038 | (11.8) | 9,019 | 9,019 | – |
| Operating income from before amortization | 122,613 | 122,303 | 0.3 | 245,219 | 238,033 | 3.0 |
| Operating margin | 38.3% | 40.1% | | 38.4% | 39.4% | |

⁽¹⁾ Certain comparative figures have been restated to reflect the application of the CICA Handbook Section 3064. Please refer to the "Accounting policies and estimates" section for more details.

Revenue

Fiscal 2010 second-quarter revenue improved by \$15.5 million, or 5.1%, to reach \$320.4 million, and first six-month revenue amounted to \$637.8 million, an increase of \$33.4 million, or 5.5%, when compared to the prior year. Driven by increased RGU, the introduction of HSI usage billing, revenue related to the additional levy amounting to 1.5% of gross Cable Television service revenue imposed by the CRTC in order to finance the LPIF and rate increases implemented at the end of fiscal 2009, second-quarter and first six-month Canadian operations revenue went up by \$27.8 million and \$54.7 million, respectively, both representing 11.4%, over the comparable periods of the prior year.

Fiscal 2010 second-quarter and first six months European operations revenue decreased by \$12.3 million, or 20%, and by \$21.3 million, or 17.3%, respectively, when compared to the same periods of the prior year. The decreases were mainly due to a lower number of Basic Cable service customers compared to the same periods of fiscal 2009 year, to the impact of retention strategies implemented in the second half of the prior year in order to reduce customer attrition, and to a decrease in the value of the Euro compared to the Canadian dollar. Revenue from the European operations in the local currency for the second quarter amounted to €32.8 million, a decrease of €4.8 million, or 12.7%, when compared to the same period of the prior year. For the first six months revenue amounted to €66.5 million, representing a decrease of €11.2 million, or 14.4%, when compared to the first half of fiscal 2009.

Operating costs

For the second quarter and first six months of fiscal 2010, operating costs, excluding management fees payable to COGECO Inc., increased by \$15.5 million and \$26.2 million, respectively, to reach \$195.1 million and \$383.5 million, increases of 8.6% and 7.3% compared to the prior year. Operating costs in the Canadian operations increased due to the servicing of additional RGU, the launch of new HD channels and the additional levy amounting to 1.5% of gross Cable Television service revenue imposed by the CRTC in order to finance the LPIF.

In Europe, operating costs decreased due to the decline of the value of the Euro over the Canadian dollar which surpassed increases in operating costs related to marketing initiatives and the launch of new channels net of the impact of cost reduction initiatives implemented by Cabovisão, such as a headcount reduction plan. Operating costs from the European operations for the second quarter in the local currency amounted to €27.5 million, an increase of €0.8 million, or 2.9% when compared to the prior year. For the first half of fiscal 2010 operating costs amounted to €54.7 million, €1.4 million, or 2.5% higher than in the previous fiscal year.

Operating income before amortization and operating margin

Fiscal 2010 second-quarter operating income before amortization remained essentially the same at \$122.6 million, and increased by \$7.2 million, or 3%, to reach \$245.2 million for the first six months as a result of RGU growth, the introduction of HSI usage billing and rate increases generating additional revenues, net of the increases in operating costs described above. Cogeco Cable's second-quarter operating margin decreased to 38.3% from 40.1% in the comparable period of the prior year. The operating margin for the second quarter in Canada decreased to 42.2% from 42.9%, and the European operating margin for the same period decreased to 16.4% from 29.1%. For the first six months, Cogeco Cable's operating margin decreased to 38.4% from 39.4%. In the first six months, the Canadian operations' operating margin increased to 42.4% from 41.5%, which partly offset the decrease in the European operating margin to 17.8% from 31.3% during that period.

FISCAL 2010 FINANCIAL GUIDELINES

Cable sector

In light of the strong RGU growth during the first six months of fiscal 2010, Cogeco Cable has revised its guidelines to 200,000 net additions, or approximately 6.9% when compared to August 31, 2009, from 150,000 RGU as issued on January 12, 2010. The increase in RGU growth will stem primarily from the growth in Digital Television service customers and promotional activities.

While the increase in RGU will generate additional revenue and require increases in operating and capital expenses, the anticipated decrease in the value of the Euro over the Canadian dollar is expected to offset the increases in Cogeco Cable's financial guidelines, and accordingly, management has not revised the financial projections for the 2010 fiscal year.

CONTROLS AND PROCEDURES

The President and Chief Executive Officer ("CEO") and the Senior Vice President and Chief Financial Officer ("CFO"), together with management, are responsible for establishing and maintaining adequate disclosure controls and procedures and internal controls over financial reporting, as defined in NI 52-109. COGECO's internal control framework is based on the criteria published in the report "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The CEO and CFO, supported by management, evaluated the design of the Company's disclosure controls and procedures and internal controls over financial reporting as of February 28, 2010, and have concluded that they were adequate. Furthermore, no changes to the internal controls over financial reporting occurred during the quarter ended February 28, 2010.

UNCERTAINTIES AND MAIN RISK FACTORS

Except as mentioned below, there has been no significant change in the uncertainties and main risk factors faced by the Company since August 31, 2009. A detailed description of the uncertainties and main risk factors faced by COGECO can be found in the 2009 Annual Report.

The CRTC recently published its broadcasting regulatory policy on a group-based approach to the licensing of private television services. This policy contemplates the establishment of a new right for private local television stations to negotiate with cable and satellite broadcasting distribution undertakings ("BDU"s) a value for carriage of their signal ("VFS"). The VFS regime would also establish a new right for private local television stations that elect to negotiate VFS to withhold carriage of their signal and require deletion on other signals distributed by BDUs of the programs for which they own exclusive broadcasting rights. The VFS regime, which may lead to various forms of compensation, including monetary compensation, is however predicated on the Federal Court of Appeal issuing a favourable legal ruling. The CRTC is also considering the offering of discrete small basic packages comprising only local and regional television signals at no charge in order to facilitate the transition to digital terrestrial television broadcasting scheduled to take place on August 31, 2011. Because the final outcome of these proceedings is uncertain, the Company is unable to estimate the potential impact of VFS at this time.

ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in COGECO's accounting policies, estimates and future accounting pronouncements since August 31, 2009, except as described below. A description of the Company's policies and estimates can be found in the 2009 Annual Report.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. The new Section established standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill remained unchanged from the standards included in the previous Section 3062. The new Section was applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with retroactive application. The adoption of Section 3064 eliminated the deferral of new service launch costs which are now recognized as an expense when they are incurred. Reconnect and additional services activation costs are capitalized up to an amount not exceeding the revenue generated by the reconnect activity. Consequently, the Company adjusted opening retained earnings on a retroactive basis and the prior period comparative figures have been restated. The adoption of this new section had the following impact on the Company's consolidated financial statements:

Consolidated statement of income (loss)

| <i>Increase (decrease)</i> <i>(\$000)</i> | Three months ended February 28, 2009 \$ | Six months ended February 28, 2009 \$ |
|--|---|---|
| | (unaudited) | (unaudited) |
| Operating costs | 3,158 | 7,151 |
| Amortization of deferred charges | (3,451) | (6,632) |
| Future income tax expense | 45 | (164) |
| Non-controlling interest | 167 | (244) |
| Net loss | (81) | 111 |

Consolidated balance sheets

| <i>Increase (decrease)</i> <i>(\$000)</i> | August 31, 2009 \$ | September 1, 2008 \$ |
|--|-----------------------|-------------------------|
| | (unaudited) | (unaudited) |
| Deferred charges | (34,551) | (32,405) |
| Future income tax liabilities | (10,229) | (9,624) |
| Non-controlling interest | (16,428) | (15,376) |
| Retained earnings | (7,894) | (7,405) |

FUTURE ACCOUNTING PRONOUNCEMENTS

Harmonization of Canadian and International accounting standards

In March 2006, the Accounting Standards Board of the CICA released its new strategic plan, which proposed to abandon Canadian GAAP and effect a complete convergence to the International Financial Reporting Standards ("IFRS") for Canadian publicly accountable entities. This plan was confirmed in subsequent exposure drafts issued in April 2008, March 2009 and October 2009. The changeover will occur no later than fiscal years beginning on or after January 1, 2011. Accordingly, the Company expects that its first interim consolidated financial statements presented in accordance with IFRS will be for the three-month period ending November 30, 2011, and its first annual consolidated financial statements presented in accordance with IFRS will be for the year ending August 31, 2012.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. The Company has established a project team including representatives from various areas of the organization to plan and complete the transition to IFRS. This team reports periodically to the Audit Committee, which oversees the IFRS implementation project on behalf of the Board of Directors. The Company is assisted by external advisors as required.

The implementation project consists of three primary phases, which may occur concurrently as IFRS are applied to specific areas of operations:

| Phase | Area of impact | Key activities | Status |
|--|--|--|--|
| Scoping and diagnostic | Pervasive | Perform a high-level impact assessment to identify key areas that are expected to be impacted by the transition to IFRS. Rank IFRS impacts in order of priority to assess the timing and complexity of transition efforts that will be required in subsequent phases. | Completed |
| Impact analysis, evaluation and design | For each area identified in the scoping and diagnostic phase | Identify the specific changes required to existing accounting policies. | Completed |
| | | Analyse policy choices permitted under IFRS. | In progress – to be completed in fiscal 2010 |
| | Present analysis and recommendations on accounting policy choices to the audit committee. | In progress – to be completed in fiscal 2010 | |
| Implementation and review | Pervasive | Identify impacts on reporting systems and business processes. | In progress – to be completed in fiscal 2010 |
| | | Prepare draft IFRS consolidated financial statement content. | To be completed in fiscal 2010 |
| | Identify impacts on internal controls over financial reporting and other business processes. | To be completed in fiscal 2010 | |
| Implementation and review | For each area identified in the scoping and diagnostic phase | Test and execute changes to information systems and business processes. | In progress – to be completed by fiscal 2010 |
| | | Obtain formal approval of required accounting policy changes and selected accounting policy choices. | To be completed in fiscal 2010 |
| | | Communicate impact on accounting policies and business processes to external stakeholders. | To be completed by fiscal 2011 |
| | Pervasive | Gather financial information necessary for opening balance sheet and comparative IFRS financial statements. | To be completed in fiscal 2011 |
| | | Update and test internal control processes over financial reporting and other business processes. | To be completed in fiscal 2011 |
| | | Collect financial information necessary to compile IFRS-compliant financial statements. | To be completed in fiscal 2011 |
| | | Provide training to employees and end-users across the organization. | To be completed by fiscal 2012 |
| Prepare IFRS compliant financial statements. | To be completed by fiscal 2012 | | |
| Obtain the approval from the Audit Committee of the IFRS consolidated financial statements. | To be completed by fiscal 2012 | | |
| Continually review IFRS and implement changes to the standards as they apply to the Company. | To be completed throughout transition and post-conversion periods | | |

The Company's project for the transition from Canadian GAAP to IFRS is progressing according to the established plan and the Company expects to meet its target date for migration. Please refer to the 2009 Annual Report for more details.

NON-GAAP FINANCIAL MEASURES

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

Cash flow from operations and free cash flow

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

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

| (\$000) | Quarters ended February 28, | | Six months ended February 28, | |
|-------------------------------------|-----------------------------|---------------------|-------------------------------|---------------------|
| | 2010 | 2009 ⁽¹⁾ | 2010 | 2009 ⁽¹⁾ |
| | \$ | \$ | \$ | \$ |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Cash flow from operating activities | 117,498 | 117,322 | 116,088 | 143,799 |
| Changes in non-cash operating items | 2,833 | (20,129) | 139,761 | 45,027 |
| Cash flow from operations | 120,331 | 97,193 | 255,849 | 188,826 |

Free cash flow is calculated as follows:

| (\$000) | Quarters ended February 28, | | Six months ended February 28, | |
|--|-----------------------------|---------------------|-------------------------------|---------------------|
| | 2010 | 2009 ⁽¹⁾ | 2010 | 2009 ⁽¹⁾ |
| | \$ | \$ | \$ | \$ |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Cash flow from operations | 120,331 | 97,193 | 255,849 | 188,826 |
| Acquisition of fixed assets | (72,094) | (62,161) | (137,276) | (127,870) |
| Increase in deferred charges | (2,455) | (2,621) | (5,519) | (5,835) |
| Assets acquired under capital leases – as per note 12 c) | - | (322) | (141) | (1,261) |
| Free cash flow | 45,782 | 32,089 | 112,913 | 53,860 |

⁽¹⁾ Certain comparative figures have been restated to reflect the application of the CICA Handbook Section 3064. Please refer to the "Accounting policies and estimates" section for more details.

Operating income before amortization and operating margin

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

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

| (\$000, except percentages) | Quarters ended February 28, | | Six months ended February 28, | |
|---|-----------------------------|--|-------------------------------|--|
| | 2010 \$ (unaudited) | 2009 ⁽¹⁾ \$ (unaudited) | 2010 \$ (unaudited) | 2009 ⁽¹⁾ \$ (unaudited) |
| Operating income | 58,370 | 60,171 | 121,932 | 120,000 |
| Amortization | 65,993 | 63,334 | 131,694 | 124,216 |
| Operating income before amortization | 124,363 | 123,505 | 253,626 | 244,216 |
| Revenue | 329,087 | 311,825 | 657,090 | 620,200 |
| Operating margin | 37.8% | 39.6% | 38.6% | 39.4% |

⁽¹⁾ Certain comparative figures have been restated to reflect the application of the CICA Handbook Section 3064. Please refer to the "Accounting policies and estimates" section for more details.

Adjusted net income and adjusted earnings per share

Adjusted net income and adjusted earnings per share are used by COGECO's management and investors to evaluate what would have been the net income and earnings per share excluding unusual adjustments. This allows the Company to isolate the unusual adjustments in order to evaluate the net income and earnings per share from ongoing activities.

The most comparable Canadian GAAP financial measures are net income and earnings per share. These above-mentioned non-GAAP financial measures are calculated as follows:

| (\$000) | Quarters ended February 28, | | Six months ended February 28 | |
|--|-----------------------------|--|------------------------------|--|
| | 2010 \$ (unaudited) | 2009 ⁽¹⁾ \$ (unaudited) | 2010 \$ (unaudited) | 2009 ⁽¹⁾ \$ (unaudited) |
| Net income (loss) | 10,511 | (115,210) | 33,259 | (104,349) |
| Adjustments: | | | | |
| Reduction of Ontario provincial corporate income tax rates net of non-controlling interest | - | - | (9,620) | - |
| Impairment loss net of related taxes and non-controlling interest | - | 123,951 | - | 123,951 |
| Adjusted net income | 10,511 | 8,741 | 23,639 | 19,602 |
| Weighted average number of multiple voting and subordinate voting shares outstanding | 16,714,030 | 16,686,158 | 16,721,865 | 16,693,972 |
| Effect of dilutive stock options | 14,436 | 9,963 | 11,152 | 15,175 |
| Effect of dilutive incentive share units | 71,862 | 55,072 | 63,745 | 46,864 |
| Weighted average number of diluted multiple voting and subordinate voting shares outstanding | 16,800,328 | 16,751,193 | 16,796,762 | 16,756,011 |
| Adjusted earnings per share | | | | |
| Basic | 0.63 | 0.52 | 1.41 | 1.17 |
| Diluted | 0.63 | 0.52 | 1.41 | 1.17 |

⁽¹⁾ Certain comparative figures have been restated to reflect the application of the CICA Handbook Section 3064. Please refer to the "Accounting policies and estimates" section for more details.

Supplementary Quarterly Financial Information
(unaudited)

| Quarters ended | February 28, | | November 30, | | August 31, | | May 31, | |
|---|--------------|---------------------|--------------|---------------------|---------------------|------------------------|---------------------|------------------------|
| <i>(\$000, except percentages and per share data)</i> | 2010 | 2009 ⁽¹⁾ | 2009 | 2008 ⁽¹⁾ | 2009 ⁽¹⁾ | 2008 ⁽¹⁾⁽²⁾ | 2009 ⁽¹⁾ | 2008 ⁽¹⁾⁽²⁾ |
| Revenue | 329,087 | 311,825 | 328,003 | 308,375 | 316,284 | 292,873 | 316,310 | 283,878 |
| Operating income before amortization ⁽²⁾ | 124,363 | 123,505 | 129,263 | 120,711 | 144,654 | 117,557 | 126,624 | 112,639 |
| <i>Operating margin⁽²⁾</i> | <i>37.8%</i> | <i>39.6%</i> | <i>39.4%</i> | <i>39.1%</i> | <i>45.7%</i> | <i>40.1%</i> | <i>40.0%</i> | <i>39.7%</i> |
| Operating income | 58,370 | 60,171 | 63,562 | 59,829 | 76,244 | 58,664 | 62,623 | 57,114 |
| Impairment of goodwill and intangible assets | - | (399,648) | - | - | - | - | - | - |
| Net income (loss) | 10,511 | (115,210) | 22,748 | 10,861 | 14,631 | 9,332 | 10,704 | 9,221 |
| Adjusted net income ⁽²⁾⁽³⁾ | 10,511 | 8,741 | 13,128 | 10,861 | 7,647 | 9,332 | 9,157 | 9,221 |
| Cash flow from operating activities | 117,498 | 117,322 | (1,410) | 26,477 | 177,032 | 141,590 | 99,873 | 108,326 |
| Cash flow from operations ⁽²⁾ | 120,331 | 97,193 | 135,518 | 91,633 | 108,744 | 95,507 | 92,718 | 91,501 |
| Free cash flow ⁽²⁾ | 45,782 | 32,089 | 67,131 | 21,771 | 14,742 | 20,981 | 32,416 | 37,107 |
| Earnings (loss) per share ⁽⁴⁾ | | | | | | | | |
| Basic | | | | | | | | |
| Net income (loss) | 0.63 | (6.90) | 1.36 | 0.65 | 0.87 | 0.56 | 0.64 | 0.55 |
| Adjusted net income ⁽²⁾⁽³⁾ | 0.63 | 0.52 | 0.79 | 0.65 | 0.46 | 0.56 | 0.55 | 0.55 |
| Diluted | | | | | | | | |
| Net income (loss) | 0.63 | (6.88) | 1.35 | 0.65 | 0.87 | 0.56 | 0.64 | 0.55 |
| Adjusted net income ⁽²⁾⁽³⁾ | 0.63 | 0.52 | 0.78 | 0.65 | 0.46 | 0.56 | 0.55 | 0.55 |

⁽¹⁾ Certain comparative figures have been restated to reflect the application of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064. Please refer to the "Accounting policies and estimates" section of the Management's discussion and analysis for more details.

⁽²⁾ Certain comparative figures have been reclassified to reflect the reclassification of foreign exchange gains or losses from operating costs to financial expense.

⁽³⁾ The indicated terms do not have standardized definitions prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, may not be comparable to similar measures presented by other companies. For more details, please consult the "Non-GAAP financial measures" section of the Management's discussion and analysis.

⁽⁴⁾ Per multiple and subordinate voting share.

SEASONAL VARIATIONS

Cogeco Cable's operating results are not generally subject to material seasonal fluctuations. However, the loss in Basic Cable service customers is usually greater, and the addition of HSI service customers is generally lower, in the second half of the fiscal year as a result of a decrease in economic activity due to the beginning of the vacation period, the end of the television seasons, and students leaving their campuses at the end of the school year. Cogeco Cable offers its services in several university and college towns such as Kingston, Windsor, St. Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski in Canada, and Aveiro, Covilhã, Évora, Guarda and Coimbra in Portugal. Furthermore, the operating margin in the third and fourth quarters is generally higher as the maximum amount payable to COGECO under the management agreement is usually reached in the second quarter of the year. As part of the management agreement between Cogeco Cable and COGECO, Cogeco Cable pays management fees to COGECO equivalent to 2% of its revenue subject to an annual maximum amount, which is adjusted annually to reflect the increase in the Canadian Consumer Price index. For the current fiscal year, the maximum amount has been set at \$9 million, which has been paid in the first half of the fiscal year. For fiscal 2009, the maximum amount of \$9 million was attained in the second quarter and therefore, no management fees were paid in the third or fourth quarters of the 2009 fiscal year.

Cable Sector Customer Statistics
(unaudited)

| | February 28, 2010 | August 31, 2009 |
|--|-------------------|------------------|
| Homes passed | | |
| Ontario | 1,057,267 | 1,049,818 |
| Québec | 519,957 | 515,327 |
| Canada | 1,577,224 | 1,565,145 |
| Portugal ⁽¹⁾ | 905,244 | 905,129 |
| Total | 2,482,468 | 2,470,274 |
| Homes connected⁽²⁾ | | |
| Ontario | 671,305 | 658,690 |
| Québec | 289,757 | 285,944 |
| Canada | 961,062 | 944,634 |
| Portugal | 267,353 | 269,022 |
| Total | 1,228,415 | 1,213,656 |
| Revenue-generating units | | |
| Ontario | 1,556,786 | 1,483,324 |
| Québec | 713,523 | 676,539 |
| Canada | 2,270,309 | 2,159,863 |
| Portugal | 780,496 | 732,375 |
| Total | 3,050,805 | 2,892,238 |
| Basic Cable service customers | | |
| Ontario | 603,134 | 597,651 |
| Québec | 270,536 | 267,154 |
| Canada | 873,670 | 864,805 |
| Portugal | 258,178 | 259,480 |
| Total | 1,131,848 | 1,124,285 |
| High Speed Internet service customers | | |
| Ontario | 394,375 | 374,906 |
| Québec | 149,251 | 140,146 |
| Canada | 543,626 | 515,052 |
| Portugal | 154,616 | 143,614 |
| Total | 698,242 | 658,666 |
| Digital Television service customers | | |
| Ontario | 346,003 | 326,227 |
| Québec | 182,555 | 172,171 |
| Canada | 528,558 | 498,398 |
| Portugal | 131,056 | 102,753 |
| Total | 659,614 | 601,151 |
| Telephony service customers | | |
| Ontario | 213,274 | 184,540 |
| Québec | 111,181 | 97,068 |
| Canada | 324,455 | 281,608 |
| Portugal | 236,646 | 226,528 |
| Total | 561,101 | 508,136 |

(1) Cogeco Cable is currently assessing the number of homes passed.

(2) Includes Basic Cable service customers and HSI and Telephony service customers who do not subscribe to other cable services.

COGECO INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(unaudited)

| <i>(In thousands of dollars, except per share data)</i> | Three months ended February 28, | | Six months ended February 28, | |
|---|---------------------------------|-----------|-------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| | <i>(restated, see note 1)</i> | | <i>(restated, see note 1)</i> | |
| Revenue | 329,087 | 311,825 | 657,090 | 620,200 |
| Operating costs | 204,724 | 188,320 | 403,464 | 375,984 |
| Operating income before amortization | 124,363 | 123,505 | 253,626 | 244,216 |
| Amortization (note 3) | 65,993 | 63,334 | 131,694 | 124,216 |
| Operating income | 58,370 | 60,171 | 121,932 | 120,000 |
| Financial expense (note 4) | 15,187 | 18,028 | 31,464 | 41,806 |
| Impairment of goodwill and intangible assets (note 5) | — | 399,648 | — | 399,648 |
| Income (loss) before income taxes and the following items | 43,183 | (357,505) | 90,468 | (321,454) |
| Income taxes (note 6) | 12,525 | 220 | (1,293) | 9,859 |
| Loss (gain) on dilution resulting from the issuance of shares by a subsidiary | (18) | 22 | (18) | 48 |
| Non-controlling interest | 20,165 | (242,537) | 58,520 | (227,012) |
| Net income (loss) | 10,511 | (115,210) | 33,259 | (104,349) |
| Earnings (loss) per share (note 7) | | | | |
| Basic | 0.63 | (6.90) | 1.99 | (6.25) |
| Diluted | 0.63 | (6.88) | 1.98 | (6.23) |

COGECO INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

| <i>(In thousands of dollars)</i> | Three months ended February 28, | | Six months ended February 28, | |
|---|---------------------------------|------------------------|-------------------------------|------------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| | | (restated, see note 1) | | (restated, see note 1) |
| Net income (loss) | 10,511 | (115,210) | 33,259 | (104,349) |
| Other comprehensive income (loss) | | | | |
| Unrealized gains (losses) on derivative financial instruments designated as cash flow hedges, net of income tax recovery of \$333,000 and \$2,474,000 and non-controlling interest of \$782,000 and \$3,333,000 (income tax expense of \$1,401,000 and \$ 3,836,000 and non-controlling interest of \$4,907,000 and \$20,606,000 in 2009) | (373) | 2,342 | (1,591) | (2,638) |
| Reclassification to net income of realized losses (gains) on derivative financial instruments designated as cash flow hedges, net of income tax recovery of \$79,000 and \$1,086,000 and non-controlling interest of \$345,000 and \$4,731,000 (income tax expense of \$902,000 and \$5,225,000 and non-controlling interest of \$3,929,000 and \$23,140,000 in 2009) | 165 | (1,876) | 2,258 | 2,947 |
| Unrealized gains (losses) on translation of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of \$17,813,000 and \$15,969,000 (\$12,339,000 and \$16,453,000 in 2009) | (8,503) | 5,890 | (7,621) | 7,891 |
| Unrealized gains (losses) on translation of long-term debt designated as hedge of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of \$13,988,000 and \$12,573,000 (\$6,469,000 and \$8,742,000 in 2009) | 6,676 | (3,088) | 6,000 | (4,938) |
| | (2,035) | 3,268 | (954) | 3,262 |
| Comprehensive income (loss) | 8,476 | (111,942) | 32,305 | (101,087) |

COGECO INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(unaudited)

| <i>(In thousands of dollars)</i> | Six months ended February 28, | |
|--|-------------------------------|-------------------------------|
| | 2010 | 2009 |
| | \$ | \$ |
| | | <i>(restated, see note 1)</i> |
| Balance at beginning, as reported | 211,922 | 295,808 |
| Changes in accounting policies (note 1) | (7,894) | (7,405) |
| Balance at beginning, as restated | 204,028 | 288,403 |
| Net income (loss) | 33,259 | (104,349) |
| Excess of price paid for the acquisition of subordinate voting shares over the value attributed to the incentive share units at issuance | (430) | — |
| Dividends on multiple voting shares | (366) | (295) |
| Dividends on subordinate voting shares | (2,988) | (2,384) |
| Balance at end | 233,503 | 181,375 |

COGECO INC.
CONSOLIDATED BALANCE SHEETS

(unaudited)

| <i>(In thousands of dollars)</i> | February 28, 2010 | August 31, 2009 |
|---|-------------------|------------------------|
| | \$ | \$ |
| | | (restated, see note 1) |
| Assets | | |
| Current | | |
| Cash and cash equivalents (note 12 b)) | 16,732 | 39,458 |
| Accounts receivable | 76,796 | 66,076 |
| Income taxes receivable | 36,867 | 5,228 |
| Prepaid expenses | 15,551 | 14,805 |
| Future income tax assets | 6,968 | 4,275 |
| | 152,914 | 129,842 |
| Investments | 739 | 739 |
| Fixed assets | 1,293,610 | 1,305,769 |
| Deferred charges | 23,278 | 24,062 |
| Intangible assets (note 8) | 1,045,386 | 1,047,774 |
| Goodwill (note 8) | 146,411 | 153,695 |
| Derivative financial instruments | — | 4,236 |
| Future income tax assets | 4,515 | 4,011 |
| | 2,666,853 | 2,670,128 |
| Liabilities and Shareholders' equity | | |
| Liabilities | | |
| Current | | |
| Bank indebtedness | 50,045 | 416 |
| Accounts payable and accrued liabilities | 185,186 | 255,281 |
| Income tax liabilities | 2,028 | 41,358 |
| Deferred and prepaid revenue | 41,510 | 33,877 |
| Current portion of long-term debt (note 9) | 40,556 | 44,706 |
| Future income tax liabilities | 53,667 | — |
| | 372,992 | 375,638 |
| Long-term debt (note 9) | 967,471 | 1,019,258 |
| Derivative financial instruments | 5,330 | 2,168 |
| Deferred and prepaid revenue and other liabilities | 12,660 | 12,900 |
| Pension plan liabilities and accrued employees benefits | 11,549 | 10,453 |
| Future income tax liabilities | 206,697 | 234,710 |
| | 1,576,699 | 1,655,127 |
| Non-controlling interest | 729,261 | 682,879 |
| Shareholders' equity | | |
| Capital stock (note 10) | 119,527 | 119,159 |
| Contributed surplus | 2,489 | 2,607 |
| Retained earnings | 233,503 | 204,028 |
| Accumulated other comprehensive income (note 11) | 5,374 | 6,328 |
| | 360,893 | 332,122 |
| | 2,666,853 | 2,670,128 |

COGECO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| (In thousands of dollars) | Three months ended February 28, | | Six months ended February 28, | |
|--|---------------------------------|------------------------|-------------------------------|------------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| | | (restated, see note 1) | | (restated, see note 1) |
| Cash flow from operating activities | | | | |
| Net income (loss) | 10,511 | (115,210) | 33,259 | (104,349) |
| Adjustments for: | | | | |
| Amortization (note 3) | 65,993 | 63,334 | 131,694 | 124,216 |
| Amortization of deferred transaction costs and discounts on long-term debt | 780 | 634 | 1,542 | 1,351 |
| Impairment of goodwill and intangible assets (note 5) | — | 399,648 | — | 399,648 |
| Future income taxes | 22,232 | (10,041) | 28,636 | (7,426) |
| Non-controlling interest | 20,165 | (242,537) | 58,520 | (227,012) |
| Loss (gain) on dilution resulting from the issuance of shares by a subsidiary | (18) | 22 | (18) | 48 |
| Stock-based compensation | 856 | 775 | 1,564 | 864 |
| Losses (gains) on disposal of fixed assets | (36) | (19) | 62 | 204 |
| Other | (152) | 587 | 590 | 1,282 |
| | 120,331 | 97,193 | 255,849 | 188,826 |
| Changes in non-cash operating items (note 12 a)) | (2,833) | 20,129 | (139,761) | (45,027) |
| | 117,498 | 117,322 | 116,088 | 143,799 |
| Cash flow from investing activities | | | | |
| Acquisition of fixed assets (note 12 c)) | (72,094) | (62,161) | (137,276) | (127,870) |
| Increase in deferred charges | (2,455) | (2,621) | (5,519) | (5,835) |
| Other | 102 | 45 | 122 | 61 |
| | (74,447) | (64,737) | (142,673) | (133,644) |
| Cash flow from financing activities | | | | |
| Increase in bank indebtedness | 3,305 | 4,659 | 49,629 | 28,118 |
| Net decrease under the term facilities | (39,495) | (35,243) | (28,070) | (29,949) |
| Issuance of long-term debt, net of discounts and transaction costs | — | — | — | 254,771 |
| Repayment of long-term debt and settlement of derivative financial instruments | (862) | (880) | (2,086) | (240,627) |
| Issuance of subordinate voting shares | 353 | 21 | 353 | 21 |
| Acquisition of subordinate voting shares held in trust under the Incentive Share Unit Plan (note 10) | — | (325) | (1,049) | (325) |
| Dividends on multiple voting shares | (182) | (148) | (366) | (295) |
| Dividends on subordinate voting shares | (1,494) | (1,192) | (2,988) | (2,384) |
| Issuance of shares by a subsidiary to non-controlling interest | 283 | 686 | 283 | 964 |
| Acquisition by a subsidiary from non-controlling interest of subordinate voting shares held in trust under the Incentive Share Unit Plan (note 10) | — | — | (1,744) | — |
| Dividends paid by a subsidiary to non-controlling interest | (4,602) | (3,943) | (9,203) | (7,883) |
| | (42,694) | (36,365) | 4,759 | 2,411 |
| Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies | | | | |
| | (1,102) | 641 | (900) | 1,328 |
| Net change in cash and cash equivalents | (745) | 16,861 | (22,726) | 13,894 |
| Cash and cash equivalents at beginning | 17,477 | 34,505 | 39,458 | 37,472 |
| Cash and cash equivalents at end | 16,732 | 51,366 | 16,732 | 51,366 |

See supplemental cash flow information in note 12.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***1. Basis of Presentation**

In the opinion of management, the accompanying unaudited interim consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, present fairly the financial position of COGECO Inc. ("the Company") as at February 28, 2010 and August 31, 2009 as well as its results of operations and its cash flows for the three and six month periods ended February 28, 2010 and 2009.

While management believes that the disclosures presented are adequate, these unaudited interim consolidated financial statements and notes should be read in conjunction with COGECO Inc.'s annual consolidated financial statements for the year ended August 31, 2009. These unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements, except for the adoption of the new accounting policies described below.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill remained unchanged from the standards included in the previous Section 3062. The new Section was applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with retroactive application. The adoption of Section 3064 eliminated the deferral of new service launch costs which are now recognized as an expense when they are incurred. Reconnect and additional services activation costs are capitalized up to an amount not exceeding the revenue generated by the reconnect activity. Consequently, the Company adjusted opening retained earnings on a retroactive basis and the prior period comparative figures have been restated. The adoption of this new section had the following impacts on the Company's consolidated financial statements.

Consolidated statement of income (loss)

| Increase (decrease) | Three months ended February 28, 2009 \$ | Six months ended February 28, 2009 \$ |
|----------------------------------|---|---|
| Operating costs | 3,158 | 7,151 |
| Amortization of deferred charges | (3,451) | (6,632) |
| Future income tax expense | 45 | (164) |
| Non-controlling interest | 167 | (244) |
| Net loss | (81) | 111 |

Consolidated balance sheets

| Increase (decrease) | August 31, 2009 \$ | September 1, 2008 \$ |
|-------------------------------|-----------------------|-------------------------|
| Deferred charges | (34,551) | (32,405) |
| Future income tax liabilities | (10,229) | (9,624) |
| Non-controlling interest | (16,428) | (15,376) |
| Retained earnings | (7,894) | (7,405) |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***2. Segmented Information**

The Company's activities are divided into two business segments: Cable and other. The Cable segment is comprised of Cable Television, High Speed Internet, Telephony and other telecommunications services, and the other segment is comprised of radio and head office activities, as well as eliminations. The Cable segment's activities are carried out in Canada and in Europe.

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

| | Cable | | Other and eliminations | | Consolidated | |
|---|------------------|------------|------------------------|------------|------------------|------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Three months ended February 28, | \$ | \$ | \$ | \$ | \$ | \$ |
| | | (restated) | | (restated) | | (restated) |
| Revenue | 320,397 | 304,920 | 8,690 | 6,905 | 329,087 | 311,825 |
| Operating costs | 197,784 | 182,617 | 6,940 | 5,703 | 204,724 | 188,320 |
| Operating income before amortization | 122,613 | 122,303 | 1,750 | 1,202 | 124,363 | 123,505 |
| Amortization | 65,839 | 63,198 | 154 | 136 | 65,993 | 63,334 |
| Operating income | 56,774 | 59,105 | 1,596 | 1,066 | 58,370 | 60,171 |
| Financial expense | 15,033 | 17,988 | 154 | 40 | 15,187 | 18,028 |
| Impairment of goodwill and intangible assets | — | 399,648 | — | — | — | 399,648 |
| Income taxes | 11,952 | (207) | 573 | 427 | 12,525 | 220 |
| Loss (gain) on dilution resulting from the issuance of shares by a subsidiary | (18) | 22 | — | — | (18) | 22 |
| Non-controlling interest | 20,165 | (242,537) | — | — | 20,165 | (242,537) |
| Net income (loss) | 9,642 | (115,809) | 869 | 599 | 10,511 | (115,210) |
| Total assets ⁽¹⁾ | 2,621,394 | 2,630,912 | 45,459 | 39,216 | 2,666,853 | 2,670,128 |
| Fixed assets ⁽¹⁾ | 1,290,033 | 1,302,238 | 3,577 | 3,531 | 1,293,610 | 1,305,769 |
| Intangible assets ⁽¹⁾ | 1,020,046 | 1,022,434 | 25,340 | 25,340 | 1,045,386 | 1,047,774 |
| Goodwill ⁽¹⁾ | 146,411 | 153,695 | — | — | 146,411 | 153,695 |
| Acquisition of fixed assets ⁽²⁾ | 71,924 | 62,342 | 170 | 141 | 72,094 | 62,483 |

⁽¹⁾ At February 28, 2010 and August 31, 2009.

⁽²⁾ Includes capital leases that are excluded from the consolidated statements of cash flows.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***2. Segmented Information (continued)**

| | Cable | | Other and eliminations | | Consolidated | |
|---|------------------|------------|------------------------|------------|------------------|------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Six months ended February 28, | \$ | \$ | \$ | \$ | \$ | \$ |
| | | (restated) | | (restated) | | (restated) |
| Revenue | 637,762 | 604,358 | 19,328 | 15,842 | 657,090 | 620,200 |
| Operating costs | 392,543 | 366,325 | 10,921 | 9,659 | 403,464 | 375,984 |
| Operating income before amortization | 245,219 | 238,033 | 8,407 | 6,183 | 253,626 | 244,216 |
| Amortization | 131,404 | 123,944 | 290 | 272 | 131,694 | 124,216 |
| Operating income | 113,815 | 114,089 | 8,117 | 5,911 | 121,932 | 120,000 |
| Financial expense | 31,174 | 41,382 | 290 | 424 | 31,464 | 41,806 |
| Impairment of goodwill and intangible assets | — | 399,648 | — | — | — | 399,648 |
| Income taxes | (3,814) | 8,438 | 2,521 | 1,421 | (1,293) | 9,859 |
| Loss (gain) on dilution resulting from the issuance of shares by a subsidiary | (18) | 48 | — | — | (18) | 48 |
| Non-controlling interest | 58,520 | (227,012) | — | — | 58,520 | (227,012) |
| Net income (loss) | 27,953 | (108,415) | 5,306 | 4,066 | 33,259 | (104,349) |
| Total assets ⁽¹⁾ | 2,621,394 | 2,630,912 | 45,459 | 39,216 | 2,666,853 | 2,670,128 |
| Fixed assets ⁽¹⁾ | 1,290,033 | 1,302,238 | 3,577 | 3,531 | 1,293,610 | 1,305,769 |
| Intangible assets ⁽¹⁾ | 1,020,046 | 1,022,434 | 25,340 | 25,340 | 1,045,386 | 1,047,774 |
| Goodwill ⁽¹⁾ | 146,411 | 153,695 | — | — | 146,411 | 153,695 |
| Acquisition of fixed assets ⁽²⁾ | 137,081 | 128,948 | 336 | 183 | 137,417 | 129,131 |

⁽¹⁾ At February 28, 2010 and August 31, 2009.⁽²⁾ Includes capital leases that are excluded from the consolidated statements of cash flows.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***2. Segmented Information (continued)**

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

| | Three months ended February 28, | | Six months ended February 28, | |
|---------|---------------------------------|---------|-------------------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| Canada | 280,120 | 250,585 | 555,118 | 496,896 |
| Europe | 48,967 | 61,240 | 101,972 | 123,304 |
| | 329,087 | 311,825 | 657,090 | 620,200 |

| | February 28, 2010 | August 31, 2009 |
|-------------------|-------------------|-----------------|
| | \$ | \$ |
| Fixed assets | | |
| Canada | 1,037,854 | 1,015,298 |
| Europe | 255,756 | 290,471 |
| | 1,293,610 | 1,305,769 |
| Intangible assets | | |
| Canada | 1,045,386 | 1,047,774 |
| Europe | — | — |
| | 1,045,386 | 1,047,774 |
| Goodwill | | |
| Canada | 116,243 | 116,243 |
| Europe | 30,168 | 37,452 |
| | 146,411 | 153,695 |

3. Amortization

| | Three months ended February 28, | | Six months ended February 28, | |
|-------------------|---------------------------------|----------------------|-------------------------------|-----------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Fixed assets | 62,117 | (restated) 56,650 | 123,818 | (restated) 111,056 |
| Deferred charges | 2,681 | 2,620 | 5,488 | 5,227 |
| Intangible assets | 1,195 | 4,064 | 2,388 | 7,933 |
| | 65,993 | 63,334 | 131,694 | 124,216 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***4. Financial expense**

| | Three months ended February 28, | | Six months ended February 28, | |
|--|---------------------------------|--------|-------------------------------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Interest on long-term debt | 15,788 | 17,029 | 31,689 | 37,299 |
| Foreign exchange losses (gains) | (391) | 619 | (879) | 4,403 |
| Amortization of deferred transaction costs | 407 | 407 | 814 | 814 |
| Other | (617) | (27) | (160) | (710) |
| | 15,187 | 18,028 | 31,464 | 41,806 |

5. Impairment of goodwill and intangible assets

| | Three months ended February 28, | | Six months ended February 28, | |
|---------------------------------|---------------------------------|---------|-------------------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Impairment of goodwill | — | 339,206 | — | 339,206 |
| Impairment of intangible assets | — | 60,442 | — | 60,442 |
| | — | 399,648 | — | 399,648 |

During the second quarter of fiscal 2009, the competitive position of Cabovisão-Televisão por Cabo, S.A. ("Cabovisão") in the Iberian Peninsula further deteriorated due to the continuing difficult competitive environment and recurring intense promotions and advertising initiatives from competitors in the Portuguese market. In accordance with current accounting standards, management considered that the continued customer, local currency revenue and operating income before amortization decline, were more severe and persistent than expected, resulting in a decrease in the value of the Company's subsidiary's investment in the Portuguese subsidiary. As a result, the Company's subsidiary tested goodwill and all long-lived assets for impairment at February 28, 2009.

Goodwill is tested for impairment using a two step approach. The first step consists of determining whether the fair value of the reporting unit to which goodwill is assigned exceeds the net carrying amount of that reporting unit, including goodwill. In the event that the net carrying amount exceeds the fair value, a second step is performed in order to determine the amount of the impairment loss. The impairment loss is measured as the amount by which the carrying amount of the reporting unit's goodwill exceeds its fair value. The Company's subsidiary completed its impairment tests on goodwill and concluded that goodwill was impaired at February 28, 2009. As a result, an impairment loss of \$339.2 million was recorded in the second quarter of fiscal 2009. Fair value of the reporting unit was determined using the discounted cash flow method. Future cash flows were based on internal forecasts and consequently, considerable management judgement was necessary to estimate future cash flows. Significant future changes in circumstances could result in further impairments of goodwill.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***5. Impairment of goodwill and intangible assets (continued)**

Intangible assets with finite useful lives, such as customer relationships, must be tested for impairment by comparing the carrying amount of the asset or group of assets to the expected future undiscounted cash flow to be generated by the asset or group of assets. The impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value. Accordingly, the Company's subsidiary completed its impairment test on customer relationships at February 28, 2009, and determined that the carrying value of customer relationships exceeds its fair value. As a result, an impairment loss of \$60.4 million was recorded in the second quarter of fiscal 2009.

At August 31, 2009, the Company's subsidiary tested the value of goodwill for impairment and concluded that no impairment existed.

6. Income Taxes

| | Three months ended February 28, | | Six months ended February 28, | |
|---------|---------------------------------|------------|-------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| | | (restated) | | (restated) |
| Current | (9,707) | 10,261 | (29,929) | 17,285 |
| Future | 22,232 | (10,041) | 28,636 | (7,426) |
| | 12,525 | 220 | (1,293) | 9,859 |

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

| | Three months ended February 28, | | Six months ended February 28, | |
|--|---------------------------------|------------|-------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| | | (restated) | | (restated) |
| Income (loss) before income taxes | 43,183 | (357,505) | 90,468 | (321,454) |
| Combined income tax rate | 31.46% | 32.49% | 31.44% | 32.49% |
| Income taxes at combined income tax rate | 13,585 | (116,153) | 28,447 | (104,451) |
| Adjustments for losses or income subject to lower or higher tax rates | (3,247) | (686) | (5,669) | (880) |
| Decrease in future income taxes as a result of decrease in substantively enacted tax rates | — | — | (29,782) | — |
| Decrease in income tax recovery arising from the non-deductible impairment of goodwill | — | 89,890 | — | 89,890 |
| Utilization of pre-acquisition tax losses | — | — | 4,432 | — |
| Income taxes arising from non-deductible expenses | 97 | 157 | 306 | 274 |
| Effect of foreign income tax rate differences | 1,877 | 25,632 | 2,124 | 24,028 |
| Other | 213 | 1,380 | (1,151) | 998 |
| Income taxes at effective income tax rate | 12,525 | 220 | (1,293) | 9,859 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***7. Earnings (loss) per Share**

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

| | Three months ended February 28, | | Six months ended February 28, | |
|--|---------------------------------|------------|-------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Net income (loss) | 10,511 | (115,210) | 33,259 | (104,349) |
| Weighted average number of multiple voting and subordinate voting shares outstanding | 16,714,030 | 16,686,158 | 16,721,865 | 16,693,972 |
| Effect of dilutive stock options ⁽¹⁾ | 14,436 | — | 11,152 | — |
| Effect of dilutive incentive share units | 71,862 | 55,072 | 63,745 | 46,864 |
| Weighted average number of diluted multiple voting and subordinate voting shares outstanding | 16,800,328 | 16,741,230 | 16,796,762 | 16,740,836 |
| Earnings (loss) per share | | | | |
| Basic | 0.63 | (6.90) | 1.99 | (6.25) |
| Diluted | 0.63 | (6.88) | 1.98 | (6.23) |

⁽¹⁾ For the three and six month periods ended February 28, 2010 and 2009, 32,782 stock options were excluded from the calculation of diluted earnings (loss) per share as the exercise price of the options was greater than the average share price of the subordinate voting shares. Furthermore, the weighted average dilutive potential number of subordinate voting shares, which were anti-dilutive for the three and six month periods ended February 28, 2009 amounted to 9,963 and 15,175.

8. Goodwill and Other Intangible Assets

| | February 28, 2010 | August 31, 2009 |
|------------------------|-------------------|-----------------|
| | \$ | \$ |
| Customer relationships | 30,494 | 32,882 |
| Broadcasting licenses | 25,120 | 25,120 |
| Customer base | 989,772 | 989,772 |
| | 1,045,386 | 1,047,774 |
| Goodwill | 146,411 | 153,695 |
| | 1,191,797 | 1,201,469 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***8. Goodwill and Other Intangible Assets (continued)****a) Intangible assets**

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

| | Customer relationships | Broadcasting licenses | Customer Base | Total |
|---------------------------------|---------------------------|--------------------------|------------------|-----------|
| | \$ | \$ | \$ | \$ |
| Balance as at August 31, 2009 | 32,882 | 25,120 | 989,772 | 1,047,774 |
| Amortization | (2,388) | — | — | (2,388) |
| Balance as at February 28, 2010 | 30,494 | 25,120 | 989,772 | 1,045,386 |

b) Goodwill

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

| | \$ |
|---|---------|
| Balance as at August 31, 2009 | 153,695 |
| Recognition of pre-acquisition tax losses | (4,432) |
| Foreign currency translation adjustment | (2,852) |
| Balance as at February 28, 2010 | 146,411 |

On November 25, 2009, Cogeco Cable Inc.'s subsidiary, Cabovisão, received approval to its request for preservation of tax losses for the years preceding the 2006 taxation year. Accordingly, the recognition of these pre-acquisition tax losses in the three month period ended November 30, 2009, has reduced goodwill by approximately \$4.4 million.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***9. Long-Term Debt**

| | Maturity | Interest rate | February 28, 2010 | August 31, 2009 |
|---|----------|------------------------|-------------------|-----------------|
| | | % | \$ | \$ |
| Parent company | | | | |
| Term Facility | 2011 | 3.04 ⁽¹⁾ | 2,925 | 9,382 |
| Obligations under capital leases | 2013 | 9.29 | 81 | 91 |
| Subsidiaries | | | | |
| Term Facility | | | | |
| Term loan – €78,413,625 | 2011 | 1.19 ⁽¹⁾⁽²⁾ | 112,080 | 122,674 |
| Term loan – €17,358,700 | 2011 | 1.19 ⁽¹⁾⁽²⁾ | 24,795 | 27,142 |
| Revolving loan – €25,000,000 (€40,000,000 at August 31, 2009) | 2011 | 1.19 ⁽¹⁾ | 35,825 | 62,792 |
| Senior Secured Notes Series B | 2011 | 7.73 | 174,634 | 174,530 |
| Senior Secured Notes | | | | |
| Series A – US\$190,000,000 | 2015 | 7.00 ⁽³⁾ | 198,629 | 206,606 |
| Series B | 2018 | 7.60 | 54,592 | 54,576 |
| Senior Secured Debentures Series 1 | 2014 | 5.95 | 297,079 | 296,860 |
| Senior Unsecured Debenture | 2018 | 5.94 | 99,796 | 99,786 |
| Obligations under capital leases | 2013 | 6.61 – 9.93 | 7,569 | 9,496 |
| Other | — | — | 22 | 29 |
| | | | 1,008,027 | 1,063,964 |
| Less current portion | | | 40,556 | 44,706 |
| | | | 967,471 | 1,019,258 |

⁽¹⁾ Interest rate on debt as at February 28, 2010, including stamping fees.

⁽²⁾ On January 21, 2009, the Company's subsidiary, Cogeco Cable Inc., entered into a swap agreement with a financial institution to fix the floating benchmark interest rate with respect to the Euro-denominated Term Loan facilities for a notional amount of €111.5 million. The interest swap rate to hedge the Term Loans has been fixed at 2.08% until their maturity on July 28, 2011. The notional value of the swap will decrease in line with the amortization schedule of the Term Loans. In addition to the interest swap rate of 2.08%, the Company's subsidiary will continue to pay the applicable margin on these Term Loans in accordance with the Term Facility.

⁽³⁾ Cross-currency swap agreements have resulted in an effective interest rate of 7.24% on the Canadian dollar equivalent of the US denominated debt of the Company's subsidiary, Cogeco Cable Inc.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***10. Capital Stock****Authorized, an unlimited number**

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

Multiple voting shares, 20 votes per share.

Subordinate voting share, 1 vote per share.

Issued

| | February 28, 2010 | August 31, 2009 |
|--|-------------------|-----------------|
| | \$ | \$ |
| 1,842,860 multiple voting shares | 12 | 12 |
| 14,959,338 subordinate voting shares (14,942,470 at August 31, 2009) | 121,347 | 120,994 |
| | 121,359 | 121,006 |
| 71,862 subordinate voting shares held in trust under the Incentive Share Unit Plan (56,449 at August 31, 2009) | (1,832) | (1,847) |
| | 119,527 | 119,159 |

During the first six months, subordinate voting share transactions were as follows:

| | Number of shares | Amount \$ |
|---|------------------|--------------|
| Balance at August 31, 2009 | 14,942,470 | 120,994 |
| Shares issued for cash under the Employee Stock Option Plan | 16,868 | 353 |
| Balance at February 28, 2010 | 14,959,338 | 121,347 |

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

| | Number of shares | Amount \$ |
|--|------------------|--------------|
| Balance at August 31, 2009 | 56,449 | 1,847 |
| Subordinate voting shares acquired | 41,571 | 1,049 |
| Subordinate voting shares distributed to employees | (26,158) | (1,064) |
| Balance at February 28, 2010 | 71,862 | 1,832 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***10. Capital Stock (continued)****Stock-based plans**

The Company offer, for the benefit of its employees, an Employee Stock Purchase Plan, which has been modified effective January 1st, 2010. The new plan is accessible to all employees up to a maximum of 7% of their base salary and the Company contributes 25% of the employee contributions. The subscriptions are made monthly and employee shares are purchased on the stock market. The Company subsidiary, Cogeco Cable Inc., offer the same plan to its employees and those of its subsidiaries.

The Company and its subsidiary, Cogeco Cable Inc., also offers, for certain executives a Stock Option Plan, which is described in the Company's annual consolidated financial statements. During the first six months of 2010 and 2009, no stock options were granted to employees by COGECO Inc. However, the Company's subsidiary, Cogeco Cable Inc., granted 66,174 stock options (133,381 in 2009) with an exercise price ranging from \$31.82 to \$38.86 (\$34.46 in 2009), of which 33,266 stock options (29,711 in 2009) were granted to COGECO Inc.'s employees. These options vest over a period of five years beginning one year after the day such options are granted and are exercisable over ten years. As a result, a compensation expense of \$219,000 and \$556,000 (\$174,000 and \$275,000 in 2009) was recorded for the three and six month periods ended February 28, 2010.

The fair value of stock options granted by the Company's subsidiary, Cogeco Cable Inc., for the six months period ended February 28, 2010 was \$8.11 (\$8.96 in 2009) per option. The weighted average fair value was estimated at the grant date for purposes of determining stock-based compensation expense using the binomial option pricing model based on the following assumptions:

| | 2010 | 2009 |
|-------------------------|------|------|
| | % | % |
| Expected dividend yield | 1.49 | 1.40 |
| Expected volatility | 29 | 29 |
| Risk-free interest rate | 2.67 | 4.22 |
| Expected life in years | 4.8 | 4.0 |

At February 28, 2010, the Company had outstanding stock options providing for the subscription of 62,782 subordinate voting shares. These stock options can be exercised at various prices ranging from \$20.95 to \$37.50 and at various dates up to October 19, 2011.

Under the Company's Stock Option Plan, the following options were granted and are outstanding as at February 28, 2010:

| | |
|--------------------------------|----------|
| Outstanding, beginning of year | 79,650 |
| Exercised | (16,868) |
| Outstanding, end of year | 62,782 |
| Exercisable, end of year | 62,782 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***10. Capital Stock (continued)**

Under Cogeco Cable Inc.'s Stock Option Plan, the following options were granted and are outstanding as at February 28, 2010:

| | |
|--------------------------------|----------|
| Outstanding, beginning of year | 716,745 |
| Granted | 66,174 |
| Exercised | (10,364) |
| Forfeited / Cancelled | (23,079) |
| Outstanding, end of year | 749,476 |
| Exercisable, end of year | 516,954 |

The Company also offers a senior executive and designated employee incentive share unit plan (the "Incentive Share Unit Plan") which is described in the Company's annual consolidated financial statements. Effective October 29, 2009, the Company's subsidiary, Cogeco Cable Inc., established a similar plan for senior executives and designated employees. During the first six months of 2010, the Company granted 41,571 (17,702 in 2009) and Cogeco Cable Inc. granted 63,666 Incentive Share Units of which, 9,981 Incentive Share Units were granted to Cogeco Inc.'s employees. The Company and its subsidiary instructed the trustee to purchase 41,571 and 55,094 subordinate voting shares on the stock market. These shares were purchased for cash considerations aggregating \$1,049,000 (\$325,000 in 2009) and \$1,744,000, respectively, and are held in trust for participants until they are completely vested. The Trusts, considered as variable interest entities, are consolidated in the Company's financial statements with the value of the acquired shares presented as subordinate voting shares held in trust under the Incentive Share Unit Plan in reduction of capital stock or non-controlling interest. A compensation expense of \$315,000 and \$502,000 (\$130,000 and \$238,000 in 2009) was recorded for the three and six month periods ended February 28, 2010 related to these plans.

Under the Company's Incentive Share Unit Plan, the following Incentive Share Units were granted and are outstanding as at February 28, 2010:

| | |
|--------------------------------|----------|
| Outstanding, beginning of year | 56,449 |
| Granted | 41,571 |
| Distributed | (26,158) |
| Outstanding, end of year | 71,862 |

Under Cogeco Cable Inc.'s Incentive Share Unit Plan, the following Incentive Share Units were granted and are outstanding as at February 28, 2010:

| | |
|--------------------------------|---------|
| Outstanding, beginning of year | — |
| Granted | 63,666 |
| Forfeited / Cancelled | (1,230) |
| Outstanding, end of year | 62,436 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***10. Capital Stock (continued)**

The Company and its subsidiary, Cogeco Cable Inc., offer deferred share unit plans ("DSU Plans") which are described in the Company's annual consolidated financial statements. During the first six months of 2010, 6,987 and 4,422 (11,113 and 6,282 in 2009) deferred share units ("DSUs") were awarded to the participants in connection with the DSU Plans. A compensation expense of \$322,000 and \$506,000 (\$471,000 and \$351,000 in 2009) was recorded for the three and six month periods ended February 28, 2010 for the liabilities related to these plans.

Under the Company's DSU Plan, the following DSUs were awarded and are outstanding as at February 28, 2010:

| | |
|--------------------------------|--------|
| Outstanding, beginning of year | 17,244 |
| Awarded | 6,987 |
| Dividend equivalents | 138 |
| Outstanding, end of year | 24,369 |

Under Cogeco Cable Inc.'s DSU Plan, the following DSUs were awarded and are outstanding as at February 28, 2010:

| | |
|--------------------------------|---------|
| Outstanding, beginning of year | 10,000 |
| Awarded | 4,422 |
| Distributed | (2,181) |
| Dividend equivalents | 82 |
| Outstanding, end of year | 12,323 |

11. Accumulated Other Comprehensive Income

| | Translation of a net investment in self- sustaining foreign subsidiaries \$ | Cash flow hedges \$ | Total \$ |
|-----------------------------------|---|------------------------|-------------|
| Balance as at August 31, 2009 | 7,634 | (1,306) | 6,328 |
| Other comprehensive income (loss) | (1,621) | 667 | (954) |
| Balance as at February 28, 2010 | 6,013 | (639) | 5,374 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***12. Statements of Cash Flows**

a) Changes in non-cash operating items

| | Three months ended February 28, | | Six months ended February 28, | |
|--|---------------------------------|---------|-------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Accounts receivable | (6,186) | 2,695 | (11,680) | (494) |
| Income taxes receivable | (10,485) | (3,637) | (30,999) | (6,522) |
| Prepaid expenses | (190) | (1,163) | (1,295) | 174 |
| Accounts payable and accrued liabilities | 8,869 | 15,646 | (63,920) | (28,998) |
| Income tax liabilities | (51) | 7,416 | (39,275) | (9,585) |
| Deferred and prepaid revenue and other liabilities | 5,210 | (828) | 7,408 | 398 |
| | (2,833) | 20,129 | (139,761) | (45,027) |

b) Cash and cash equivalents

| | February 28, 2010 | August 31, 2009 |
|---------------------------------|-------------------|-----------------|
| | \$ | \$ |
| Cash | 16,732 | 23,760 |
| Cash equivalents ⁽¹⁾ | — | 15,698 |
| | 16,732 | 39,458 |

⁽¹⁾ €10,000,000, 0.67%, maturing on September 14, 2009 at August 31, 2009.

c) Other information

| | Three months ended February 28, | | Six months ended February 28, | |
|---|---------------------------------|--------|-------------------------------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Fixed asset acquisitions through capital leases | — | 322 | 141 | 1,261 |
| Financial expense paid | 10,792 | 12,219 | 31,839 | 33,970 |
| Income taxes paid | 1,679 | 6,479 | 41,196 | 33,395 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***13. Employee Future Benefits**

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

| | Three months ended February 28, | | Six months ended February 28, | |
|--|---------------------------------|--------------|-------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Contributory defined benefit pension plans | 870 | 747 | 1,740 | 1,494 |
| Defined contribution pension plan and collective registered retirement savings plans | 1,112 | 903 | 2,238 | 1,826 |
| | 1,982 | 1,650 | 3,978 | 3,320 |

14. Financial and Capital Management

a) Financial management

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

Credit risk

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

Credit risk from the derivative financial instruments arises from the possibility that counterparties to the cross-currency swap and interest rate swap agreements may default on their obligations in instances where these agreements have positive fair values for the Company. The Company reduces this risk by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. The Company assesses the creditworthiness of the counterparties in order to minimize the risk of counterparties default under the agreements. At February 28, 2010, management believes that the credit risk relating to its derivative financial instruments is minimal, since the lowest credit rating of the counterparties to the agreements is "A".

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

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***14. Financial and Capital Management (continued)**

The Company is also exposed to credit risk in relation to its trade accounts receivable. In the current global economic environment, the Company's credit exposure is higher than usual but it is difficult to predict the impact this could have on the Company's accounts receivable balances. To mitigate such risk, the Company continuously monitors the financial condition of its customers and reviews the credit history or worthiness of each new major customer. At February 28, 2010, no customer balance represents a significant portion of the Company's consolidated trade receivables. The Company establishes an allowance for doubtful accounts based on specific credit risk of its customers by examining such factors as the number of overdue days of the customer's balance outstanding as well as the customer's collection history. The Company believes that its allowance for doubtful accounts is sufficient to cover the related credit risk. The Company has credit policies in place and has established various credit controls, including credit checks, deposits on accounts and advance billing, and has also established procedures to suspend the availability of services when customers have fully utilized approved credit limits or have violated existing payment terms. Since the Company has a large and diversified clientele dispersed throughout its market area in Canada and Europe, there is no significant concentration of credit risk. The following table provides further details on the Company's accounts receivable balances:

| | February 28, 2010 | August 31, 2009 |
|---------------------------------|-------------------|-----------------|
| | \$ | \$ |
| Trade accounts receivable | 86,266 | 75,044 |
| Allowance for doubtful accounts | (16,650) | (17,261) |
| | 69,616 | 57,783 |
| Other accounts receivable | 7,180 | 8,293 |
| | 76,796 | 66,076 |

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

| | February 28, 2010 | August 31, 2009 |
|--|-------------------|-----------------|
| | \$ | \$ |
| Net trade accounts receivable not past due | 50,673 | 43,136 |
| Net trade accounts receivable past due | 18,943 | 14,647 |
| | 69,616 | 57,783 |

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***14. Financial and Capital Management (continued)****Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure and access to different capital markets. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure sufficient liquidity to meet its obligations when due. At February 28, 2010, the available amount of the Company's Term Facilities was \$714.5 million. Management believes that the committed Term Facilities will, until their maturities in July 2011 and December 2011, provide sufficient liquidity to manage its long-term debt maturities and support working capital requirements.

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

| | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter | Total |
|--|---------|---------|---------|------|---------|------------|-----------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Bank indebtedness | 50,045 | — | — | — | — | — | 50,045 |
| Accounts payable and accrued liabilities | 185,186 | — | — | — | — | — | 185,186 |
| Long-term debt ⁽¹⁾ | 37,462 | 135,627 | 178,000 | — | 300,000 | 354,975 | 1,006,064 |
| Derivative financial instruments | | | | | | | |
| Cash outflows (Canadian dollar) | — | — | — | — | — | 201,875 | 201,875 |
| Cash inflows (Canadian dollar equivalent of US dollar) | — | — | — | — | — | (199,975) | (199,975) |
| Obligations under capital leases ⁽²⁾ | 2,182 | 3,339 | 2,324 | 915 | 41 | — | 8,801 |
| | 274,875 | 138,966 | 180,324 | 915 | 300,041 | 356,875 | 1,251,996 |

⁽¹⁾ Principal excluding obligations under capital leases.

⁽²⁾ Including interest.

The following table is a summary of interest payable on long-term debt (excluding interest on capital leases) that is due for each of the next five years and thereafter, based on the principal amount and interest rate prevailing on the current debt at February 28, 2010 and their respective maturities:

| | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter | Total |
|---|---------|----------|----------|----------|----------|------------|----------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Interest payments on long-term debt | 28,782 | 57,059 | 44,245 | 41,964 | 37,502 | 53,009 | 262,561 |
| Interest payments on derivative financial instruments | 9,158 | 17,199 | 14,614 | 14,614 | 14,614 | 15,832 | 86,031 |
| Interest receipts on derivative financial instruments | (7,777) | (15,084) | (13,998) | (13,998) | (13,998) | (15,165) | (80,020) |
| | 30,163 | 59,174 | 44,861 | 42,580 | 38,118 | 53,676 | 268,572 |

COGECO INC.

Notes to Consolidated Financial Statements

February 28, 2010

(unaudited)

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

14. Financial and Capital Management (continued)

Interest rate risk

The Company is exposed to interest rate risks for both fixed interest rate and floating interest rate instruments. Fluctuations in interest rates will have an effect on the valuation and collection or repayment of these instruments. At February 28, 2010, all of the Company's long-term debt was at fixed rate, except for the Company's Term Facilities. However, on January 21, 2009, the Company's subsidiary, Cogeco Cable Inc., entered into a swap agreement with a financial institution to fix the floating benchmark interest rate with respect to the Euro-denominated Term Loan facilities for a notional amount of €111.5 million. The interest swap rate to hedge the Term Loans has been fixed at 2.08% until their maturity on July 28, 2011. The notional value of the swap will decrease in line with the amortization schedule of the Term Loans. In addition to the interest swap rate of 2.08%, the Company's subsidiary will continue to pay the applicable margin on these Term Loans in accordance with the Term Facility. The Company's subsidiary elected to apply cash flow hedge accounting on this derivative financial instrument. The sensitivity of the Company's annual financial expense to a variation of 1% in the interest rate applicable to the Term Facilities is approximately \$0.4 million based on the current debt at February 28, 2010 and taking into consideration the effect of the interest rate swap agreement.

Foreign exchange risk

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

The Company is also exposed to foreign exchange risk on cash and cash equivalents, bank indebtedness and accounts payable denominated in US dollars or Euros. At February 28, 2010, bank indebtedness denominated in US dollars amounted to US\$688,000 (cash and cash equivalents of US\$5,555,000 at August 31, 2009) while accounts payable denominated in US dollars amounted to US\$4,021,000 (US\$14,997,000 at August 31, 2009). At February 28, 2010, Euro-denominated cash and cash equivalents amounted to €19,000 (bank indebtedness of €299,000 at August 31, 2009) while accounts payable denominated in Euros amounted to €12,000 (€26,000 at August 31, 2009). Due to their short-term nature, the risk arising from fluctuations in foreign exchange rates is usually not significant. The impact of a 10% change in the foreign exchange rates (US dollar and Euro) would change financial expense by approximately \$0.5 million.

Furthermore, Cogeco Cable Inc.'s net investment in self-sustaining foreign subsidiaries is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the values of the Canadian dollar versus the Euro. This risk is mitigated since the major part of the purchase price for Cabovisão was borrowed directly in Euros. At February 28, 2010, the net investment amounted to €169,541,000 (€183,220,000 at August 31, 2009) while long-term debt denominated in Euros amounted to €120,772,000 (€135,772,000 at August 31, 2009). The exchange rate used to convert the Euro currency into Canadian dollars for the balance sheet accounts at February 28, 2010 was \$1.433 per Euro compared to \$1.5698 per Euro at August 31, 2009. The impact of a 10% change in the exchange rate of the Euro into Canadian dollars would change financial expense by approximately \$0.4 million and other comprehensive income by approximately \$2.3 million.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***14. Financial and Capital Management (continued)*****Fair value***

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

The carrying values of obligations under capital leases approximate the fair value of these financial instruments due to their terms.

| | February 28, 2010 | | August 31, 2009 | |
|----------------|-------------------|------------|-----------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| | \$ | \$ | \$ | \$ |
| Long-term debt | 1,008,027 | 1,099,692 | 1,063,964 | 1,126,449 |

b) Capital management

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

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

The provisions under the Term Facilities provide for restrictions on the operations and activities of the Company. Generally, the most significant restrictions relate to permitted investments and dividends on multiple and subordinate voting shares, as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense and total indebtedness. At February 28, 2010, and August 31, 2009, the Company was in compliance with all debt covenants and was not subject to any other externally imposed capital requirements.

COGECO INC.**Notes to Consolidated Financial Statements****February 28, 2010***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***14. Financial and Capital Management (continued)**

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

| | February 28, 2010 | August 31, 2009 (restated) |
|--|-------------------|-------------------------------|
| Net indebtedness ⁽¹⁾ / Shareholders' equity | 2.9 | 3.1 |
| Net indebtedness ⁽¹⁾ / Operating income before amortization ⁽²⁾ | 2.0 | 2.0 |
| Operating income before amortization ⁽²⁾ / Financial expense ⁽²⁾ | 8.7 | 7.3 |

⁽¹⁾ Net indebtedness is defined as the total of bank indebtedness, principal on long-term debt and obligations under derivative financial instruments, less cash and cash equivalents.

⁽²⁾ Calculation based on operating income before amortization and financial expense for the last twelve month period ended February 28, 2010, and August 31, 2009.

15. Subsequent event

On March 4, 2010, the Company's subsidiary, Cogeco Cable Inc., issued a letter of credit amounting to €2.2 million to guarantee the payment by Cabovisão of withholding taxes for the 2005 year assessed by the Portuguese tax authorities, which are currently being challenged by Cabovisão. Even though the principal amount in dispute is fully recorded in the books of its subsidiary Cabovisão, the Company's subsidiary, Cogeco Cable Inc., may be required to pay the amount following final judgement, up to a maximum aggregate amount of €2.2 million (\$3.1 million), should Cabovisão fail to pay such required amount.

16. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.