



**Press release**  
**For immediate release**

## **Strong performance for COGECO leads to an upward revision of its fiscal 2010 guidelines**

**Montréal, January 13, 2010** – Today, COGECO Inc. (TSX: CGO) (“COGECO” or the “Company”) announced its financial results for the first quarter 2010, ended November 30, 2009.

For the first quarter of fiscal 2010:

- Revenue increased by 6.4% to reach \$328 million;
- Operating income before amortization<sup>(1)</sup> grew by 7.1% to reach \$129.3 million;
- Net income amounted to \$22.7 million. Excluding a favourable income tax adjustment of \$29.8 million related to the reduction of Ontario provincial corporate income tax rates for the cable subsidiary, adjusted net income<sup>(1)</sup> would have amounted to \$13.1 million, an increase of \$2.3 million, or 20.9% compared to \$10.9 million for the same quarter of fiscal 2009;
- Free cash flow<sup>(1)</sup> reached \$67.1 million for the quarter, representing an increase of \$45.4 million when compared to the first quarter of fiscal 2009;
- Operating margin<sup>(1)</sup> for the quarter remained the same as the in the prior year at 39.4% compared to 39.1% for the same quarter of fiscal 2009;
- In the cable sector, revenue-generating units (“RGU”)<sup>(2)</sup> grew by 89,785 net additions in the quarter, for a total of 2,982,023 RGU at November 30, 2009.

“COGECO shows signs of good vitality as the economy begins to recover from the recent turmoil. Cogeco Cable’s financial results for the first quarter of fiscal 2010 exhibit continued RGU, revenue and operating income before amortization progression. Our Canadian operations have grown at a steady pace, as demonstrated by net additions of 63,172 RGU. In our European operations, the first quarter results evidence that our customer base has begun to stabilize as a result of the customer retention and acquisition plans implemented in response to the difficult competitive environment experienced in the prior year, with a growth of 26,613 RGU. As for the radio activities, Rythme FM is still the first choice in Montréal. Announcers and listeners continue to choose our radio stations. In light of these positive results, management has revised most of its guidelines for the 2010 fiscal year. Projected RGU growth, revenue, operating income before amortization, net income and free cash flow have been increased to reflect the favourable financial results generated in the first quarter of the year”, declared Louis Audet, President and CEO of COGECO.

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<sup>(1)</sup> The indicated terms do not have standard 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.

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

## FINANCIAL HIGHLIGHTS

(\$000, except percentages and per share data)	Quarters ended November 30,		Change %
	2009 \$	2008 <sup>(1)</sup> \$	
	(unaudited)	(unaudited)	
Operations			
Revenue	328,003	308,375	6.4
Operating income before amortization <sup>(2)</sup>	129,263	120,711	7.1
Operating margin <sup>(2)</sup>	39.4%	39.1%	-
Operating income	63,562	59,829	6.2
Net income	22,748	10,861	-
Adjusted net income <sup>(2)</sup>	13,128	10,861	20.9
Cash Flow			
Cash flow from operating activities	(1,410)	26,477	-
Cash flow from operations <sup>(2)</sup>	135,518	91,633	47.9
Free cash flow <sup>(2)</sup>	67,131	21,771	-
Financial condition <sup>(3)</sup>			
Total assets	2,673,573	2,670,128	0.1
Indebtedness <sup>(4)</sup>	1,123,375	1,064,542	5.5
Shareholders' Equity	353,483	332,122	6.4
Per Share Data <sup>(5)</sup>			
Earnings per share			
Basic	1.36	0.65	-
Diluted	1.35	0.65	-
Adjusted earnings per share <sup>(2)</sup>			
Basic	0.79	0.65	21.5
Diluted	0.78	0.65	20.0

(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 November 30, 2009 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 press release 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 growth of revenue and operating income before amortization<sup>(1)</sup>, free cash flow<sup>(1)</sup> and revenue-generating units ("RGU")<sup>(2)</sup> growth in order to measure its performance against these objectives for the cable sector. Below are the Company's recent achievements in furthering the corporate objectives.

#### **Cable sector**

During the first quarter of fiscal 2010, Cogeco Cable invested approximately \$28.7 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. Furthermore, Cogeco Cable has maintained its vigilance over operating costs, which increased at the same pace as the growth in revenue despite the increase in operating costs in the European operations related to customer retention strategies put in place in the second half of fiscal 2009.

#### **Other**

Fall's BBM Canada survey conducted with the Portable People Meter ("PPM") shows that Rythme FM has maintained its leadership position with audiences in the adult and female categories in the Montréal and Trois-Rivières markets. The other Rythme FM stations continue to gain market share. Furthermore, the FM 93 station in Québec City has preserved its position as the preferred station in this very competitive market.

#### **RGU growth and service offerings in the cable sector**

During the first three months ended November 30, 2009, the number of RGU increased by 89,785, or 3.1%, to reach 2,982,023 RGU, in line to surpass Cogeco Cable's RGU growth projections of 125,000 net additions issued on October 29, 2009. In light of this performance, management has revised its guidelines and RGU growth is now expected to reach 150,000 net additions for the fiscal year ended August 31, 2010, representing an increase of 5% when compared to the prior year. Please consult the revised projections in the "Fiscal 2010 financial guidelines" section for further details.

#### **Revenue, operating income before amortization**

For the first quarter of fiscal 2010, revenue increased by \$19.6 million, or 6.4%, to reach \$328 million while operating income before amortization grew by \$8.6 million, or 7.1%, to reach \$129.3 million. Given the improved performance, management expects to attain \$1,325 million for the 2010 fiscal year, which represents an increase of \$40 million when compared to the projections of \$1,285 million issued on October 29, 2009. Management expects to achieve an operating income before amortization of \$512 million for the fiscal year, \$26 million higher than the amount of \$486 million projected on October 29, 2009. Please consult the revised projections in the "Fiscal 2010 financial guidelines" section for further details.

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

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

### Free cash flow

In the first three months of fiscal 2010, COGECO generated free cash flow of \$67.1 million compared to \$21.8 million for the same period last year. Free cash flow growth results mainly from the cable sector and is due to an increase in cash flow from operations<sup>(1)</sup>, including the reduction in current income taxes stemming from modifications made to the corporate structure and by the decrease in capital expenditures. Management has revised its free cash flow guidelines to \$140 million for the 2010 fiscal year, an increase of \$10 million, or 7.7%, when compared to the guideline of \$130 million issued on October 29, 2009. Please consult the revised projections in the “Fiscal 2010 financial guidelines” section for further details.

### OPERATING RESULTS – CONSOLIDATED OVERVIEW

(\$000, except percentages)	Quarters ended November 30,		
	2009	2008 <sup>(1)</sup>	Change
	\$	\$	%
	(unaudited)	(unaudited)	
Revenue	328,003	308,375	6.4
Operating costs	198,740	187,664	5.9
Operating income before amortization	129,263	120,711	7.1
Operating margin <sup>(2)</sup>	39.4%	39.1%	

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

### Revenue

Fiscal 2010 first-quarter revenue improved, mainly in its cable sector, by \$19.6 million, or 6.4%, to reach \$328 million. Cable revenue, driven by increased RGU, the introduction of HSI usage billing and rate increases implemented at the end of fiscal 2009 in its Canadian operations, went up by \$17.9 million, or 6% over the comparable period of the prior year. Canadian cable operations revenue increased by \$27 million, or 11.4%, compared to the same period of last year. The increase in revenue for the cable sector has however been limited by its European operations whose revenue decreased by \$9.1 million, or 14.6%, compared to the same period of the prior year, mainly due to a lower number of Basic Cable service customers compared to the same period of last year and to the impact of retention strategies implemented in the second half of fiscal 2009 in order to reduce customer attrition, partly offset by the strength of the Euro compared to the Canadian dollar. First-quarter revenue from the European operations in the local currency amounted to €33.7 million, a decrease of €6.5 million, or 16.1% compared to the same period of the prior year.

### Operating costs

For the first three months of fiscal 2010, operating costs increased by \$11.1 million to reach \$198.7 million, an increase of 5.9% compared to the prior year, mainly due to the cable sector. Operating costs in the Canadian operations increased due to the servicing of additional RGU and 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 a new Local Programming Improvement Fund (“LPIF”) for the benefit of conventional television broadcasters operating local stations. In Europe, operating costs increased due to marketing initiatives, including the launch of new channels, and the appreciation of the Euro over the Canadian dollar, partly offset by cost reduction initiatives, such as a headcount reduction plan.

<sup>(1)</sup> 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 income before amortization and operating margin

Operating income before amortization grew, essentially in its cable segment, by \$8.6 million, or 7.1%, to reach \$129.3 million in the first quarter of fiscal 2010 compared to the corresponding period of the prior year. The cable sector contributed to the growth by \$6.9 million during the first quarter of the fiscal year. COGECO's first quarter operating margin increased to 39.4%, from 39.1% for the same period of the prior year.

### FIXED CHARGES

(\$000, except percentages)	Quarters ended November 30,		
	2009 \$ (unaudited)	2008 <sup>(1)</sup> \$ (unaudited)	Change %
Amortization	65,701	60,882	7.9
Financial expense	16,277	23,778	(31.5)

<sup>(1)</sup> 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.

First-quarter 2010 amortization amounted to \$65.7 million, compared to \$60.9 million for the same period of the prior year. The increase is mainly due to the cable sector and attributable to additional capital expenditures arising from customer premise equipment acquisitions to sustain RGU and to the appreciation of the Euro currency over the Canadian dollar.

First-quarter financial expense amounted to \$16.3 million compared to \$23.8 million in the first quarter of the prior year. The financial expense of the current quarter includes a foreign exchange gain of \$0.5 million, compared to a foreign exchange loss of \$3.8 million in the prior year. The loss in the prior year was essentially due to the unusually high US dollar volatility, as the majority of customer premise equipment is purchased and subsequently paid in US dollars. The remaining decrease of \$3.2 million is mainly attributable to the cable sector and is 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 quarter of the previous fiscal year.

### INCOME TAXES

Fiscal 2010 first-quarter income tax recovery amounted to \$13.8 million which includes, in the cable sector, the impact 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 three months of fiscal 2010. Excluding the effect of this reduction, income tax expense would have amounted to \$16 million for the first three months of fiscal 2010, compared to \$9.6 million for the same period of last year. The increase in income tax expense in fiscal 2010 is mainly due to the improvement in operating income before amortization surpassing that of the 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 first quarter of fiscal 2010, the income attributable to non-controlling interest amounted to \$38.4 million due to the strong cable sector's results. The non-controlling interest for the comparable period of last year amounted to \$15.5 million.

## NET INCOME

Fiscal 2010 first quarter net income amounted to \$22.7 million, or \$1.36 per share. Net income for the first quarter of fiscal 2010 includes the favourable impact in the cable sector of \$29.8 million from the reduction of Ontario provincial corporate income tax rates described above. Excluding the impact of the income tax adjustments, adjusted net income<sup>(1)</sup> would have amounted to \$13.1 million, or \$0.79 per share<sup>(1)</sup>, compared to \$10.9 million, or \$0.65 per share in the prior year, representing increases of 20.9% and 21.5%, respectively. Please consult the “Non-GAAP financial measures” section for further details. Net income progression for the quarter has resulted from the growth of the financial results in the Canadian operations of the cable sector, partly offset by the decline in the financial results of the European operations of the cable sector as previously discussed.

## CASH FLOW AND LIQUIDITY

(\$000)	Quarters ended November 30,	
	2009	2008 <sup>(1)</sup>
	\$	\$
	(unaudited)	(unaudited)
<b>Operating activities</b>		
Cash flow from operations <sup>(2)</sup>	135,518	91,633
Changes in non-cash operating items	(136,928)	(65,156)
	(1,410)	26,477
<b>Investing activities<sup>(3)</sup></b>	(68,226)	(68,907)
<b>Financing activities<sup>(3)</sup></b>	47,453	38,776
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	202	687
<b>Net change in cash and cash equivalents</b>	(21,981)	(2,967)
Cash and cash equivalents, beginning of period	39,458	37,472
Cash and cash equivalents, end of period	17,477	34,505

<sup>(1)</sup> 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.

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

<sup>(3)</sup> Excludes assets acquired under capital leases.

Fiscal 2010 first quarter cash flow from operations reached \$135.5 million, 47.9% higher than the comparable period last year, primarily due to the cable sector and attributable to the reduction in current income taxes stemming from modifications made to the corporate structure, the increase in operating income before amortization and the reduction in financial expense. Changes in non-cash operating items required cash outflows of \$136.9 million, mainly as a result of decreases in accounts payable and accrued liabilities and income tax liabilities and an increase in income taxes receivable. In the prior year, the cash outflows of \$65.2 million were mainly the result of a decrease in accounts payable and accrued liabilities and in income tax liabilities. The significant decreases in income tax liabilities in both fiscal years are due to payments made during the first quarter of the current year related to the prior fiscal year.

In the first quarter of fiscal 2010, total capital expenditures amounted to \$65.2 million, essentially the same when compared to \$65.7 million for the corresponding period of last year. The most significant variations are due to the following factors:

- A decrease in support capital spending as the prior year included the acquisition of a power generator for the Canadian data communications subsidiary;
- An increase in customer premise equipment spending which reflects higher RGU growth and the appreciation of the Euro over the Canadian dollar.

Deferred charges and others are mainly attributable to reconnect costs. For the first quarter, the increase in deferred charges and others amounted to \$3 million, essentially the same when compared to \$3.2 million for the same period of the prior year.

<sup>(1)</sup> 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 first quarter, COGECO generated free cash flows of \$67.1 million compared to \$21.8 million in the prior year, representing an increase of \$45.4 million. The growth in free cash flow for the quarter is mainly due to an increase in cash flow from operations, including the reduction in current income taxes stemming from modifications made to the corporate structure and the decrease in capital expenditures in the cable sector. The aggregate amount of total capital expenditures and deferred charges and others decreased by \$1.5 million for the quarter ended November 30, 2009 compared to the corresponding period of the prior year due to the factors explained above.

In the first quarter of 2010, Indebtedness affecting cash increased by \$56.5 million mainly due to the decrease in non-cash operating items of \$136.9 million and the aggregate dividend payments of \$6.3 million described below, partly offset by the free cash flow of \$67.1 million and the decrease in cash and cash equivalents of \$22 million. Indebtedness mainly increased through an increase of \$46.3 million in bank indebtedness and a net amount of \$14.9 million drawn on the Cogeco Cable's revolving loans. In the first quarter of 2009, Indebtedness affecting cash increased by \$43.8 million due to the reduction of non-cash operating items of \$65.2 million, partly offset by the free cash flow of \$21.8 million. Indebtedness was increased through the issuance by Cogeco Cable of Senior Secured Notes, Series A and Series B, for net proceeds of approximately \$255 million, net of the repayment of US\$150 million Senior Secured Notes Series A and the related derivative financial instrument for a total of \$238.7 million, and by an increase of \$23.5 million in bank indebtedness.

During the first 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 first quarter of fiscal 2010 amounted to \$4.6 million, for consolidated dividend payments of \$6.3 million.

As at November 30, 2009, the Company had a working capital deficiency of \$197.2 million compared to \$245.8 million as at August 31, 2009. The decrease in the deficiency is mainly attributable to the cable sector and due to the reduction in accounts payable and accrued liabilities stemming from the timing of payments made to suppliers 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 made 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 the modifications made 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 Cogeco Cable to use cash and cash equivalents to reduce Indebtedness.

At November 30, 2009, Cogeco Cable had used \$268.6 million of its \$862.5 million Term Facility for a remaining availability of \$593.9 million and the Company had drawn \$7.7 million of its \$50 million Term Facility, for a remaining availability of \$42.3 million.

On October 1, 2008, the Cogeco Cable completed, pursuant to a private placement, the issuance of US\$190 million Senior Secured Notes Series A maturing October 1, 2015, and \$55 million Senior Secured Notes Series B maturing October 1, 2018. The Senior Secured Notes Series B bear interest at the coupon rate of 7.60% per annum, payable semi-annually. The Cogeco Cable has entered into cross-currency swap agreements to fix the liability for interest and principal payments on the Senior Secured Notes Series A in the amount of US\$190 million, which bear interest at the coupon rate of 7.00% per annum, payable semi-annually. Taking into account these agreements, the effective interest rate on the Senior Secured Notes Series A is 7.24% and the exchange rate applicable to the principal portion of the US dollar-denominated debt has been fixed at \$1.0625 per US dollar.

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 payable and accrued liabilities", "income taxes receivable", "income tax liabilities", "future income tax liabilities", "fixed assets", "bank indebtedness", "long-term debt", "derivative financial instruments" and "cash and cash equivalents".

The \$72.1 million decrease in accounts payable and accrued liabilities is related to the timing of payments made to suppliers mostly in the cable sector. The increases of \$20.5 million in income taxes receivable and \$20.2 million in the current portion of future income tax liabilities are mainly due to modifications made to the corporate structure in the cable sector. The \$39.2 million decrease in income tax liabilities is due to income tax payments made in the first quarter of the 2010 fiscal year relating to the 2009 fiscal year in the cable sector. The \$17.8 million decrease in long-term future income tax liabilities is mainly due to reduction, in the cable sector, of Ontario provincial corporate income tax rates. The \$6.3 million increase in fixed assets is mainly related to capital expenditures to sustain RGU growth in the cable sector. The increases of \$46.3 million in bank indebtedness, \$5.3 million in long-term debt and \$5.9 million in net derivative financial instrument liabilities and the decrease of \$22 million in cash and cash equivalents are due to the factors previously discussed in the “Cash Flow and Liquidity” section and the fluctuations in foreign exchange and interest rates.

A description of COGECO’s share data as at December 31, 2009 is presented in the table below:

	Number of shares/options	Amount (\$000)
<b>Common shares</b>		
Multiple voting shares	1,842,860	12
Subordinate voting shares	14,942,470	120,994
<b>Options to purchase subordinate voting shares</b>		
Outstanding options	79,650	
Exercisable options	79,650	

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.

## DIVIDEND DECLARATION

At its January 12, 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 February 9, 2010, to shareholders of record on January 26, 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 November 30, 2009. 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 three months of the fiscal year, the fair value of interest rate swap decreased by \$0.1 million, which is recorded as a decrease of other comprehensive income net of income taxes.

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 quarter of the 2010 fiscal year, amounts due under the US\$190 million Senior Secured Notes Series A decreased by \$7.5 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 \$5.8 million, of which \$7.5 million offsets the foreign exchange gain on the debt denominated in US dollars. The difference of \$1.7 million was recorded as an increase of other comprehensive income, net of income taxes of \$1.1 million.

Cogeco Cable's net investment in the self-sustaining foreign subsidiary, Cabovisão – Televisão por Cabo, S.A. ("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 gain of \$0.6 million in the first three months of fiscal 2010, which is presented in other comprehensive income. The exchange rate used to convert the Euro into Canadian dollars for the balance sheet accounts at November 30, 2009 was \$1.5852 per Euro compared to \$1.5698 per Euro at August 31, 2009. The average exchange rate prevailing during the first quarter used to convert the operating results of the European operations was \$1.5732 per Euro, compared to \$1.5462 per Euro for the same period 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 nine months ended November 30, 2009:

Quarter ended November 30, 2009 <i>(\$000)</i>	As reported \$ (unaudited)	Exchange rate impact \$ (unaudited)
Revenue	53,005	5,301
Operating income before amortization	10,176	1,018

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 13 of the consolidated financial statements for further details.

## CABLE SECTOR

### CUSTOMER STATISTICS

	November 30, 2009	Net additions		% of Penetration <sup>(1)</sup>	
		Quarters ended November 30, 2009	2008	November 30, 2009	2008
RGU	2,982,023	89,785	52,714	-	-
Basic Cable service customers	1,132,642	8,357	798	-	-
HSI service customers	681,381	22,715	14,300	62.8	58.1
Digital Television service customers	633,371	32,220	23,617	56.6	43.0
Telephony service customers	534,629	26,493	13,999	50.8	45.9

<sup>(1)</sup> As a percentage of Basic Cable service customers in areas served.

In the cable sector, first quarter RGU net additions were higher than for the same period of last year with a growth of 89,785 compared to 52,714.

The Canadian operations' net additions to RGU of 63,172 were essentially the same as compared to 65,463 for the same period of the prior year, and continue to generate RGU growth despite early signs of maturation of some of its services. The number of net additions for Basic Cable service customers stood at 8,919 compared to 8,833 for the same period of the prior year, mainly due to the beginning of the school year for college and university students and from expansions in the network. Telephony service customers grew by 20,641 compared to 18,901 for the same period last year, and the number of net additions to HSI service stood at 17,506 customers for the quarter, compared to 19,509 customers 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. Telephony service coverage, as a percentage of homes passed, is now above 90% compared to 87% at November 30, 2008. The Digital Television service net additions stood at 16,106 customers compared to 18,220 customers for the first quarter, and are due to targeted marketing initiatives to improve penetration and to the continuing strong interest for HD television service.

The European operations net additions have 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 economic environment in the Iberian Peninsula throughout the previous fiscal year. The RGU net additions for the first three months of fiscal 2010 amounted to 26,613 compared to net losses of 12,749 for the same period of the previous year. Basic Cable service customers decreased by 562 customers compared to a decrease of 8,035 customers in the comparable period of the prior year. HSI service customers increased by 5,209 customers compared to a decrease of 5,209 customers in the first three months of fiscal 2009. The number of Digital Television service customers grew by 16,114 customers in the first quarter of the current fiscal year compared to 5,397 customers in the first quarter of the prior year. Telephony service customers increased by 5,852 customers compared to a loss of 4,902 customers for the same period of the preceding year.

## OPERATING RESULTS

(\$000, except percentages)	Quarters ended November 30,		
	2009 \$ (unaudited)	2008 <sup>(1)</sup> \$ (unaudited)	Change %
Revenue	317,365	299,438	6.0
Operating costs	188,418	177,727	6.0
Management fees – COGECO Inc.	6,341	5,981	6.0
Operating income from before amortization	122,606	115,730	5.9
Operating margin	38.6%	38.6%	

<sup>(1)</sup> 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 first-quarter revenue improved by \$17.9 million, or 6%, to reach \$317.4 million when compared to the prior year. Driven by the introduction of HSI usage billing, RGU growth and the impact of rate increases implemented in the second half of fiscal 2009 in Ontario, first quarter Canadian operations revenue went up by \$27 million, or 11.4% over the comparable period of the prior year.

Fiscal 2010 first-quarter European operations revenue decreased by \$9.1 million, or 14.6%, at \$53 million, compared to the same period of the prior year, mainly due to lower Basic Cable service customers compared to the same period of last year and to the impact of retention strategies implemented in the second half of fiscal 2009 in order to reduce customer attrition, partly offset by the strength of the Euro compared to the Canadian dollar. Revenue from the European operations in the local currency for the first quarter amounted to €33.7 million, a decrease of €6.5 million, or 16.1%.

### Operating costs

For the first three months of fiscal 2010, operating costs, excluding management fees payable to COGECO Inc., increased by \$10.7 million to reach \$188.4 million, an increase of 6% compared to the prior year. Operating costs increased due to the servicing of additional RGU and the additional levy amounting to 1.5% of gross Cable Television service revenue imposed by the CRTC in order to finance a new LPIF for the benefit of conventional television broadcasters operating local stations in Canada, and in Europe, due to marketing initiatives, including the launch of new channels, and the appreciation of the Euro over the Canadian dollar, partly offset by cost reduction initiatives, such as a headcount reduction plan.

### Operating income before amortization and operating margin

Fiscal 2010 first quarter operating income before amortization increased by \$6.9 million, or 5.9%, to reach \$122.6 million, as a result of RGU growth and rate adjustments generating additional revenues which outpaced operating cost increases in the first three months of the year. Cogeco Cable's first quarter operating margin remained the same when compared to the prior year, amounting to 38.6%. The operating margin in Canada improved to 42.5% from 40% which offset the decrease in the European operating margin to 19.2% from 33.5%.

## FISCAL 2010 FINANCIAL GUIDELINES

Given the improved performance of the Company during the first quarter, the expected trend for fiscal 2010 and the Ontario provincial corporate income tax rate reductions announced on March 26, 2009 and considered substantively enacted on November 16, 2009, management has revised most of its guidelines for the 2010 fiscal year. The Company now expects revenue to attain \$1,325 million and operating income before amortization should reach \$512 million. Free cash flow should generate approximately \$140 million and net income of approximately \$45 million should be achieved.

### Consolidated

	Revised Projections January 12, 2010 Fiscal 2010	Projections October 29, 2009 Fiscal 2010
<i>(in millions of dollars)</i>	\$	\$
<b>Financial guidelines</b>		
Revenue	1,325	1,285
Operating income before amortization	512	486
Financial expense	69	70
Current income taxes	(40)	(55)
Net income	45	30
Capital expenditures and increase in deferred charges	341	341
Free cash flow	140	130

### Cable sector

Cogeco Cable has revised upwards its guidelines to reflect the HSI usage billing and to charge back the LPIF costs to its Canadian Cable Television service customers. RGU growth should also increase due to the continued demand for cable telecommunications services. In addition, the projected foreign currency exchange rate from the Euro to the Canadian dollar is revised upwards. During the last segment of fiscal 2009, Cabovisão launched new channels and implemented retention strategies, which combined with new marketing and other operating initiatives, have helped reduce customer attrition since their implementation. However, Cabovisão is still facing fierce competition in the Portuguese market.

Subsequent to these adjustments, projected revenue and operating income before amortization were revised upwards. The increase in projected revenue from \$1,250 million to \$1,290 million should come from both the Canadian and European operations. The operating income before amortization should increase to \$505 million from \$481 million and, as a result, operating margin should increase to 39.1% from 38.5%.

As a result of the revised projections, free cash flow is now expected to reach \$135 million from the \$125 million initially projected.

	Revised Projections January 12, 2010 Fiscal 2010	Projections October 29, 2009 Fiscal 2010
<i>(in millions of dollars, except RGU growth and operating margin)</i>		
<b>Financial guidelines</b>		
Revenue	1,290	1,250
Operating income before amortization	505	481
Operating margin	39.1%	38.5%
Amortization	273	273
Financial expense	69	70
Current income taxes	(40)	(55)
Capital expenditures and increase in deferred charges	341	341
Free cash flow	135	125
RGU growth	150,000	125,000

The exchange rate used for the fiscal 2010 revised projections is \$1.55 per Euro compared to \$1.50 per Euro for the October 29, 2009 projections.

## 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 November 30, 2009, and have concluded that they were adequate.

## UNCERTAINTIES AND MAIN RISK FACTORS

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

## 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*

<i>Increase (decrease)</i> <i>(\$000)</i>	Quarter ended November 30, 2008 \$ (unaudited)
Operating costs	3,993
Amortization of deferred charges	(3,181)
Future income tax expense	(209)
Non-controlling interest	(411)
Net income	(192)

Consolidated balance sheets

Increase (decrease) (\$000)	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***

Throughout the quarter, the Company has continued its project for the transition from Canadian GAAP to International Financial Reporting Standards ("IFRS"). The conversion project 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 November 30,	
	2009	2008 <sup>(1)</sup>
	\$	\$
	(unaudited)	(unaudited)
Cash flow from operating activities	(1,410)	26,477
Changes in non-cash operating items	136,928	65,156
Cash flow from operations	135,518	91,633

Free cash flow is calculated as follows:

(\$000)	Quarters ended November 30,	
	2009 \$ (unaudited)	2008 <sup>(1)</sup> \$ (unaudited)
Cash flow from operations	135,518	91,633
Acquisition of fixed assets	(65,182)	(65,709)
Increase in deferred charges	(3,064)	(3,214)
Assets acquired under capital leases – as per note 11 c)	(141)	(939)
<b>Free cash flow</b>	<b>67,131</b>	<b>21,771</b>

<sup>(1)</sup> 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 left over, 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 November 30,	
	2009 \$ (unaudited)	2008 <sup>(1)</sup> \$ (unaudited)
Operating income	63,562	59,829
Amortization	65,701	60,882
<b>Operating income before amortization</b>	<b>129,263</b>	<b>120,711</b>
Revenue	328,003	308,375
<b>Operating margin</b>	<b>39.4%</b>	<b>39.1%</b>

<sup>(1)</sup> 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:

<i>(\$000)</i>	Quarters ended November 30,	
	2009 \$	2008 <sup>(1)</sup> \$
	(unaudited)	(unaudited)
Net income	22,748	10,861
Adjustment for the reduction of Ontario provincial corporate income tax rates	(9,620)	-
<b>Adjusted net income</b>	<b>13,128</b>	<b>10,861</b>
Weighted average number of multiple voting and subordinate voting shares outstanding	16,721,277	16,701,699
Effect of dilutive stock options	6,594	20,386
Effect of dilutive incentive share units	64,053	38,747
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	16,791,924	16,760,832
<b>Adjusted earnings per share</b>		
Basic	0.79	0.65
Diluted	0.78	0.65

<sup>(1)</sup> 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.

**ADDITIONAL INFORMATION**

This MD&A was prepared on January 12, 2010. Additional information relating to the Company, including its Annual Information Form, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

**ABOUT COGECO**

COGECO is a diversified communications company. Through its Cogeco Cable subsidiary, COGECO provides its residential customers with Audio, Analogue and Digital Television, as well as HSI and Telephony services using its two-way broadband cable networks. Cogeco Cable also provides, to its commercial customers, data networking, e-business applications, video conferencing, hosting services, Ethernet, private line, VoIP, HSI access, dark fibre, data storage, data security and co-location services and other advanced communication solutions. Through its subsidiary, Cogeco Diffusion Inc., COGECO owns and operates the Rythme FM radio stations in Montréal, Québec City, Trois-Rivières and Sherbrooke, as well as the FM 93 radio station in Québec City. COGECO's subordinate voting shares are listed on the Toronto Stock Exchange (TSX: CGO). The subordinate voting shares of Cogeco Cable are also listed on the Toronto Stock Exchange (TSX: CCA).

**Source:** **COGECO Inc.**  
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Marie Carrier  
Director, Corporate Communications  
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**Analyst Conference Call:** **Wednesday, January 13, 2010 at 11:00 A.M. (EST)**  
Media representatives may attend as listeners only.

Please use the following dial-in number to have access to the conference call by dialling five minutes before the start of the conference:

Canada/USA Access Number: 1 888 300-0053  
International Access Number: + 1 647 427-3420  
Confirmation Code: 5342110  
By Internet at [www.cogeco.ca/investors](http://www.cogeco.ca/investors)

A rebroadcast of the conference call will be available until January 20, by dialling:  
Canada and USA access number: 1 800 642-1687  
International access number: + 1 706 645-9291  
Confirmation code: 5342110

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

Quarters ended	November 30,		August 31,		May 31,		February 28 / 29,	
<i>(\$000, except percentages and per share data)</i>	2009	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)(2)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)(2)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)(2)</sup>
Revenue	328,003	308,375	316,284	292,873	316,310	283,878	311,825	271,894
Operating income from continuing operations before amortization <sup>(2)</sup>	129,263	120,711	144,654	117,557	126,624	112,639	123,505	105,893
<i>Operating margin<sup>(2)</sup></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>	<i>39.6%</i>	<i>38.9%</i>
Operating income from continuing operations	63,562	59,829	76,244	58,664	62,623	57,114	60,171	52,769
Impairment of goodwill and intangible assets	-	-	-	-	-	-	399,648	-
Net income (loss) from continuing operations	22,748	10,861	14,631	9,332	10,704	9,221	(115,210)	16,296
Net loss from discontinued operations	-	-	-	-	-	-	-	(425)
Net income (loss)	22,748	10,861	14,631	9,332	10,704	9,221	(115,210)	15,871
Adjusted net income <sup>(2)(3)</sup>	13,128	10,861	7,647	9,332	9,157	9,221	8,741	8,387
Cash flow from operating activities from continuing operations	(1,410)	26,477	177,032	141,590	99,873	108,326	117,322	89,312
Cash flow from operations from continuing operations <sup>(2)</sup>	135,518	91,633	108,744	95,507	92,718	91,501	97,193	81,744
Free cash flow <sup>(2)</sup>	67,131	21,771	14,742	20,981	32,416	37,107	32,089	19,374
Earnings (loss) per share <sup>(4)</sup>								
Basic								
Income (loss) from continuing operations	1.36	0.65	0.87	0.56	0.64	0.55	(6.88)	0.98
Loss from discontinued operations	-	-	-	-	-	-	-	(0.03)
Net income (loss)	1.36	0.65	0.87	0.56	0.64	0.55	(6.88)	0.95
Adjusted net income <sup>(2)(3)</sup>	0.79	0.65	0.46	0.56	0.55	0.55	0.52	0.50
Diluted								
Income (loss) from continuing operations	1.35	0.65	0.87	0.56	0.64	0.55	(6.88)	0.97
Loss from discontinued operations	-	-	-	-	-	-	-	(0.03)
Net income (loss)	1.35	0.65	0.87	0.56	0.64	0.55	(6.88)	0.95
Adjusted net income <sup>(2)(3)</sup>	0.78	0.65	0.46	0.56	0.55	0.55	0.52	0.50

(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, Evora, 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 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. For the current fiscal year, the maximum amount has been set at \$9 million.

**Cable Sector Customer Statistics**  
(unaudited)

	November 30, 2009	August 31, 2009
<b>Homes passed</b>		
Ontario	1,052,470	1,049,818
Québec	518,163	515,327
<b>Canada</b>	<b>1,570,633</b>	<b>1,565,145</b>
Portugal <sup>(1)</sup>	905,197	905,129
<b>Total</b>	<b>2,475,830</b>	<b>2,470,274</b>
<b>Homes connected<sup>(2)</sup></b>		
Ontario	667,017	658,690
Québec	288,535	285,944
<b>Canada</b>	<b>955,552</b>	<b>944,634</b>
Portugal	268,202	269,022
<b>Total</b>	<b>1,223,754</b>	<b>1,213,656</b>
<b>Revenue-generating units</b>		
Ontario	1,526,556	1,483,324
Québec	696,479	676,539
<b>Canada</b>	<b>2,223,035</b>	<b>2,159,863</b>
Portugal	758,988	732,375
<b>Total</b>	<b>2,982,023</b>	<b>2,892,238</b>
<b>Basic Cable service customers</b>		
Ontario	604,028	597,651
Québec	269,696	267,154
<b>Canada</b>	<b>873,724</b>	<b>864,805</b>
Portugal	258,918	259,480
<b>Total</b>	<b>1,132,642</b>	<b>1,124,285</b>
<b>High Speed Internet service customers</b>		
Ontario	387,497	374,906
Québec	145,061	140,146
<b>Canada</b>	<b>532,558</b>	<b>515,052</b>
Portugal	148,823	143,614
<b>Total</b>	<b>681,381</b>	<b>658,666</b>
<b>Digital Television service customers</b>		
Ontario	336,270	326,227
Québec	178,234	172,171
<b>Canada</b>	<b>514,504</b>	<b>498,398</b>
Portugal	118,867	102,753
<b>Total</b>	<b>633,371</b>	<b>601,151</b>
<b>Telephony service customers</b>		
Ontario	198,761	184,540
Québec	103,488	97,068
<b>Canada</b>	<b>302,249</b>	<b>281,608</b>
Portugal	232,380	226,528
<b>Total</b>	<b>534,629</b>	<b>508,136</b>

(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**  
*(unaudited)*

	Three months ended November 30,	
<i>(In thousands of dollars, except per share data)</i>	<b>2009</b>	2008
	<b>\$</b>	<b>\$</b>
	<i>(restated, see note 1)</i>	
<b>Revenue</b>	<b>328,003</b>	308,375
Operating costs	<b>198,740</b>	187,664
<b>Operating income before amortization</b>	<b>129,263</b>	120,711
Amortization (note 3)	<b>65,701</b>	60,882
<b>Operating income</b>	<b>63,562</b>	59,829
Financial expense (note 4)	<b>16,277</b>	23,778
<b>Income before income taxes and the following items</b>	<b>47,285</b>	36,051
Income taxes (note 5)	<b>(13,818)</b>	9,639
Loss on dilution resulting from the issuance of shares by a subsidiary	—	26
Non-controlling interest	<b>38,355</b>	15,525
<b>Net income</b>	<b>22,748</b>	10,861
<b>Earnings per share (note 6)</b>		
Basic	<b>1.36</b>	0.65
Diluted	<b>1.35</b>	0.65

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

*(unaudited)*

<i>(In thousands of dollars)</i>	Three months ended November 30,	
	2009	2008
	\$	\$
	<i>(restated, see note 1)</i>	
<b>Net income</b>	<b>22,748</b>	10,861
<b>Other comprehensive income</b>		
Unrealized gains (losses) on derivative financial instruments designated as cash flow hedges, net of income taxes recovery of \$2,141,000 and non-controlling interest of \$2,551,000 (income taxes expense of \$3,387,000 and non-controlling interest of \$17,451,000 in 2008)	<b>(1,218)</b>	8,338
Reclassification to net income of realized losses (gains) on derivative financial instruments designated as cash flow hedges, net of income taxes recovery of \$1,007,000 and non-controlling interest of \$4,386,000 (income taxes expense of \$4,323,000 and non-controlling interest of \$19,211,000 in 2008)	<b>2,093</b>	(9,180)
Unrealized gains on translation of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of \$1,844,000 (\$4,114,000 in 2008)	<b>882</b>	1,966
Unrealized losses on translation of long-term debts designated as hedges of a net investment in self-sustaining foreign subsidiaries, net of non-controlling interest of \$1,415,000 (\$2,273,000 in 2008)	<b>(676)</b>	(1,086)
	<b>1,081</b>	38
<b>Comprehensive income</b>	<b>23,829</b>	10,899

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

<i>(In thousands of dollars)</i>	Three months ended November 30,	
	2009	2008
	\$	\$
		(restated, see note 1)
<b>Balance at beginning, as reported</b>	211,922	295,808
Changes in accounting policies (note 1)	(7,894)	(7,405)
<b>Balance at beginning, as restated</b>	204,028	288,403
Net income	22,748	10,861
Dividends on multiple voting shares	(184)	(147)
Dividends on subordinate voting shares	(1,494)	(1,192)
<b>Balance at end</b>	225,098	297,925

**COGECO INC.**  
**CONSOLIDATED BALANCE SHEETS**
*(unaudited)*

<i>(In thousands of dollars)</i>	November 30, 2009	August 31, 2009
	\$	\$
		<i>(restated, see note 1)</i>
<b>Assets</b>		
Current		
Cash and cash equivalents (note 11 b))	17,477	39,458
Accounts receivable	71,659	66,076
Income taxes receivable	25,766	5,228
Prepaid expenses	15,941	14,805
Future income tax assets	4,934	4,275
	<b>135,777</b>	<b>129,842</b>
Investments	739	739
Fixed assets	1,312,049	1,305,769
Deferred charges	23,912	24,062
Intangible assets (note 7)	1,046,581	1,047,774
Goodwill (note 7)	149,615	153,695
Derivative financial instruments	—	4,236
Future income tax assets	4,900	4,011
	<b>2,673,573</b>	<b>2,670,128</b>
<b>Liabilities and Shareholders' equity</b>		
<b>Liabilities</b>		
Current		
Bank indebtedness	46,740	416
Accounts payable and accrued liabilities	183,171	255,281
Income tax liabilities	2,154	41,358
Deferred and prepaid revenue	36,059	33,877
Current portion of long-term debt (note 8)	44,693	44,706
Future income tax liabilities	20,209	—
	<b>333,026</b>	<b>375,638</b>
Long-term debt (note 8)	1,024,573	1,019,258
Derivative financial instruments	3,842	2,168
Deferred and prepaid revenue and other liabilities	12,918	12,900
Pension plan liabilities and accrued employees benefits	11,379	10,453
Future income tax liabilities	216,934	234,710
	<b>1,602,672</b>	<b>1,655,127</b>
Non-controlling interest	717,418	682,879
<b>Shareholders' equity</b>		
Capital stock (note 9)	121,006	121,006
Treasury shares (note 9)	(2,896)	(1,847)
Contributed surplus	2,866	2,607
Retained earnings	225,098	204,028
Accumulated other comprehensive income (note 10)	7,409	6,328
	<b>353,483</b>	<b>332,122</b>
	<b>2,673,573</b>	<b>2,670,128</b>

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

*(unaudited)*

<i>(In thousands of dollars)</i>	Three months ended November 30,	
	2009	2008
	\$	\$
		<i>(restated, see note 1)</i>
<b>Cash flow from operating activities</b>		
Net income	22,748	10,861
Adjustments for:		
Amortization (note 3)	65,701	60,882
Amortization of deferred transaction costs and discounts on long-term debt	762	717
Future income taxes (note 5)	6,404	2,615
Non-controlling interest	38,355	15,525
Loss on dilution resulting from the issuance of shares by a subsidiary	—	26
Stock-based compensation	708	89
Loss on disposal of fixed assets	98	223
Other	742	695
	135,518	91,633
Changes in non-cash operating items (note 11 a))	(136,928)	(65,156)
	(1,410)	26,477
<b>Cash flow from investing activities</b>		
Acquisition of fixed assets (note 11 c))	(65,182)	(65,709)
Increase in deferred charges	(3,064)	(3,214)
Other	20	16
	(68,226)	(68,907)
<b>Cash flow from financing activities</b>		
Increase in bank indebtedness	46,324	23,459
Net increase under the term facilities	11,425	5,294
Issuance of long-term debt, net of discounts and transaction costs	—	254,771
Repayment of long-term debt and settlement of derivative financial instrument	(1,224)	(239,747)
Acquisition of treasury shares (note 9)	(1,049)	—
Dividends on multiple voting shares	(184)	(147)
Dividends on subordinate voting shares	(1,494)	(1,192)
Issuance of shares by a subsidiary non-controlling interest	—	278
Acquisition of treasury shares by a subsidiary from non-controlling interest (note 9)	(1,744)	—
Dividends paid by a subsidiary to non-controlling interest	(4,601)	(3,940)
	47,453	38,776
<b>Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies</b>	202	687
<b>Net change in cash and cash equivalents</b>	(21,981)	(2,967)
Cash and cash equivalents at beginning	39,458	37,472
<b>Cash and cash equivalents at end</b>	17,477	34,505

See supplemental cash flow information in note 11.

# COGECO INC.

## Notes to Consolidated Financial Statements

November 30, 2009

(unaudited)

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

### 1. Basis of Presentation

In the opinion of management, the accompanying unaudited interim consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, present fairly the financial position of COGECO Inc. ("the Company") as at November 30, 2009 and August 31, 2009 as well as its results of operations and its cash flows for the three month periods ended November 30, 2009 and 2008.

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

	Three months ended November 30, 2008	
Increase (decrease)	\$	
Operating costs		3,993
Amortization of deferred charges		(3,181)
Future income tax expense		(209)
Non-controlling interest		(411)
Net income		(192)

#### Consolidated balance sheets

	August 31, 2009	September 1, 2008
Increase (decrease)	\$	\$
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****November 30, 2009***(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	
	2009	2008	2009	2008	2009	2008
Three months ended November 30,	\$	\$	\$	\$	\$	\$
		(restated)		(restated)		(restated)
Revenue	<b>317,365</b>	299,438	<b>10,638</b>	8,937	<b>328,003</b>	308,375
Operating costs	<b>194,759</b>	183,708	<b>3,981</b>	3,956	<b>198,740</b>	187,664
Operating income before amortization	<b>122,606</b>	115,730	<b>6,657</b>	4,981	<b>129,263</b>	120,711
Amortization	<b>65,565</b>	60,746	<b>136</b>	136	<b>65,701</b>	60,882
Operating income	<b>57,041</b>	54,984	<b>6,521</b>	4,845	<b>63,562</b>	59,829
Financial expense	<b>16,141</b>	23,394	<b>136</b>	384	<b>16,277</b>	23,778
Income taxes	<b>(15,766)</b>	8,645	<b>1,948</b>	994	<b>(13,818)</b>	9,639
Loss on dilution resulting from the issuance of shares by a subsidiary	—	26	—	—	—	26
Non-controlling interest	<b>38,355</b>	15,525	—	—	<b>38,355</b>	15,525
Net income	<b>18,311</b>	7,394	<b>4,437</b>	3,467	<b>22,748</b>	10,861
Total assets <sup>(1)</sup>	<b>2,632,154</b>	2,630,912	<b>41,419</b>	39,216	<b>2,673,573</b>	2,670,128
Fixed assets <sup>(1)</sup>	<b>1,308,488</b>	1,302,238	<b>3,561</b>	3,531	<b>1,312,049</b>	1,305,769
Intangible assets <sup>(1)</sup>	<b>1,021,241</b>	1,022,434	<b>25,340</b>	25,340	<b>1,046,581</b>	1,047,774
Goodwill <sup>(1)</sup>	<b>149,615</b>	153,695	—	—	<b>149,615</b>	153,695
Acquisition of fixed assets <sup>(2)</sup>	<b>65,157</b>	66,606	<b>166</b>	42	<b>65,323</b>	66,648

<sup>(1)</sup> At November 30, 2009 and August 31, 2009.

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

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2009

(unaudited)

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

### 2. Segmented Information (continued)

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

	Three months ended November 30,	
	2009	2008
	\$	\$
Revenue		
Canada	274,998	246,311
Europe	53,005	62,064
	328,003	308,375
	November 30, 2009	August 31, 2009
	\$	\$
Fixed assets		
Canada	1,025,914	1,015,298
Europe	286,135	290,471
	1,312,049	1,305,769
Intangible assets		
Canada	1,046,581	1,047,774
Europe	—	—
	1,046,581	1,047,774
Goodwill		
Canada	116,243	116,243
Europe	33,372	37,452
	149,615	153,695

### 3. Amortization

	Three months ended November 30,	
	2009	2008
	\$	\$
Fixed assets	61,701	(restated) 54,406
Deferred charges	2,807	2,607
Intangible assets	1,193	3,869
	65,701	60,882

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2009

(unaudited)

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

#### 4. Financial expense

	Three months ended November 30,	
	2009	2008
	\$	\$
Interest on long-term debt	15,901	20,270
Foreign exchange losses (gains)	(488)	3,784
Amortization of deferred transaction costs	407	407
Other	457	(683)
	16,277	23,778

#### 5. Income Taxes

	Three months ended November 30,	
	2009	2008
	\$	\$
		(restated)
Current	(20,222)	7,024
Future	6,404	2,615
	(13,818)	9,639

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

	Three months ended November 30,	
	2009	2008
	\$	\$
		(restated)
Income before income taxes	47,285	36,051
Combined income tax rate	31.43%	32.46%
Income taxes at combined income tax rate	14,862	11,702
Adjustments for losses or income subject to lower or higher tax rates	(2,422)	(194)
Decrease in future income taxes as a result of decrease in substantively enacted tax rates	(29,782)	—
Utilization of pre-acquisition tax losses	4,432	—
Income taxes arising from non-deductible expenses	209	117
Effect of foreign income tax rate differences	247	(1,604)
Other	(1,364)	(382)
Income taxes at effective income tax rate	(13,818)	9,639

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2009

(unaudited)

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

#### 6. Earnings per Share

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

	Three months ended November 30,	
	2009	2008
	\$	\$
Net income	22,748	10,861 (restated)
Weighted average number of multiple voting and subordinate voting shares outstanding	16,721,277	16,701,699
Effect of dilutive stock options <sup>(1)</sup>	6,594	20,386
Effect of dilutive incentive share units	64,053	38,747
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	16,791,924	16,760,832
<b>Earnings per share</b>		
Basic	1.36	0.65
Diluted	1.35	0.65

<sup>(1)</sup> For the three month period ended November 30, 2009, 32,782 stock options (32,782 in 2008) were excluded from the calculation of diluted earnings per share as the exercise price of the options was greater than the average share price of the subordinate voting shares.

#### 7. Goodwill and Other Intangible Assets

	November 30, 2009	August 31, 2009
	\$	\$
Customer relationships	31,689	32,882
Broadcasting licenses	25,120	25,120
Customer base	989,772	989,772
	1,046,581	1,047,774
Goodwill	149,615	153,695
	1,196,196	1,201,469

**COGECO INC.**

**Notes to Consolidated Financial Statements**

**November 30, 2009**

*(unaudited)*

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

**7. Goodwill and Other Intangible Assets (continued)**

**a) Intangible assets**

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

	Customer relationships	Broadcasting licenses	Customer Base	Total
	\$	\$	\$	\$
Balance as at August 31, 2009	32,882	25,120	989,772	1,047,774
Amortization	(1,193)	—	—	(1,193)
Balance as at November 30, 2009	31,689	25,120	989,772	1,046,581

**b) Goodwill**

During the first three 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	352
Balance as at November 30, 2009	149,615

On November 25, 2009, Cogeco Cable Inc.'s subsidiary, Cabovisão-Televisão por Cabo, S.A., received approval to its request for preservation of tax losses for the years preceeding 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****November 30, 2009***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***8. Long-Term Debt**

	Maturity	Interest rate	November 30, 2009	August 31, 2009
		%	\$	\$
<b>Parent company</b>				
Term Facility	2011	3.02 <sup>(1)</sup>	5,905	9,382
Obligations under capital leases	2013	6.61 – 9.29	86	91
<b>Subsidiaries</b>				
Term Facility				
Term loan – €78,413,625	2011	1.19 <sup>(1)(2)</sup>	123,949	122,674
Term loan – €17,358,700	2011	1.19 <sup>(1)(2)</sup>	27,423	27,142
Revolving loan – €40,000,000	2011	1.19 <sup>(1)</sup>	63,408	62,792
Revolving loan	2011	2.25	15,000	—
Senior Secured Notes Series B	2011	7.73	174,582	174,530
Senior Secured Notes				
Series A – US\$190 million	2015	7.00	199,169	206,606
Series B	2018	7.60	54,584	54,576
Senior Secured Debentures Series 1	2014	5.95	296,922	296,860
Senior Unsecured Debenture	2018	5.94	99,791	99,786
Obligations under capital leases	2013	6.73 – 9.93	8,422	9,496
Other	—	—	25	29
			<b>1,069,266</b>	1,063,964
Less current portion			<b>44,693</b>	44,706
			<b>1,024,573</b>	1,019,258

<sup>(1)</sup> Interest rate on debt as at November 30, 2009, including stamping fees.

<sup>(2)</sup> 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.

**COGECO INC.**

**Notes to Consolidated Financial Statements**

**November 30, 2009**

*(unaudited)*

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

**9. Capital Stock**

**Authorized, an unlimited number**

*Preferred shares of first and second rank, 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**

	November 30, 2009	August 31, 2009
	\$	\$
1,842,860 multiple voting shares	12	12
14,942,470 subordinate voting shares	120,994	120,994
	<b>121,006</b>	<b>121,006</b>

**Stock-based plans**

The Company offers, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives, which are described in the Company's annual consolidated financial statements. During the first three months of 2010 and 2009, no stock options were granted to employees by COGECO Inc. However, the Company's subsidiary, Cogeco Cable Inc., granted 63,695 stock options (133,381 in 2008) with an exercise price of \$31.82 (\$34.46 in 2008), of which 33,266 stock options (29,711 in 2008) were granted to COGECO Inc.'s employees. As a result, a compensation expense of \$337,000 (\$101,000 in 2008) was recorded for the three month period ended November 30, 2009.

The weighted average fair value of stock options granted by the Company's subsidiary, Cogeco Cable Inc., for the three month period ended November 30, 2009 was \$8.11 (\$8.96 in 2008) 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:

	2009	2008
	%	%
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

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2009

(unaudited)

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

#### 9. Capital Stock (continued)

At November 30, 2009, the Company had outstanding stock options providing for the subscription of 79,650 subordinate voting shares. These stock options can be exercised at various prices ranging from \$20.95 to \$37.50 and at various dates up to October 19, 2011.

The Company also offers a senior 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 three months of 2010, the Company granted 41,571 (17,702 in 2008) and Cogeco Cable Inc. granted 55,094 Incentive Share Units. 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 in November 2009 for cash considerations aggregating \$1,049,000 (\$326,000 in 2008) 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 treasury shares in reduction of capital stock or non-controlling interest. A compensation expense of \$187,000 (\$108,000 in 2008) was recorded for the three month period ended November 30, 2009 related to these plans.

The Company and its subsidiary, Cogeco Cable Inc., offer deferred share unit plans ("DSU Plans") which are described in the Company's annual consolidated financial statements. During the first quarter of 2010, the Company and its subsidiary did not award any deferred share unit to the participants in connection with the DSU Plans. A compensation expense of \$184,000 (reduction of expense of \$120,000 in 2008) was recorded for the three month period ended November 30, 2009 for the liabilities related to these plans.

#### 10. Accumulated Other Comprehensive Income

	Translation of a net investment in self- sustaining foreign subsidiaries	Cash flow hedges	Total
	\$	\$	\$
Balance as at August 31, 2009	7,634	(1,306)	6,328
Other comprehensive income	206	875	1,081
Balance as at November 2009	7,840	(431)	7,409

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2009

(unaudited)

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

#### 11. Statements of Cash Flows

##### a) Changes in non-cash operating items

	Three months ended November 30,	
	2009	2008
	\$	\$
Accounts receivable	(5,494)	(3,189)
Income taxes receivable	(20,514)	(2,885)
Prepaid expenses	(1,105)	1,337
Accounts payable and accrued liabilities	(72,789)	(44,644)
Income tax liabilities	(39,224)	(17,001)
Deferred and prepaid revenue and other liabilities	2,198	1,226
	(136,928)	(65,156)

##### b) Cash and cash equivalents

	November 30, 2009	August 31, 2009
	\$	\$
Cash	7,173	23,760
Cash equivalents <sup>(1)</sup>	10,304	15,698
	17,477	39,458

<sup>(1)</sup> Term deposit of €6,500,000, 0.30%, maturing on December 4, 2009 (€10,000,000, 0.67%, maturing on September 14, 2009 at August 31, 2009).

##### c) Other information

	Three months ended November 30,	
	2009	2008
	\$	\$
Fixed asset acquisitions through capital leases	141	939
Financial expense paid	21,047	21,751
Income taxes paid	39,517	26,916

**COGECO INC.****Notes to Consolidated Financial Statements****November 30, 2009***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***12. Employees Future Benefits**

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

	Three months ended November 30,	
	2009	2008
	\$	\$
Contributory defined benefit pension plans	870	747
Defined contribution pension plan and collective registered retirement savings plans	1,126	923
	<b>1,996</b>	<b>1,670</b>

**13. Financial and Capital Management**

## a) Financial management

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

**Credit risk**

Credit risk represents the risk of financial loss for the Company if a customer or 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 November 30, 2009, management believes that the credit risk relating to its swaps 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**

**November 30, 2009**

*(unaudited)*

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

**13. 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 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 November 30, 2009, 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 Portugal, there is no significant concentration of credit risk. The following table provides further details on the Company's accounts receivable balances:

	November 30, 2009	August 31, 2009
	\$	\$
Trade accounts receivable	81,815	75,044
Allowance for doubtful accounts	(16,779)	(17,261)
	65,036	57,783
Other accounts receivable	6,623	8,293
	71,659	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.

	November 30, 2009	August 31, 2009
	\$	\$
Net trade accounts receivable not past due	46,434	43,136
Net trade accounts receivable past due	18,602	14,647
	65,036	57,783

## COGECO INC.

### Notes to Consolidated Financial Statements

November 30, 2009

(unaudited)

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

### 13. 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 November 30, 2009, the available amount of the Company's Term Facilities was \$636.2 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	46,740	—	—	—	—	—	46,740
Accounts payable and accrued liabilities	183,171	—	—	—	—	—	183,171
Long-term debt <sup>(1)</sup>	56,443	173,809	181,000	—	300,000	355,564	1,066,816
Derivative financial instruments							
Cash outflows (Canadian dollar)	—	—	—	—	—	201,875	201,875
Cash inflows (Canadian dollar equivalent of US dollar)	—	—	—	—	—	(200,564)	(200,564)
Obligations under capital leases <sup>(2)</sup>	2,892	3,339	2,324	915	41	—	9,511
	289,246	177,148	183,324	915	300,041	356,875	1,307,549

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

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

The following table is a summary of interest payable on long-term debt (excluding interest on capital leases) that are due for each of the next five years and thereafter, based on the principal amount and interest rate prevailing on the current debt at November 30, 2009 and their respective maturities:

	2010	2011	2012	2013	2014	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Interest payments on long-term debt	43,690	57,606	44,313	42,005	37,543	53,054	278,211
Interest payments on derivative financial instruments	14,081	17,473	14,614	14,614	14,614	15,831	91,227
Interest receipts on derivative financial instruments	(11,841)	(15,241)	(14,039)	(14,039)	(14,039)	(15,209)	(84,408)
	45,930	59,838	44,888	42,580	38,118	53,676	285,030

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### 13. 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 November 30, 2009, 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 \$0.8 million based on the current debt at November 30, 2009 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 November 30, 2009, cash and cash equivalents denominated in US dollars amounted to US\$2,309,000 (US\$5,555,000 at August 31, 2009) while accounts payable denominated in US dollars amounted to US\$4,014,000 (US\$14,997,000 at August 31, 2009). At November 30, 2009, Euro-denominated cash and cash equivalents amounted to €607,000 (bank indebtedness of €299,000 at August 31, 2009) while accounts payable denominated in Euros amounted to €146,000 (€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 Euros) would change financial expense by approximately \$0.1 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-Televisão por Cabo, S.A. was borrowed directly in Euros. At November 30, 2009, the net investment amounted to €175,302,000 (€183,220,000 at August 31, 2009) while long-term debt denominated in Euros amounted to €135,772,000 (€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 November 30, 2009 was \$1.5852 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 \$0.5 million and other comprehensive income by approximately \$2 million.

**COGECO INC.**

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**13. 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.

	November 30, 2009		August 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Long-term debt	1,069,266	1,160,418	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 November 30, 2009, and August 31, 2009, the Company was in compliance with all debt covenants and was not subject to any other externally imposed capital requirements.

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

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

	November 30, 2009	August 31, 2009 (restated)
Net indebtedness <sup>(1)</sup> / Shareholders' equity	3.1	3.1
Net indebtedness <sup>(1)</sup> / Operating income before amortization <sup>(2)</sup>	2.1	2.0
Operating income before amortization <sup>(2)</sup> / Financial expense <sup>(2)</sup>	8.3	7.3

<sup>(1)</sup> 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.

<sup>(2)</sup> Calculation based on operating income before amortization for the last twelve month period ended November 30, 2009, and August 31, 2009.

### 14. Comparative Figures

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