



PRESS RELEASE
For immediate release

**COGECO maintains its cable sector growth
and will invest more in television**

Montréal, July 11, 2005 – Today COGECO Inc. (TSX: CGO) announces financial results for the third quarter of fiscal 2005 ended May 31, 2005 and its preliminary financial outlook for fiscal 2006.

“COGECO is reporting higher net income compared to the same period last year, thanks to excellent results from its cable sector. Though radio operations had tremendous audience ratings, the difficult environment in which TQS operates obliges us to evaluate our forecasts for the media sector downwards for the 2006 fiscal year,” says Mr. Louis Audet, President and CEO of COGECO.

Improving performance indicators in the cable sector

“Cogeco Cable continues to attract new customers, particularly with its digital television and high-speed Internet services. This increased number of customers has a very positive impact on the subsidiary’s revenue and on its operating margin. Cogeco Cable’s contribution to COGECO’s performance remains strong year after year, and we are confident that this trend will continue for fiscal 2005, as well as for 2006,” adds Mr. Audet.

Readjustment in the media sector

“As far as radio is concerned, results should improve significantly due to the excellent audience ratings of our network stations, in progression in their markets. In television, TQS revenues are suffering from declining audience ratings, which continues to face a difficult advertising environment for conventional television. However, the additional investments in programming that are planned for the coming fiscal year should generate ratings in line with our expectations and therefore, should increase our profitability,” concludes Mr. Audet.

FINANCIAL HIGHLIGHTS

(\$000s except percentages and per share data)	Three months ended May 31, (unaudited)			Nine months ended May 31, (unaudited)		
	2005	2004	% Change	2005	2004 ⁽¹⁾	% Change
Revenue	\$ 173,418	\$ 168,392	3.0	\$ 511,395	\$ 493,449	3.6
Operating income before amortization	63,814	59,407	7.4	177,358	158,642	11.8
Net income (loss)	4,964	3,816	30.1	(20,443)	(12,717)	--
Cash flow from operations	\$ 48,699	\$ 44,127	10.4	\$ 134,164	\$ 112,401	19.4
Less:						
Capital expenditures and increase in deferred charges	<u>27,057</u>	<u>26,536</u>	2.0	<u>83,288</u>	<u>71,396</u>	16.7
Free Cash Flow ⁽²⁾	21,642	17,591	23.0	50,876	41,005	24.1
Per share data						
Basic net income (loss)	\$ 0.30	\$ 0.23	30.4	\$ (1.25)	\$ (0.78)	--
Cash flow from operations	2.96	2.70	9.6	8.18	6.88	18.9

- (1) During the third quarter of fiscal 2004, Cogeco Cable, a subsidiary of the Company, adopted new accounting standards regarding revenue recognition and certain related costs and the classification of certain items as revenue or expense. These changes were made on a retroactive basis in accordance with Abstracts 141 and 142 issued by the Canadian Institute of Chartered Accountants' (CICA) Emerging Issues Committee (EIC). See the section "Changes in Accounting Policies" of the Management's Discussion and Analysis in the accompanying interim financial statements for a detailed description.
- (2) Free Cash Flow is defined as cash flow from operations less capital expenditures (including assets acquired under capital leases – as per Note 9 b) in the accompanying financial statements - not reflected in the statements of cash flow) and increase in deferred charges. Free Cash Flow is not a defined term under generally accepted accounting principles and should be treated accordingly.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain statements in this analysis may constitute forward-looking statements that involve risks and uncertainties. Future results will be affected by a number of factors with respect to technology, markets, competition and regulations including factors described in the section "Uncertainties and main risk factors" of this MD&A, the second quarter report of 2005 and the Company's 2004 annual MD&A. Therefore, actual results may be materially different from those expressed or implied by such forward-looking statements.

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

CHANGES IN ACCOUNTING POLICIES

During the third quarter of fiscal 2004, the Company adopted the CICA's EIC Abstracts 141 and 142 issued in December 2003, regarding the timing of revenue recognition and certain related costs and the classification of certain items as revenue or expense. Consequently, COGECO adopted the following changes in the cable sector:

- Installation revenues are now deferred and amortized over the average life of a customer, which is four years. Previously, these revenues were recognized immediately as they were considered as a partial recovery of direct selling costs incurred. Upon billing, the portion of unearned revenue is now recorded as deferred and prepaid income.
- The costs to reconnect customers are now capitalized as deferred charges up to a maximum amount not exceeding the revenue generated by the reconnect activity. Those deferred charges are included in installation revenues, and amortized over the average life of a customer, which is four years. Previously, these costs, which included materials, direct labour and certain overhead charges were capitalized to fixed assets and generally amortized over a period of five years.
- Revenue on the sale of home terminal devices at a subsidized price, which was recorded as a partial recovery of cost, is now recorded as equipment revenue with an equal amount of operating cost.
- The portion of advertising expense incurred to expand the digital and high-speed Internet customer base previously recorded as a deferred charge, is now recorded as an operating cost.

These changes, which impact only the cable sector had the following impact on our financial results for the third quarter and the first nine months of fiscal 2004:

Periods ended May 31, 2004 (\$000s except per share data)	Quarter		Nine months	
	Before restatement	After restatement	Before restatement	After restatement
Revenue	\$ 166,322	\$ 168,392	\$ 487,427	\$ 493,449
Operating income before amortization	60,617	59,407	164,354	158,642
Amortization	32,225	33,323	108,274	111,446
Income taxes	5,762	5,046	42,224	37,501
Non-controlling interest	3,375	2,409	(20,425)	(22,951)
Net income (net loss)	4,442	3,816	(11,082)	(12,717)
Basic net income (net loss) per share	\$ 0.27	\$ 0.23	\$ (0.68)	\$ (0.78)

Amortization of Long-term Assets

In the first quarter of fiscal 2004, the cable sector reviewed the useful life of its digital terminals, cable modems and certain other long-term assets. The useful life of digital terminals was reduced from seven to five years while the useful life of cable modems was reduced from seven to three years. These changes in accounting estimates, applied prospectively, increased amortization expense by \$14 million for the first quarter of fiscal 2004.

Asset Retirement Obligations

In March 2003, the CICA issued Handbook section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Some of the Company's subsidiaries' lease agreements contain provisions requiring the subsidiaries to restore facilities or remove equipment in the event that the lease agreement is not renewed. However, COGECO's subsidiaries expect to renew most of their lease agreements related to their business and, consequently, the liabilities related to the removal provisions on non-renewed leases, if any, are considered not material to the consolidated financial statements. In addition, in the unlikely event that some of these lease agreements are not renewed, the liability would be difficult to estimate since there is a wide range of potential expiration dates for these lease agreements.

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities ("VIE") as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a VIE and who, if anyone, should consolidate the VIE. During the second quarter of fiscal 2005, the Company completed its evaluation and concluded that it had no VIE.

No other significant changes in critical accounting policies and estimates occurred since August 31, 2004 and such policies and estimates are described in the Company's 2004 annual MD&A.

OPERATING RESULTS

Revenue for the third quarter rose by \$5 million, or 3% compared to the same period last year. Cable revenues, driven by improved high-speed Internet access penetration as well as rate hikes, went up by \$7.7 million or 5.8%. Media revenue decreased by \$2.8 million, or 7.7% due to declining audience ratings for TQS and an advertising market that remains difficult for conventional television.

Operating income before amortization climbed by 7.4% for the third quarter compared to the same period last year. The cable sector contributed to an increase of \$7 million while that of the media had a negative impact of \$2.6 million.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

Subsequent to a viewership market share loss in conventional television combined with a shift in conventional television advertising towards specialty channels, impairment tests of goodwill and other intangible assets related to the television operation of the media business unit have been performed at the end of the second quarter. The Company concluded therefore that an impairment existed and consequently wrote-off the \$27.9 million of goodwill and reduced the value of its television broadcasting licenses by \$24.6 million. The impact of the impairment of goodwill and other intangible assets on net income of the first nine months of fiscal 2005 is as follows:

	(\$ 000s)
Impairment of goodwill and other intangible assets	52,531
Income taxes	3,270
Impairment losses net of related income taxes	49,261
Non-controlling interest	19,651
Impairment losses net of related income taxes and non-controlling interest	<u>29,610</u>

FIXED CHARGES

(\$000s except percentages)	Three months ended May 31,			Nine months ended May 31,		
	2005	2004	% Change	2005	2004	% Change
Amortization	\$ 32,783	\$ 33,323	(1.6)	\$ 99,782	\$ 111,446	(10.5)
Financial expense	\$ 14,441	\$ 14,813	(2.5)	\$ 42,918	\$ 45,273	(5.2)

Amortization in the first nine months amounted to \$99.8 million compared to \$97.4 million for the same period last year, excluding the effect of the \$14 million increase in amortization related to a revision in the estimated useful lives of home terminal devices and certain other long-term cable assets during the first nine months. Increased amortization stemmed mainly from capital expenditures linked to digital services.

The decline in financial expense was mainly related to lower levels of Indebtedness (defined as bank indebtedness and long-term debt) during the first nine months compared to the same period last year. The decline in Indebtedness results from generated Free Cash Flow.

INCOME TAXES

Income taxes for the third quarter amounted to \$5.9 million compared to \$5 million for the same period last year. Excluding a non-cash income tax adjustment of \$3.3 million for the impairment of goodwill and other intangible assets of the television operations, income taxes for the first nine months amounted to \$13.6 million compared to \$9.9 million for the same period last year, excluding the effect of non-cash income tax adjustments described below. The income tax increases was mainly attributable to the cable sector's growth in operating income before amortization.

During the first quarter of fiscal 2004, the Ontario government announced that corporate income tax rates would increase to 14% effective January 1, 2004. Prior to this announcement the tax rate was to decline from 11% in 2004 to 8% in 2007. As a result, a \$32.5 million non-cash adjustment was recorded by the cable sector in the first quarter of fiscal 2004 for future income tax liabilities. This amount was partly offset by a non-cash reduction of future income taxes of \$4.9 million in that same quarter. This reduction of future income taxes was related to the decline in carrying value of home terminal devices and certain other long-term assets in the cable sector.

NON-CONTROLLING INTEREST

The non-controlling interest represents a 61% interest in Cogeco Cable's results and a 40% interest in TQS Inc. During the first nine months of fiscal 2005, the non-controlling interest included an adjustment of \$19.7 million for the television's impairment of goodwill and other intangible assets.

NET INCOME (LOSS)

Net income for the third quarter amounted to \$5 million, or \$0.30 per share, compared to a net income of \$3.8 million, or \$0.23 per share for the same period in 2004. The cable sector contributed to this improved profitability. Net loss for the first nine months amounted to \$20.4 million, or \$1.25 per share, compared to \$12.7 million, or \$0.78 per share for the same period last year.

The variances in net loss are essentially explained in the table below.

(\$ million)	Nine months ended May 31,	
	2005	2004
Net loss per financial statements	\$ (20.4)	\$ (12.7)
Adjustments for the following items:		
Change in the Ontario corporate income tax rate ⁽¹⁾	--	12.8
Amortization adjustment related to a change in useful lives of some cable assets ⁽²⁾	--	3.6
Impairment of goodwill and other intangible assets ⁽³⁾	29.6	--
Net income excluding above adjustments	\$ 9.2	\$ 3.7

- (1) Reflects the \$32.5 million non-cash adjustment recorded by the cable sector multiplied by COGECO's 39.3% ownership in Cogeco Cable. See section on "Income Taxes", on page 5, for a detailed description of this adjustment.
- (2) Reflects the \$14 million amortization adjustment partly offset by a \$4.9 million tax impact recorded by the cable sector multiplied by COGECO's 39.3% ownership in Cogeco Cable. See section on "Amortization of Long Term Assets", on page 3, for a detailed description of this adjustment.
- (3) See section on "Impairment of Goodwill and Other Intangible Assets", on page 4, for a detailed description of this adjustment.

CASH FLOW AND LIQUIDITY

(\$000s)	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
Operating Activities				
Cash flow from operations	\$ 48,699	\$ 44,127	\$ 134,164	\$ 112,401
Changes in non-cash working capital items and long-term portion of deferred and prepaid income	1,260	(3,661)	(26,271)	(33,817)
	\$ 49,959	\$ 40,466	\$ 107,893	\$ 78,584
Investing Activities ⁽¹⁾	\$ (25,459)	\$ (25,002)	\$ (81,643)	\$ (69,231)
Financing Activities ⁽¹⁾	\$ (24,500)	\$ (15,464)	\$ (26,250)	\$ (9,353)

- (1) Excludes assets acquired under capital leases and related indebtedness.

For the third quarter, cash flow from operations was greater than last year by \$4.6 million or 10.4% essentially as a result of growth in operating income before amortization in the cable sector. Cash inflows from changes in non-cash working capital items and long-term deferred and prepaid income were greater than the same period last year, mainly due to lower accounts receivable in the third quarter, whereas those components were higher in the same period last year.

Investing activities related to capital expenditures and the increase in deferred charges, including assets acquired under capital leases, rose by \$0.5 million and \$11.9 million during the third quarter and first nine months, respectively. The \$0.7 million and \$5.2 million decline in deferred charges during the third quarter and the first nine months, respectively, is mainly attributable to lower equipment subsidies given that most of the new digital customers have decided to rent their terminals.

During the third quarter and the first nine months, capital expenditures increased by \$1.2 million and \$17.1 million, respectively mainly due to an increase in purchases of digital terminals that are subsequently leased to customers and to increased cable network upgrade and rebuild activities in the third quarter. The higher percentage of customers renting their terminals is mainly attributable to the attractive rental program that was launched in the fourth quarter of the 2004 fiscal year.

Free Cash Flow of \$21.6 million and \$50.9 million was generated during the third quarter and first nine months, respectively, as a result of increased cash flow from operations mostly related to the cable sector partly offset by increased capital expenditures in the same sector.

During the third quarter, Indebtedness declined by \$23.2 million mainly due to generated Free Cash Flow of \$21.6 million and an increase in non-cash working capital items and long-term deferred and prepaid income of \$1.3 million. For the same period last year, Indebtedness declined by \$14.8 million essentially due to generated Free Cash Flow of \$17.6 million partly offset by a decrease of \$3.7 million in non-cash working capital items and long-term deferred and prepaid income. A dividend of \$0.0525 per share for subordinate and multiple voting shares, totaling \$0.9 million, was paid to COGECO's shareholders during the third quarter of fiscal 2005 and fiscal 2004.

During the first nine months, Indebtedness declined by \$23.5 million, mainly due to generated Free Cash Flow of \$50.9 million partly offset by a \$26.3 million decline in non-cash working capital items and long-term deferred and prepaid income. For the same period last year, Indebtedness decreased by \$7.5 million essentially due to Free Cash Flow of \$41 million partly offset by a decline in non-cash working capital items and long-term deferred and prepaid income of \$33.8 million. During the first nine months of fiscal 2005 and 2004, dividends paid to COGECO's shareholders totalled \$2.6 million.

As at May 31, 2005, the cable subsidiary had utilized \$25 million of its \$270 million Term Facility and COGECO had drawn \$21.5 million of its \$40 million Term Facility. Taking into account existing bank covenants, COGECO and Cogeco Cable had access to the entire committed amounts. Going forward, COGECO and Cogeco Cable have sufficient capacity to finance foreseeable growth and expect to continue to generate Free Cash Flow to further reduce their leverage ratios.

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

DIVIDEND DECLARATION

At its July 8, 2005 meeting, the Board of Directors of COGECO declared a quarterly dividend of \$0.0625 per share for subordinate and multiple voting shares, payable on August 5, 2005, to shareholders on record on July 22, 2005. The substantial improvement in cable sector results contributed to the increase in the quarterly dividend, pushing it up from \$0.0525 to \$0.0625 per share.

FINANCIAL POSITION

Since August 31, 2004, significant changes in the balance sheet include broadcasting licenses, goodwill, accounts payable and accrued liabilities, Indebtedness, non-controlling interest and shareholders' equity. Accounts payable and accrued liabilities declined by \$26.7 million as use of working capital was managed steadfastly at fiscal year-end. Indebtedness was reduced by \$21.9 million, mainly due to Free Cash Flow of \$50.9 million, partly offset by a drop of \$26.3 million in non-cash working capital items and in the long-term deferred and prepaid income. As a result of the television's impairment of goodwill and other intangible assets recorded in the second quarter, the following balance sheet items were all adjusted downward:

(\$ 000s)	<u>Adjustment</u>
Broadcasting licenses	\$ 24,606
Goodwill	27,925
	<u>\$ 52,531</u>
Future income taxes	\$ 3,270
Non-controlling interest	19,651
Shareholders' equity	29,610
	<u>\$ 52,531</u>

A description of COGECO's share data as of May 31, 2005 is presented in the table below:

	<u>Number of shares/ options</u>	<u>Amount (\$000s)</u>
Common Shares		
Multiple voting shares	1,849,900	12
Subordinate voting shares	14,600,104	116,155
Options to Purchase Subordinate Voting Shares		
Outstanding options	429,276	
Exercisable options	413,755	

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 have not materially changed since August 31, 2004 and are described in the 2004 annual MD&A.

CABLE SECTOR

Customer Statistics

	<u>May 31, 2005</u>	<u>Net additions (losses)</u>				<u>% Penetration ⁽¹⁾</u>	
		<u>Third Quarter</u>		<u>Nine Months</u>		<u>May 31,</u>	
		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue-generating units ⁽²⁾	1,345,931	7,722	9,633	74,032	77,789		
Basic-service customers	827,324	(3,523)	(3,100)	3,469	5,691		
High-speed Internet customers ⁽³⁾	274,873	5,731	4,593	35,265	39,230	37.6	33.3
Digital terminals ⁽⁴⁾	287,962	8,739	10,375	47,891	40,773	35.5	27.7

(1) As a percentage of basic-service customers in areas served.

(2) Including basic service, Internet service and digital-service customers.

(3) The number of Internet customers of previous quarters has been restated to reflect the number of customers based on the billing dates, which are spread throughout the month, instead of the number of customers as at the end of the quarter. This change produces a downward adjustment of approximately 5,500 customers. However, additions for the year remain unchanged. Customers subscribing only to Internet services amounted to 55,617 as at May 31, 2005 compared to 56,824 as at February 28, 2005.

(4) 73% of terminals as at May 31, 2005 were purchased compared to 85% one year earlier.

Expansion of revenue-generating units in the third quarter was lower than in the same period last year due to strong competition. Digital-service customer growth declined slightly and basic-service customer loss showed a small increase. The basic-service customer loss is mainly attributable to students leaving their campuses at the end of the school year. Cogeco Cable offers its services in several cities with universities and colleges such as Kingston, Windsor, Hamilton, St. Catharines, Peterborough, Trois-Rivières and Rimouski. The addition of high-speed Internet customers in the third quarter was higher than in the same period last year, due to superior promotions and the addition of our *Lite* offering in Québec during the second quarter. Given higher than anticipated high-speed Internet customer additions for the first nine months, Cogeco Cable has raised its 2005 forecasts from 32,000 – 37,000 to 37,000 – 41,000.

During the third quarter, Cogeco Cable improved its video service offer by:

- Introducing in Ontario the “Medley Pack” consisting of 5 new digital channels.
- Adding 6 new digital channels of multi-cultural television, including the Italian news channel RAI.
- Adding 6 new high definition (HD) channels for a total of up to 19 HD channels.

At the beginning of the fourth quarter, Cogeco Cable launched its digital telephony service in its Burlington and Oakville, Ontario, and Trois-Rivières, Québec markets. The planned initial capital expenditures for this service are still \$5 million for fiscal 2005.

Operating Results

	Three months ended May 31,			Nine months ended May 31,		
	2005	2004	% Change	2005	2004	% Change
(\$000s except percentages)						
Revenue	\$ 140,071	\$ 132,364	5.8	\$ 414,226	\$ 393,427	5.3
Operating costs	79,054	78,419	0.8	239,239	236,708	1.1
Management fees - COGECO Inc.	2,707	2,616	3.5	8,186	7,763	5.4
Operating income before amortization	58,310	51,329	13.6	166,801	148,956	12.0
Operating margin	41.6%	38.8%		40.3%	37.9%	

Revenue

Revenue for the third quarter rose by \$7.7 million or 5.8% compared to the same period last year. This growth in the third quarter and for the first nine months is mainly attributable to basic-service customer rate increases and the improved high-speed Internet access penetration rate, as mentioned in the "Customer Statistics" section. Cogeco Cable introduced average monthly rate increases effective June 15, 2004 in Ontario and August 1st, 2004 in Québec of approximately \$0.74 per basic-analog-service customer. A monthly digital basic rate hike of \$4 was implemented in Québec. In addition, the monthly rate for the pay television package rose by \$3, and other limited selective tier service rate increases have been implemented in Ontario.

Operating Costs

During the third quarter and for the first nine months, operating costs, excluding management fees payable to COGECO Inc., increased slightly due to modest increases in IP (Internet Protocol) transport costs for Internet service and affiliation charges for video service offset by a significant drop in the sale of digital terminals.

Customer care expenses increased during the third quarter and during the first nine months due to 6.9% growth in the number of revenue-generating units since May 31, 2004. In addition, since the financial results of the third quarter were higher than anticipated, an increase in the provision for bonuses paid to employees has been accrued.

Operating Income before Amortization

Operating income before amortization improved by 13.6% in the third quarter compared to the same period in fiscal 2004, as a result of revenue growth partly offset by a modest increase in operating expenses. Cogeco Cable's operating margin increased from 38.8% to 41.6%.

Foreign Exchange Management

Cogeco Cable has entered into cross-currency swap agreements to fix the liability for interest and principal payments on its US\$150 million Senior Secured Notes. These agreements have the effect of converting the US interest coupon rate of 6.83% per annum to an average Canadian dollar fixed interest rate of 7.254% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CDN\$1.5910. Amounts due under the US\$150 million Senior Secured Notes Series A increased by CDN\$3.3 million during the third quarter due to the Canadian dollar's depreciation. Since the Senior Secured Notes Series A are fully hedged, the fluctuation is fully offset by a variation in deferred credit described in Note 6 of the third quarter interim financial statements. The \$50.4 million deferred credit represents the difference between the quarter-end exchange rate and the exchange rate on the cross-currency swap agreements, which determines the liability for interest and principal payments on the Senior Secured Notes Series A.

MEDIA SECTOR

Operating Results

	Three months ended May 31,			Nine months ended May 31,		
	2005	2004	% Change	2005	2004	% Change
Revenue	\$ 33,392	\$ 36,160	(7.7)	\$ 97,304	\$ 100,154	(2.8)
Operating costs	28,627	28,762	(0.5)	88,817	92,373	(3.8)
Operating income before amortization	4,765	7,398	(35.6)	8,487	7,781	9.1
Operating margin	14.3%	20.5%		8.7%	7.8%	

Revenue

Radio revenue increased by 25.6% and 22.8% in the third quarter and first nine months, respectively, mainly due to improved fall ratings for the Montréal RYTHME FM station. In addition, the spring results of BBM audience rating measurements, higher in the targeted groups, should lead to further growth of future radio financial results. RYTHME FM ranks No. 1 in the Montreal market. Furthermore, revenue and operating expenses for the Québec City RYTHME FM station were capitalized in fiscal 2004 but not in fiscal 2005.

Television revenue decreased by 11.7% and 5.7% in the third quarter and in the first nine months, respectively due to a decline in TQS's audience ratings and to an advertising market that remains difficult for conventional television.

Operating Income before Amortization

In the third quarter, the decline in operating income before amortization is attributable to the decline in TQS's revenue, despite stable programming and production expenses. On the other hand, operating income before amortization has improved in the first nine months as a result of more targeted television programming and strict cost control.

FINANCIAL GUIDELINES

(\$ million except customer data)	Preliminary Projections Fiscal 2006	Revised Projections in the third quarter Fiscal 2005	Revised Projections in the second quarter Fiscal 2005
Cable Sector			
Financial Guidelines			
Revenue	583 to 588	553 to 554	550 to 555
Operating income before amortization	237 to 242	226	220 to 222
Operating margin	40 to 41%	40 to 41%	About 40%
Financial expense	55	56	56
Amortization	115	122	122
Capital expenditures and deferred charges	132	119	119
Free Cash Flow	49 to 55	45 to 50	45 to 50
Customer Addition Guidelines			
Basic-service	0 to 3,000	0 to 2,500	0 to 2,500
High-speed Internet	32,000 to 37,000	37,000 to 41,000	32,000 to 37,000
Digital terminals	60,000 to 65,000	55,000 to 60,000	55,000 to 60,000
Digital video service	47,000 to 52,000	46,000 to 51,000	46,000 to 51,000
Digital telephony service	7,000 to 8,000	500 to 1,000	NA
Media Sector			
Financial Guidelines			
Revenue	124 to 126	118 to 120	118 to 120
Operating income (loss) before amortization	(2) to (3)	4.5 to 5.5	4.5 to 5.5
Amortization	7	5	5
Capital expenditures and deferred charges	5 to 6	5 to 6	5 to 6
Consolidated Financial Guidelines			
Free Cash Flow	40 to 45	45 to 50	45 to 50
Net income (loss)	11	(20) to (22)	(20) to (22)

Cable Sector

Fiscal 2005 Financial Guidelines

The cable sector is revising its financial projections for the 2005 fiscal year in light of the very favourable third quarter results. Accordingly, revenues have been projected between \$553 million and \$554 million. Furthermore, the operating income before amortization is expected to be higher to reach \$226 million. Moreover, high-speed Internet customer additions have been revised upward.

The June and August 2005 rate increases will not have any significant impact on the fourth quarter results, since billing is spread over a one-month period. Monthly rate increases of at most \$3 per customer and averaging \$0.50 per basic-service customer were announced to take effect on June 15 in Ontario and on August 1 in Québec. As a result of these increases, the basic monthly rate is now \$24.99 in the large majority of networks in Ontario, and the number of different basic rates will drop from 22 to 7, ranging essentially between \$20 and \$27.50 per month, in Québec. The monthly rate for certain bundle services has increased by \$1 in Ontario, and other limited rate increases for selective tier services will be implemented in Québec. On an annual basis, these rate increases should result in additional revenues of approximately \$5 million.

Fiscal 2006 Preliminary Financial Outlook

The increase of approximately 5% to 6% in revenues should result mainly from expanded penetration of high-speed Internet service in 2005 and 2006, with the balance, primarily from the rate increases implemented in June and August, increased penetration of digital services and from the launch of digital telephony. Cogeco Cable plans to expand its basic service clientele through consistently effective marketing, competitive product offers and superior customer service. As the penetration of high-speed Internet service and digital service increases, the demand for these products will likely slow down but should be compensated by increased demand for digital telephony services.

Cogeco Cable expects to achieve an operating margin similar to that of the 2005 fiscal year, i.e. approximately 40 to 41%, despite the launch of digital telephony in most of its networks. Growth in revenues and sustained cost control should help achieve an increase in operating income before amortization of approximately 6% to 7%.

Cogeco Cable expects the amortization of capital assets and deferred charges to fall by \$7 million, mainly due to a reduction in the amortization of subsidies for residential equipments, digital terminals and cable modems. Management expects that the cash flows generated by operations will finance the capital expenditures and the deferred charges, expected to amount to \$132 million. The cable subsidiary expects to generate Free Cash Flow in the order of \$49 to \$55 million, i.e. an increase of approximately \$5 million compared to the forecasts for 2005. An increase in Free Cash Flow is anticipated despite the launch of digital telephony in most of its networks during the 2006 fiscal year. The Free Cash Flow that is generated should be used primarily to reduce Indebtedness, thus improving the Corporation's leverage ratios. Given the anticipated decrease in Indebtedness, the financial expense will likely decline by 1%.

The increase in capital expenditures and in deferred charges compared to the 2005 fiscal year will result primarily from an increase of approximately \$8.5 million associated with the upgrade program, mainly for the expansion of the bandwidth to 750 MHz in Ontario and 550 MHz in Québec. The capital expenditures budget also includes an amount of approximately \$5 million for telephony.

Media Sector

Fiscal 2005 Financial Guidelines

The media sector maintains its financial projections for the 2005 fiscal year, which were restated in the second quarter.

Fiscal 2006 Preliminary Financial Outlook

The media sector expects to record revenue growth of approximately 5%, attributable to radio operations, and a decline in operating income before amortization of approximately \$2.5 million, attributable to television activities.

Given that advertisers are increasingly turning towards specialty channels rather than conventional television, conventional television broadcasters have increased significantly their television programming budgets. Management anticipates that television revenues will stabilize. TQS will invest more in its programming to strengthen its "black sheep" image, particularly in dramatic and reality show productions, in an effort to boost its audience ratings. This additional investment will result in lower operating income before amortization, but is necessary to ensure the future profitability of TQS.

Radio operations should benefit from the favourable BBM ratings recorded in the spring and from the deployment of the RYTHME FM network. Consequently, the operating income before amortization should improve significantly. The financial results of the RYTHME FM radio stations in Sherbrooke and Trois-Rivières, which were launched at the end of the 2004 fiscal year, will no longer be capitalized as start-up activities in the 2006 fiscal year.

Consolidated Financial Outlook

For the 2005 fiscal year, a net loss of approximately \$21 million should be recorded, mainly due to the impairment of goodwill and of other intangible assets associated with television operations, as described earlier. Excluding this impairment, the net income should amount to approximately \$9 million. The net income of approximately \$11 million forecasted for the 2006 fiscal year will be attributable to the cable sector.

For the 2005 fiscal year, the media sector does not expect to generate Free Cash Flows, and, consequently, consolidated Free Cash Flows of \$45 million to \$50 million should be generated. For the 2006 fiscal year, the media sector should record negative Free Cash Flows of approximately \$10 million; and as a result, consolidated Free Cash Flows of \$40 million to \$45 million should be generated.

RISK FACTORS AND UNCERTAINTIES

On June 29, 2005, Cogeco Cable signed two new collective agreements, expired since December 31, 2002, with its technical and office personnel in Québec, which represents 25% of the cable sector's total staff. These new collective agreements will expire on December 31, 2008.

There have been no other significant changes in the risk factors and uncertainties facing COGECO as described in the 2004 annual MD&A and in the 2005 second quarterly report of the Company.

ADDITIONAL INFORMATION

This MD&A was prepared on July 8, 2005. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR Web site at www.sedar.com.

ABOUT COGECO

COGECO is a diversified communications company. Through its Cogeco Cable subsidiary, COGECO provides about 1,346,000 revenue-generating units to approximately 1,440,000 households in its service territory. Through its two-way broadband cable infrastructure, Cogeco Cable provides its residential and commercial customers with analog and digital video and audio services, high-speed Internet access as well as digital telephony service. Through its Cogeco Radio-Television subsidiary, COGECO holds a 60% interest and operates the TQS network, six TQS television stations, and three French CBC affiliated television stations in partnership with CTV Television. Cogeco Radio-Television also wholly owns and operates RYTHME FM radio stations in Montréal, Québec City, Trois-Rivières and Sherbrooke as well as 93³ in Québec City. COGECO's subordinate voting shares are listed on the Toronto Stock Exchange (CGO.SV). The subordinate voting shares of Cogeco Cable are also listed on the Toronto Stock Exchange (CCA.SV).

Source: **COGECO Inc.**
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Information: **Media**
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Director, Corporate Communications
Tel.: (514) 874-2600

Analyst Conference Call: **Monday July 11, 2005, at 11:00 a.m. EDST**
Via the Internet at www.cogeco.ca/investors
Via telephone: 1 800 479-9001 (confirmation code 9584968)
Members of the media are invited to participate in listen mode only.
Re-broadcast of the call available until July 18th: 1-888-203-1112
(confirmation code 9584968)

Supplementary Quarterly Financial Information

Quarters ended <i>(\$000, except percentages and per share data)</i>	May 31,		February 28, February 29,		November 30,		August 31,	
	2005	2004	2005	2004	2004	2003	2004	2003
Revenue	\$173,418	\$168,392	\$166,566	\$158,144	\$171,411	\$166,913	\$154,652	\$150,398
Operating income before amortization	63,814	59,407	54,616	49,021	58,928	50,214	55,862	50,924
<i>Operating margin</i>	36.8%	35.3%	32.8%	31.0%	34.4%	30.1%	36.1%	33.9%
Amortization	32,783	33,323	33,383	33,606	33,616	44,517	33,758	29,815
Financial expense	14,441	14,813	14,237	15,213	14,240	15,247	14,305	15,124
Impairment losses	--	--	52,531	--	--	--	--	--
Income taxes	5,869	5,046	(130)	1,815	4,582	30,640	1,472	2,247
Non-controlling interest	5,603	2,409	(16,940)	(561)	3,256	(24,800)	4,077	1,933
Net income (net loss)	4,964	3,816	(28,524)	(1,142)	3,117	(15,391)	2,117	1,509
Cash flow from operations	48,699	44,127	40,962	33,853	44,503	34,421	43,010	35,597
Net income (net loss) per share								
Basic and diluted	\$0.30	\$0.23	\$(1.74)	\$(0.07)	\$0.19	\$(0.94)	\$0.13	\$0.09

Cable sector operating results are not generally subject to material seasonal fluctuations. However, the loss in basic-service customers is usually greater, and the addition of high-speed Internet customers is generally lower in the third quarter, mainly because students leave their campus at the end of the school year. However, the media sector's operating results may be subject to significant seasonal variations. The revenue depends on audience ratings and the market for conventional radio and television advertising expenditures in the Province of Québec. Advertising sales, mainly national advertising, are normally weaker in the second and fourth quarters and, as a result, the operating margin before amortization is generally lower.

The large net loss of COGECO in the first quarter of fiscal 2004 was attributable to COGECO's 39.3% share of the cable sector's non-cash adjustments for amortization and income taxes totaling \$16.4 million. Those non-cash adjustments are discussed in the "Fixed Charges" and "Income Taxes" sections. The large net loss of COGECO in the second quarter of fiscal 2005 was attributable to COGECO's 60% share of the television's impairment of goodwill and other intangible assets amounting to \$29.6 million. This loss is discussed in the "Impairment of goodwill and other intangible assets" section.

COGECO INC.

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Cable Statistics

	May 31, 2005	August 31, 2004
Homes Passed		
Ontario	982,550	972,964
Québec	457,529	450,292
	1,440,079	1,423,256
Revenue-Generating Units		
Ontario	974,704	917,551
Québec	371,227	354,348
	1,345,931	1,271,899
Basic-Service Customers		
Ontario	587,687	584,686
Québec	239,637	239,169
	827,324	823,855
Discretionary-Service Customers		
Ontario	466,594	463,217
Québec	181,752	178,022
	648,346	641,239
Pay-TV Service Customers		
Ontario	81,680	80,567
Québec	34,400	32,246
	116,080	112,813
High-Speed Internet Service Customers		
Ontario	225,553	198,197
Québec	49,320	41,411
	274,873	239,608
Digital Customers		
Ontario	161,464	134,668
Québec	82,270	73,768
	243,734	208,436
Digital Terminals		
Ontario	199,539	161,731
Québec	88,423	78,340
	287,962	240,071

COGECO INC.
CONSOLIDATED STATEMENTS OF INCOME

<i>(In thousands of dollars, except per share data)</i>	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 173,418	\$ 168,392	\$ 511,395	\$ 493,449
Operating costs	109,604	108,985	334,037	334,807
Operating income before amortization	63,814	59,407	177,358	158,642
Amortization	32,783	33,323	99,782	111,446
Operating income	31,031	26,084	77,576	47,196
Financial expense	14,441	14,813	42,918	45,273
Income before income taxes and the following items	16,590	11,271	34,658	1,923
Impairment of goodwill and other intangible assets (note 5)	-	-	52,531	-
Income taxes (note 3)	5,869	5,046	10,321	37,501
Non-controlling interest	5,603	2,409	(8,081)	(22,951)
Loss on dilution resulting from shares issued by a subsidiary	16	-	108	-
Share in the loss of a company subject to significant influence	138	-	222	90
Net income (loss)	\$ 4,964	\$ 3,816	\$ (20,443)	\$ (12,717)
Earnings (loss) per share (note 8)				
Basic and diluted	\$ 0.30	\$ 0.23	\$ (1.25)	\$ (0.78)

COGECO INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>(In thousands of dollars)</i>	Nine months ended May 31,	
	2005	2004
	(unaudited)	(unaudited)
Balance at beginning		
As previously reported	\$ 209,188	\$ 234,903
Changes in accounting policies (note 2d)	-	(11,650)
As restated	209,188	223,253
Net loss	(20,443)	(12,717)
Excess of price paid over the attributed value of subordinate voting shares redeemed	-	(34)
Dividends on multiple voting shares	(291)	(291)
Dividends on subordinate voting shares	(2,294)	(2,282)
Balance at end	\$ 186,160	\$ 207,929

COGECO INC.
CONSOLIDATED BALANCE SHEETS

<i>(In thousands of dollars)</i>	May 31, 2005	August 31, 2004
	(unaudited)	(audited)
Assets		
Current		
Accounts receivable	\$ 61,372	\$ 57,210
Income tax receivable	-	304
Prepaid expenses	5,595	5,529
Broadcasting rights	27,979	28,428
	94,946	91,471
Investments	137	359
Fixed assets	707,238	716,444
Deferred charges	42,478	50,768
Broadcasting licenses and customer base (note 5)	1,017,892	1,042,498
Goodwill (note 5)	-	27,925
	\$ 1,862,691	\$ 1,929,465
Liabilities and Shareholders' equity		
Liabilities		
Current		
Bank indebtedness	\$ 15,571	\$ 4,551
Accounts payable and accrued liabilities	117,278	143,996
Income tax payable	1,149	-
Deferred and prepaid income	25,035	22,778
Current portion of long-term debt (note 6)	2,629	2,603
	161,662	173,928
Long-term debt (note 6)	739,369	772,332
Deferred and prepaid income	10,763	9,829
Pension plan liabilities and accrued employee benefits	9,854	8,132
Future income tax liabilities	203,015	196,379
Non-controlling interest	435,165	443,818
	1,559,828	1,604,418
Shareholders' equity		
Capital stock (note 7)	116,167	115,621
Retained earnings	186,160	209,188
Contributed surplus - stock-based compensation	536	238
	302,863	325,047
	\$ 1,862,691	\$ 1,929,465

COGECO INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

<i>(In thousands of dollars)</i>	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flow from operating activities				
Net income (loss)	\$ 4,964	\$ 3,816	\$ (20,443)	\$ (12,717)
Items not affecting cash and cash equivalents				
Amortization	32,783	33,323	99,782	111,446
Amortization of deferred financing costs	242	416	861	1,227
Impairment of goodwill and other intangible assets (note 5)	-	-	52,531	-
Future income taxes (note 3)	4,065	3,393	6,636	33,351
Non-controlling interest	5,603	2,409	(8,081)	(22,951)
Other	1,042	770	2,878	2,045
Cash flow from operations	48,699	44,127	134,164	112,401
Changes in non-cash working capital items and long-term deferred and prepaid income (note 9a))	1,260	(3,661)	(26,271)	(33,817)
	49,959	40,466	107,893	78,584
Cash flow from investing activities				
Acquisition of fixed assets (note 9b))	(21,854)	(20,635)	(71,629)	(54,413)
Increase in deferred charges	(3,643)	(4,367)	(10,099)	(15,323)
Other	38	-	85	505
	(25,459)	(25,002)	(81,643)	(69,231)
Cash flow from financing activities				
Increase (decrease) in bank indebtedness	(1,331)	556	11,020	11,339
Increase in long-term debt	-	2,000	58	4,000
Repayment of long-term debt	(21,901)	(17,343)	(34,555)	(22,828)
Issue of subordinate voting shares	-	33	546	384
Purchase of subordinate voting shares for cancellation	-	(55)	-	(61)
Dividends on multiple voting shares	(97)	(97)	(291)	(291)
Dividends on subordinate voting shares	(767)	(762)	(2,294)	(2,282)
Issue of subordinate voting shares by a subsidiary to non-controlling interest, net of issue costs	82	204	722	386
Dividends paid by a subsidiary to non-controlling interest	(486)	-	(1,456)	-
	(24,500)	(15,464)	(26,250)	(9,353)
Net change in cash and cash equivalents and cash and cash equivalents at end	\$ -	\$ -	\$ -	\$ -

See supplemental cash flow information in note 9.

COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2005

(amounts in tables are in thousands of dollars, except 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, contain all adjustments necessary to present fairly the financial position of COGECO Inc. as at May 31, 2005 and August 31, 2004 as well as its results of operations and its cash flow for the three and nine month periods ended May 31, 2005 and 2004.

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. These unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements.

These interim consolidated financial statements have not been subject to a review by the Company's external auditors.

2. Recent accounting pronouncements and changes in accounting policies

a) Asset retirement obligations

In March 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standard applies to legal or contractual obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction, development or normal operations. The standard requires the Company to record the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The standard describes the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. The Company is subsequently required to allocate that asset retirement cost to the expense using a systematic and rational method over the asset's useful life. The standard applies to fiscal years beginning on or after January 1, 2004. Certain of the Company's subsidiaries' lease agreements contain provision requiring them to restore facilities or remove equipment in the event that the lease agreement is not renewed. However, the Company's subsidiaries expect to renew most of their lease agreements related to the continued operation of their business and consequently, the liabilities related to the removal provisions on non-renewed leases, if any, are considered not material to these consolidated financial statements. In addition, in the unlikely event that some of these lease agreements are not renewed, the liability would be difficult to estimate since there is a wide range of potential expiration dates for these lease agreements.

b) Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 («AcG-15»), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a Variable Interest Entity and who, if anyone, should consolidate the Variable Interest Entity. The Guideline applies to all annual and interim periods beginning on or after November 1, 2004. During the second quarter, the Company completed its evaluation and concluded that it has no Variable Interest Entities.

COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2005

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

2. Recent accounting pronouncements and changes in accounting policies (continued)

c) Amortization of long-term assets

In 2003, the Company's subsidiary, Cogeco Cable Inc., reviewed the useful life of its decoders and modems, commonly referred to as home terminal devices, and of certain other long-term assets. The useful life of decoders was changed from seven to five years while the useful life of modems was changed from seven to three years. These changes in accounting estimates, applied prospectively, increased amortization expense by \$14.0 million for the nine month period ended May 31, 2004.

d) Revenue recognition

On December 17, 2003, the Emerging Issues Committee issued EIC-141, *Revenue recognition*, which provides general interpretative guidance on the application of CICA 3400, *Revenue*, and summarizes the principles set forth in «Staff Accounting Bulletin» No. 101 («SAB 101») published in the United States. In addition, EIC-141 also provides additional guidance on the capitalization of direct incremental costs in connection with up-front revenues. At the same time, the committee also issued EIC-142, *Revenue arrangements with multiple deliverables*, which addresses how to determine when an arrangement involving multiple deliverables contains more than one unit of accounting and if so, how the arrangement consideration should be measured and allocated among each separate unit of accounting.

During the third quarter of last fiscal year, the Company's subsidiary, Cogeco Cable Inc., applied these new recommendations and determined that it has multiple revenue arrangements comprised of installation services, sales of home terminal devices and related subscription services. Based on the criteria of EIC-142, the Company's subsidiary determined that the sale of home terminal devices is considered a single unit of accounting of a multiple element arrangement, while installation and related subscription services must be assessed as an integrated package. In addition, certain direct incremental costs in connection with installation revenues may be deferred over the same term as the related revenue. Accordingly, the following changes were adopted retroactively:

- Installation revenues are now deferred and amortized over the average life of a customer subscription, which is four years. Previously, these revenues were recognized immediately as they were considered as a partial recovery of direct selling costs incurred. Upon billing, the portion of unearned revenue is now recorded as deferred and prepaid income;
- The costs to reconnect customers are now recorded as deferred charges up to a maximum amount not exceeding the revenues generated by the reconnect activity, which are included in installation revenues, and amortized over the average life of a customer subscription, which is four years. Previously, these costs, which include materials, direct labour and certain overhead charges were capitalized to fixed assets and generally amortized over a period of five years;
- Revenue from the sale of home terminal devices at a subsidized price, which were recorded as a partial recovery of costs, are now recorded as equipment revenue with an equal amount included in operating costs;
- The portion of advertising expense incurred to expand the digital and high-speed Internet customer base that used to be recorded as deferred charges is now recorded as operating costs.

COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2005

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

2. Recent accounting pronouncements and changes in accounting policies (continued)

These changes have been applied retroactively and had the following impact on the Company's consolidated statements of income for the three and nine month periods ended May 31, 2004:

	Three months ended		Nine months ended	
	May 31, 2004		May 31, 2004	
	Before restatement	After restatement	Before restatement	After restatement
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 166,322	\$ 168,392	\$ 487,427	\$ 493,449
Operating costs	105,705	108,985	323,073	334,807
Amortization	32,225	33,323	108,274	111,446
Income taxes	5,762	5,046	42,224	37,501
Non-controlling interest	3,375	2,409	(20,425)	(22,951)
Net income (loss)	4,442	3,816	(11,082)	(12,717)
Earnings (loss) per share				
Basic and diluted	\$ 0.27	\$ 0.23	\$ (0.68)	\$ (0.78)

Also, retained earnings have been reduced by \$11.7 million as at September 1, 2003 following these changes.

3. Income taxes

	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current	\$ 1,804	\$ 1,653	\$ 3,685	\$ 4,150
Future	4,065	3,393	6,636	33,351
	\$ 5,869	\$ 5,046	\$ 10,321	\$ 37,501

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

	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Income tax at combined income tax rate of 34.15% (32.9% in 2004)	\$ 5,665	\$ 3,704	\$ (6,104)	\$ 473
Loss or income subject to lower or higher tax rates	(9)	213	1,721	690
Increase in income taxes as a result of change in substantially enacted tax rates	-	-	-	32,483
Large corporation tax	397	1,027	1,407	2,979
Income taxes arising from the non-deductible impairment of goodwill and broadcasting licenses	-	-	10,570	-
Impact of non-recognition of future income tax asset on impairment of broadcasting licenses	-	-	2,454	-
Other	(184)	102	273	876
Income tax at effective income tax rate	\$ 5,869	\$ 5,046	\$ 10,321	\$ 37,501

COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2005

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

4. Segmented Information

The Company's activities are divided into two business segments: Cable and Media. The Cable segment is comprised of all cable and high-speed Internet access operations, and the Media segment is comprised of radio and television operations.

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

Three months ended May 31, (unaudited)	Cable		Media		Head Office and eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenue	\$ 140,071	\$ 132,364	\$ 33,392	\$ 36,160	\$ (45)	\$ (132)	\$ 173,418	\$ 168,392
Operating costs	81,761	81,035	28,627	28,762	(784)	(812)	109,604	108,985
Operating income before amortization	58,310	51,329	4,765	7,398	739	680	63,814	59,407
Amortization	31,396	32,070	1,328	1,209	59	44	32,783	33,323
Operating income	26,914	19,259	3,437	6,189	680	636	31,031	26,084
Financial expense	13,954	14,414	140	114	347	285	14,441	14,813
Income taxes	4,715	2,993	799	1,729	355	324	5,869	5,046
Net assets employed ⁽¹⁾	\$ 1,625,255	\$ 1,649,322	\$ 78,640	\$ 131,622	\$ 5,720	\$ 7,136	\$ 1,709,615	\$ 1,788,080
Total assets	1,739,159	1,756,487	116,381	170,262	7,151	8,506	1,862,691	1,935,255
Goodwill	-	-	-	27,925	-	-	-	27,925
Acquisition of fixed assets	20,903	18,624	951	1,984	-	27	21,854	20,635

⁽¹⁾ Total assets less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.

COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2005

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

4. Segmented Information (continued)

Nine months ended May 31, (unaudited)	Cable		Media		Head Office and eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenue	\$ 414,226	\$ 393,427	\$ 97,304	\$ 100,154	\$ (135)	\$ (132)	\$ 511,395	\$ 493,449
Operating costs	247,425	244,471	88,817	92,373	(2,205)	(2,037)	334,037	334,807
Operating income before amortization	166,801	148,956	8,487	7,781	2,070	1,905	177,358	158,642
Amortization	95,628	107,738	3,977	3,606	177	102	99,782	111,446
Operating income	71,173	41,218	4,510	4,175	1,893	1,803	77,576	47,196
Financial expense	41,688	44,086	395	309	835	878	42,918	45,273
Impairment of goodwill and other intangible assets	-	-	52,531	-	-	-	52,531	-
Income taxes	11,800	35,795	738	766	(2,217)	940	10,321	37,501
Net assets employed ⁽¹⁾	\$ 1,625,255	\$ 1,649,322	\$ 78,640	\$ 131,622	\$ 5,720	\$ 7,136	\$ 1,709,615	\$ 1,788,080
Total assets	1,739,159	1,756,487	116,381	170,262	7,151	8,506	1,862,691	1,935,255
Goodwill	-	-	-	27,925	-	-	-	27,925
Acquisition of fixed assets	69,286	50,281	2,293	3,309	50	823	71,629	54,413

⁽¹⁾ Total assets less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.

5. Goodwill and other intangible assets

	Goodwill	Broadcasting licenses	Customer base	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Balance as at August 31, 2004	\$ 27,925	\$ 52,726	\$ 989,772	\$ 1,070,423
Impairment	(27,925)	(24,606)	-	(52,531)
Balance as at May 31, 2005	\$ -	\$ 28,120	\$ 989,772	\$ 1,017,892

In accordance with the recommendations of CICA 3062, *Goodwill and Other Intangible Assets*, impairment tests of the goodwill and the broadcasting licenses related to television operation of the media business unit have been performed during the second quarter, using a valuation approach based on discounted cash flow techniques. The impairment test was necessary following market share losses, emerging business trends and the competitive environment that impact expected future operating results of television. As a result, the Company has recorded a reduction of \$24,606,000 in the carrying value of its broadcasting licenses and written-off its goodwill of \$27,925,000 during the second quarter, based on revised future estimates of its cash flows.

COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2005

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

6. Long-term debt

	Maturity	Interest rate	May 31, 2005	August 31, 2004
			(unaudited)	(audited)
Parent company				
Term Facility	2008 ⁽¹⁾	4.95 % ⁽²⁾	\$ 21,500	\$ 22,000
Subsidiaries				
Term Facility	2007	3.54 ⁽²⁾	25,000	58,000
Senior Secured Debentures Series 1	2009	6.75	150,000	150,000
Senior – Secured Notes				
Series A – US \$150 million	2008	6.83 ⁽³⁾	188,280	196,950
Series B	2011	7.73	175,000	175,000
Second Secured Debentures Series A	2007	8.44	125,000	125,000
Deferred credit ⁽⁴⁾	2008	-	50,370	41,700
Obligations under capital leases	2009	5.87 – 9.11	3,805	3,225
Preferred shares ⁽⁵⁾	2006	-	2,920	2,920
Other	-	-	123	140
			741,998	774,935
Less current portion			2,629	2,603
			\$ 739,369	\$ 772,332

(1) COGECO Inc.'s \$40,000,000 Term Facility has been extended for an additional year in December 2004.

(2) Average interest rate on debt as of May 31, 2005, including stamping fees.

(3) Cross-currency swap agreements have resulted in an effective interest rate of 7.254% on the Canadian dollar equivalent of the U.S. denominated debt.

(4) The deferred credit represents the amount which would have been payable as at May 31, 2005 and August 31, 2004 under cross-currency swaps entered into by the Company's subsidiary, Cogeco Cable Inc., to hedge Senior Secured Notes Series A denominated in US dollars.

(5) 2,920,000 preferred shares, 5.5% cumulative dividend, redeemable and retractable to a maximum of \$1,400,000 annually.

COGECO INC.

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

7. Capital Stock

Authorized, an unlimited number

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

Multiple voting shares, 20 votes per share.

Subordinate voting shares, 1 vote per share.

	May 31, 2005	August 31, 2004
	(unaudited)	(audited)
Issued		
1,849,900 multiple voting shares	\$ 12	\$ 12
14,600,104 subordinate voting shares (14,522,456 as at August 31, 2004)	116,155	115,609
	\$ 116,167	\$ 115,621

During the period, subordinate voting shares transactions were as follows:

	Nine months ended May 31, 2005		Twelve months ended August 31, 2004	
	(unaudited)		(audited)	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning	14,522,456	\$ 115,609	14,465,777	\$ 115,101
Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan	77,648	546	60,079	535
Purchase of shares for cancellation	-	-	(3,400)	(27)
Balance at end	14,600,104	\$ 116,155	14,522,456	\$ 115,609

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

7. Capital Stock (continued)

Stock-based plans

The Company established for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives which are described in the financial statements for the year ended August 31, 2004. During the first three quarters, no stock options were granted to employees by COGECO Inc. However, the Company's subsidiary, Cogeco Cable Inc., granted 140,766 stock options (159,580 in 2004) with an exercise price of \$21.50 (\$15.70 to \$18.12 in 2004) of which 38,397 stock options (48,037 in 2004) were granted to COGECO Inc. employees. The Company records compensation expense for options granted on or after September 1, 2003. As a result, a compensation expense of \$133,000 and \$352,000 (\$63,000 and \$175,000 in 2004) was recorded for the three and nine month periods ended May 31, 2005. If compensation cost had been recognized using the fair value-based method at the grant date for options granted between September 1, 2001 and August 31, 2003, the Company's net income (loss) and earnings (loss) per share for the three and nine month periods ended May 31, 2005 and 2004 would have been reduced (increased) to the following pro forma amounts:

	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)				
As reported	\$ 4,964	\$ 3,816	\$ (20,443)	\$ (12,717)
Pro forma	4,884	3,736	(20,683)	(12,957)
Basic earnings (loss) per share				
As reported	\$ 0.30	\$ 0.23	\$ (1.25)	\$ (0.78)
Pro forma	0.30	0.23	(1.26)	(0.79)
Diluted earnings (loss) per share				
As reported	\$ 0.30	\$ 0.23	\$ (1.25)	\$ (0.78)
Pro forma	0.29	0.23	(1.26)	(0.79)

The fair value of stock options granted by the Company's subsidiary, Cogeco Cable Inc., for the nine month period ended May 31, 2005 was \$7.46 per option (\$6.53 in 2004). The fair value was estimated on the grant date for purposes of determining stock-based compensation expense and pro forma disclosures using the Binomial option pricing model based on the following assumptions:

	2005	2004
Expected dividend yield	1.27 %	1.27 %
Expected volatility	43 %	49 %
Risk-free interest rate	3.70 %	4.04 %
Expected life in years	4.0	3.9

As at May 31, 2005, the Company had outstanding stock options providing for the subscription of 429 276 subordinate voting shares. These stock options can be exercised at various prices ranging from \$6.50 to \$37.50 and at various dates up to October 19, 2011.

TQS Inc., an indirect subsidiary of the Company, also adopted a stock option plan for certain executives and key employees which is described in the financial statements for the year ended August 31, 2004. During the first three quarters, TQS Inc. granted 77,000 stock options (68,426 in 2004). A compensation expense of \$40,000 and \$121,000 was recorded for the three and nine month periods ended May 31, 2005 related to this plan.

COGECO INC.

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

8. Earnings (loss) per share

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

	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	\$ 4,964	\$ 3,816	\$ (20,443)	\$ (12,717)
Weighted average number of multiple voting and subordinate voting shares outstanding	16,450,004	16,353,052	16,409,333	16,339,691
Effect of dilutive stock options ⁽¹⁾	145,668	146,784	-	-
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	16,595,672	16,499,836	16,409,333	16,339,691
Earnings (loss) per share				
Basic and diluted	\$ 0.30	\$ 0.23	\$ (1.25)	\$ (0.78)

(1) The weighted average dilutive potential number of subordinate voting shares, which were antidilutive for the nine month period ended May 31, 2005, amounted to 142,565 shares (137,006 in 2004). Stock options to purchase 43,843 shares (194,876 in 2004) in the three month period ended May 31, 2005 were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the subordinate voting shares and, therefore, the effect would have been antidilutive.

9. Statements of cash flow

a) Changes in non-cash working capital items and long-term deferred and prepaid income

	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Accounts receivable	\$ 2,663	\$ (3,708)	\$ (4,162)	\$ (4,621)
Income tax receivable	773	-	304	40
Prepaid expenses	496	1,120	(66)	392
Broadcasting rights	2,488	4,016	449	1,148
Accounts payable and accrued liabilities	(5,561)	(6,925)	(26,718)	(34,118)
Income tax liabilities	1,149	1,487	1,149	1,505
Deferred and prepaid income	(402)	349	3,191	1,933
Other	(346)	-	(418)	(96)
	\$ 1,260	\$ (3,661)	\$ (26,271)	\$ (33,817)

COGECO INC.

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

9. Statements of cash flow (continued)

b) Other information

	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Fixed assets acquisitions through capital leases	\$ 1,560	\$ 1,534	\$ 1,560	\$ 1,660
Interest paid	16,151	17,444	44,116	47,284
Income taxes paid (refunded)	(118)	166	2,232	2,605

10. Employees future benefits

The Company and its subsidiaries offer their employees defined contributory benefit pension plans, a defined contribution pension plan or a collective registered retirement savings plans which are described in the financial statements for the year ended August 31, 2004. The total expenses related to these plans are as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Defined contributory benefit pension plans	\$ 567	\$ 435	\$ 1,582	\$ 1,297
Defined contribution pension plan and collective registered retirement savings plan	412	328	1,205	1,228
	\$ 979	\$ 763	\$ 2,787	\$ 2,525

11. Comparative figures

Certain comparative figures have been reclassified in order to conform to the presentation adopted in the current period.