



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

## **COGECO reports strong third-quarter 2008 financial results**

**Montreal, July 9, 2008** – Today, COGECO Inc. (TSX: CGO) announced its financial results for the third quarter and first nine months of fiscal 2008, ended May 31, 2008.

Third-quarter 2008 and first nine months consolidated results show continuous growth:

- Revenue increased by 13.8% to \$283.9 million in the third quarter and by 13.6% to \$816 million for the first nine months;
- Operating income from continuing operations before amortization grew by 22.4% to \$117.2 million in the third quarter and by 21.1% to \$327.8 million for the first nine months;
- Free cash flow<sup>(1)</sup> reached \$37.1 million in the third quarter and \$79.5 million for the first nine months.

### Cable sector

- Revenue-generating units (“RGUs”)<sup>(2)</sup> grew by 50,889 and 190,109 net additions, respectively, for a total of 2,675,774 RGUs at May 31, 2008.

### External growth

- In order to further develop Cogeco Cable’s business telecommunications activities, the Company pursued its external growth strategy and concluded the acquisition of all assets of MaXess Networx®, ENWIN Energy Ltd.’s telecommunications division (City of Windsor’s energy company). In addition, the Company announced the acquisition of all the assets of FibreWired Burlington Hydro Communications (Burlington Hydro Electric’s telecommunications division). On June 13, Cogeco Cable also announced its entry into the Greater Toronto Area market through the announcement of the acquisition of all the shares of Toronto Hydro Telecom Inc., the telecommunications subsidiary of Toronto Hydro Corporation, subject to certain conditions, including regulatory approval by the Commissioner of Competition.

### Other

- Radio revenue has improved in the third quarter. RYTHME FM network and the 93<sup>3</sup> station in Québec City continue to grow advertising revenues;
- On May 22, 2008, the plan of arrangement proposed by Remstar Corporation was approved by the creditors of TQS Inc., its subsidiaries and its parent, 3947424 Canada

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<sup>(1)</sup> Free cash flow does not have a standardized definition 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> Represents the sum of Basic Cable, High Speed Internet (HSI), Digital Television and Telephony service customers.

Inc., (the "TQS Group") and subsequently approved by the Superior Court of Québec on June 4, 2008. Certain employees of TQS Inc. and their union filed a motion on June 19, 2008 for leave to appeal the order of the Superior Court of Québec approving the plan. On June 26, 2008, the Canadian Radio-television and Telecommunications Commission ("CRTC") approved the proposed transfer of ownership and control of TQS Inc. to Remstar Corporation.

Fiscal 2009 Preliminary Financial Guidelines:

The Company announces its 2009 preliminary guidelines, setting revenue outlook at about \$1,198 million, an increase of \$108 million compared to the revised fiscal 2008 projections issued in April 2008. Operating income before amortization should increase to approximately \$500 million, an improvement of \$55 million compared to the revised fiscal 2008 projections, and free cash flow<sup>(1)</sup> should grow by approximately \$35 million to reach \$110 million.

"On a consolidated basis, COGECO 's third-quarter 2008 financial results are positive. In the cable sector, Cogeco Cable's internal growth continued on a steady pace. The Company is also pursuing its external growth strategy, as shown by the acquisitions of MaXess Networx® and FibreWired Burlington Hydro Communications, which will enhance our Cogeco Business Solutions offering. As for the acquisition of Toronto Hydro Telecom, this is a great growth opportunity for Cogeco Cable as it provides us the capacity to serve the business telecommunication market through the addition of owned and operated points of presence throughout the Greater Toronto Area, linked to our other broadband facilities extending over the dense telecommunications corridor from Windsor to Cornwall in Ontario" declared Louis Audet, President and CEO of COGECO. "On the radio side, COGECO is experiencing an increase in revenue with programming that meets audience and advertiser expectations", added Mr. Audet.

## FINANCIAL HIGHLIGHTS

<i>(\$000, except percentages and per share data)</i>	Quarters ended May 31,			Nine months ended May 31,		
	2008	2007	Change	2008	2007	Change
	\$ (unaudited)	\$ (unaudited)	%	\$ (unaudited)	\$ (unaudited)	
Revenue	283,878	249,424	13.8	816,027	718,035	13.6
Operating income from continuing operations before amortization	117,204	95,791	22.4	327,759	270,640	21.1
Income from continuing operations	9,538	5,025	89.8	33,509	48,526	(30.9)
Loss from discontinued operations	-	(1,966)	-	(18,057)	(4,170)	-
Net income	9,538	3,059	-	15,452	44,356	(65.2)
Cash flow from operations <sup>(1)</sup>	96,068	76,862	25.0	262,819	205,412	27.9
Less:						
Capital expenditures and increase in deferred charges	58,961	57,810	2.0	183,364	185,118	(0.9)
Free cash flow <sup>(1)</sup>	37,107	19,052	94.8	79,455	20,294	-
Earnings (loss) per share						
Basic						
Income from continuing operations	0.57	0.30	90.0	2.01	2.93	(31.4)
Loss from discontinued operations	-	(0.12)	-	(1.08)	(0.25)	-
Net income	0.57	0.18	-	0.93	2.67	-
Diluted						
Income from continuing operations	0.57	0.30	90.0	2.00	2.91	(31.3)
Loss from discontinued operations	-	(0.12)	-	(1.08)	(0.25)	-
Net income	0.57	0.18	-	0.92	2.66	-

<sup>(1)</sup> Cash flow from operations and free cash flow 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.

## 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 our future outlook and anticipated events, our business, our operations, our financial performance, our financial condition or our results and, in some cases, can be identified by terminology such as "may"; "will"; "should"; "expect"; "plan"; "anticipate"; "believe"; "intend"; "estimate"; "predict"; "potential"; "continue"; "foresee", "ensure" or other similar expressions concerning matters that are not historical facts. In particular, statements regarding our future operating results and economic performance and our objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which we believe are reasonable as of the current date. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. Forward-looking information is also subject to certain factors, including risks and uncertainties (described in the "Uncertainties and main risk factors" section of the Company's 2007 annual Management's Discussion and Analysis (MD&A) that could cause actual results to differ materially from what we currently expect. These factors include technological*

*changes, changes in market and competition, governmental or regulatory developments, general economic conditions the development of new products and services, the enhancement of existing products and services, and the introduction of competing products having technological or other advantages, many of which are beyond our control. Therefore, future events and results may vary significantly from what we currently foresee. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation (and expressly disclaim any such obligation), and do not undertake, to update or alter this information before next quarter.*

*This analysis should be read in conjunction with the Company's financial statements, and the notes thereto, prepared in accordance with Canadian GAAP and the MD&A included in the Company's 2007 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's objectives are to maximize shareholder value by increasing profitability and ensuring continued growth. The strategies employed to reach these objectives, supported by tight cost control and business processes, are specific to each sector. For the cable sector, sustained 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 (the "Company") uses growth of operating income before amortization, free cash flow<sup>(1)</sup> and RGU<sup>(2)</sup> growth in order to measure its performance against these objectives for the cable sector. Below are the Company's recent achievements in furthering the corporate objectives.

#### **Tight control over costs and business processes**

- For the third quarter of 2008, the Company's operating costs increased over last year by 8.5% compared to a revenue growth of 13.8%;
- The design of internal controls over financial reporting as per National Instrument 52-109 is still underway. As discussed in the 2007 annual MD&A, the Company identified certain material weaknesses in the design of internal controls over financial reporting and there has been improvement in the design of internal controls on some significant processes during the quarter. The documentation and remediation of internal controls weaknesses are progressing normally.

#### **Cable sector**

##### **Continuous improvement of the service offering and expansion of the customer base**

###### Canadian operations

- Acquisitions:
  - June 30, conclusion of the acquisition of all assets of FibreWired Burlington Hydro Communications, Burlington Hydro Electric's telecommunications division (City of Burlington's energy company) to expand Cogeco Business Solutions' commercial broadband service offering in Burlington, Ontario;

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<sup>(1)</sup> Free cash flow does not have a standardized definition 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> See the "Customer statistics" section of the cable sector for detailed explanations.

- June 13, announcement of the acquisition of all the shares of Toronto Hydro Telecom Inc., the telecommunications subsidiary of Toronto Hydro Corporation (City of Toronto's energy company); subject to certain conditions, including regulatory approval by the Commissioner of Competition, in order to further develop Cogeco Cable's business telecommunications activities by entering the Greater Toronto Area market;
- March 31, conclusion of the acquisition of all the assets of MaXess Networx®, ENWIN Energy Ltd.'s telecommunications division (City of Windsor's energy company) to strengthen Cogeco Business Solutions' Data offering in Windsor, Ontario.
- High Speed Internet service:
  - June 7, launch of Wi-Fi Internet access at LaSalle Park in Burlington, Ontario;
  - May 7, launch of Wi-Fi Internet access in Québec with the deployment of the first seven Québec hotspots in Trois-Rivières.
- Digital Television services:
  - June 24, launch of Food Network On Demand, HGTV On Demand and National Geographic On Demand in Ontario territories;
  - May 6, launch of RDI HD and ARTV HD, two new High Definition (HD) channels in Québec;
  - March 4, launch of Family On Demand in Ontario, a new On Demand service.
- Telephony service:
  - June 24, launch of Telephony in Maitland and Prescott, Ontario;
  - June 17, launch of Telephony in Wickham, St-Cyrille-de-Wendover, Morin-Heights, Shawbridge, St-Germain-de-Grantham and St-Prosper-de-Dorchester, Québec;
  - June 4, launch of Telephony in Tillbury, Ontario;
  - During the third quarter, the Telephony service was launched in the following cities:
    - St-Pie, St-Damase, Ste-Madeleine, Acton Vale, St-Thomas d'Aquin, St-Dominique-de-Bagot, Val-David, St-Donat-de-Montcalm, St-Faustin, St-Adolphe-d'Howard, Bic, Ste-Luce, Ste-Blandine, St-Fabien, St-Gédéon and St-Martin-de-Beauce in Québec;
    - Kemptville, Acton, Winona, Smithville, Ridgeway, Huntsville, Bracebridge and Gravenhurst, in Ontario.
- Customer service:
  - Opening of a Cogeco Cable store located in Drummondville, Québec.

#### European operations

- Digital Television services:
  - Cabovisão - Televisão por Cabo, S.A. ("Cabovisão") continued its Digital Television service deployment.
- Customer service:
  - Opening of two (2) new Cabovisão stores located in Paivas (Seixal) and Castelo Branco.

#### Continuous improvement of networks and equipment

- During the first nine months of fiscal 2008, Cogeco Cable has invested approximately \$71.8 million in its infrastructure including headends and upgrade/rebuild.

#### Other

- RYTHME FM network and the 93<sup>3</sup> station in Québec City continue to grow advertising revenues.

## Discontinued Operations

In October 2007, the Board of Directors of TQS, an indirect subsidiary of the Company, engaged CIBC World Markets to advise on and assess strategic options for the TQS network in the face of financial difficulties. TQS' position in the Québec Francophone over-the-air television market deteriorated markedly in spite of the measures and investments initiated by the Company over the last several months. The gradual loss of advertising revenue to specialty TV networks and content accessible over the Internet, combined with increased production costs, the Canadian Radio-television and Telecommunications Commission's ("CRTC") refusal to grant general interest television networks the same ability to charge subscriber fees for signal distribution as the specialty television networks, the programming strategy of Société Radio-Canada ("SRC"), which acts like a commercial player rather than a publicly-owned television broadcaster and SRC's notice of disaffiliation in Saguenay, Sherbrooke and Trois-Rivières after a 50-year partnership all contributed to this decision. After considering CIBC World Markets' report, the Board of Directors of TQS concluded that it was in the best interest of TQS, its employees and creditors to request court protection. On December 18, 2007, the Québec Superior Court issued an order under the *Companies' Creditors Arrangement Act* (Canada) protecting TQS Inc., its subsidiaries and its parent 3947424 Canada Inc. ("the TQS Group") from claims by their creditors for an initial suspension period ending on January 17, 2008, which period was afterwards renewed. Under the order, RSM Richter Inc. has been appointed as monitor, with a mandate to support the applicants, under Court supervision, in preparing a creditors arrangement plan. On March 10, 2008, the Québec Superior Court agreed with TQS Inc.'s Board of Director decision to accept the offer made by Remstar Corporation Inc. to acquire all shares held by Cogeco Radio-Television Inc. and CTV Television Inc., the two shareholders of TQS. On May 22, 2008, the plan of arrangement proposed by Remstar Corporation Inc. was approved by the creditors of the TQS Group and subsequently approved by the Superior Court of Québec on June 4, 2008. Certain employees of TQS Inc. and their union filed a motion on June 19, 2008 for leave to appeal the order of the Superior Court of Québec approving the plan. On June 26, 2008, the CRTC approved the proposed transfer of ownership and control of TQS Inc. to Remstar Corporation Inc.

Effective December 18, 2007, the Company has ceased to consolidate the financial statements of the TQS Group. Accordingly, the investment in the TQS Group as at August 31, 2007, as well as its results of operations and its cash flow for the period of September 1, 2007 to December 18, 2007 and for the three and nine-month periods ended May 31, 2007, have been reclassified as a discontinued operation.

The assets and liabilities related to the discontinued operations as at August 31, 2007, were as follows:

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<i>(\$000)</i>	\$
	(unaudited)
Accounts receivable	23,611
Prepaid expenses	442
Broadcasting rights	14,647
Current assets	38,700
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Broadcasting rights	17,456
Fixed assets	21,653
Broadcasting licenses	3,000
Non-current assets	42,109
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Bank indebtedness	8,173
Accounts payable and accrued liabilities	28,893
Broadcasting rights payable	8,531
Income tax liabilities	141
Deferred and prepaid income	42
Current portion of long-term debt	251
Current liabilities	46,031
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Share in the partner's deficiency of a general partnership	518
Broadcasting rights payable	4,408
Pension plan liabilities	1,444
Non-controlling interest	11,219
Long-term liabilities	17,589

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The results of the discontinued operations were as follows:

(\$000)	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	-	28,329	38,499	84,901
Operating costs	-	28,625	35,822	88,010
Operating income (loss) before amortization	-	(296)	2,677	(3,109)
Amortization	-	1,110	1,364	3,288
Operating income (loss)	-	(1,406)	1,313	(6,397)
Financial expense	-	248	291	659
Impairment of assets	-	-	30,298	-
Loss before income taxes and the following items	-	(1,654)	(29,276)	(7,056)
Income taxes	-	1,624	-	(101)
Non-controlling interest	-	(1,311)	(11,219)	(2,780)
Shares in the earnings of a general partnership	-	(1)	-	(5)
Loss from discontinued operations	-	(1,966)	(18,057)	(4,170)

The cash flow of the discontinued operations was as follows:

(\$000)	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flow from operating activities	-	(187)	(3,973)	(8,054)
Cash flow from investing activities	-	(567)	(133)	(1,255)
Cash flow from financing activities	-	754	4,106	9,309
Cash flow from discontinued operations	-	-	-	-

## Continuing Operations

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

During the first nine months ended May 31, 2008, the consolidated number of RGUs increased by 190,109, or 7.6% to reach 2,675,774 units, which is in line with Cogeco Cable's revised RGU growth projections of 225,000 units, representing growth of approximately 9%, for the fiscal year ended August 31, 2008. Please consult the fiscal 2008 revised projections in the "Fiscal 2009 preliminary financial guidelines" section for further details.

### **Revenue and operating income before amortization growth**

For the third quarter of fiscal 2008, revenue increased by \$34.5 million, or 13.8%, to reach \$283.9 million while operating income before amortization grew by \$21.4 million, or 22.4%, to reach \$117.2 million. For the first nine months of 2008, revenue increased by \$98 million, or 13.6%, to reach \$816 million, while operating income before amortization grew by \$57.1 million, or 21.1%, to reach \$327.8 million. For fiscal 2008, the Company expects revenue to reach \$1,090 million, while operating income is expected to reach \$445 million. Please consult the fiscal 2008 revised projections in the “Fiscal 2009 preliminary financial guidelines” section for further details.

### **Free cash flow**

In the third quarter of fiscal 2008, COGECO generated free cash flow of \$37.1 million, compared to \$19.1 million for the same period last year. For the nine-month period ended May 31, 2008, the Company generated free cash flow of \$79.5 million compared to \$20.3 million for the same period the year before. These increases result mainly from the cable sector and are attributable to an increase in operating income before amortization and a reduction in financial expense. Capital expenditures and deferred charges remained essentially the same compared to the corresponding periods last year. Due to the usual higher level of capital expenditures in the fourth quarter, the Company projects free cash flow of \$75 million for the fiscal year ended August 31, 2008. Please consult the fiscal 2008 revised projections in the “Fiscal 2009 preliminary financial guidelines” section for further details.

## **OPERATING RESULTS – CONSOLIDATED OVERVIEW**

(\$000, except percentages)	Quarters ended May 31,			Nine months ended May 31,		
	2008 \$	2007 \$	Change %	2008 \$	2007 \$	Change %
	(unaudited)	(unaudited)		(unaudited)	(unaudited)	
Revenue	283,878	249,424	13.8	816,027	718,035	13.6
Operating costs	166,674	153,633	8.5	488,268	447,395	9.1
Operating income before amortization	117,204	95,791	22.4	327,759	270,640	21.1
Operating margin	41.3%	38.4%		40.2%	37.7%	

### **Revenue**

Fiscal 2008 third-quarter revenue improved, mainly by its Cable segment, by \$34.5 million, or 13.8%, to reach \$283.9 million, and, for the first nine-month period, by \$98 million, or 13.6%, to reach \$816 million. Cable revenue, driven by an increased number of RGUs, combined with rate increases, went up by \$34.3 million, or 14.3%, and by \$97.3 million, or 14%, respectively, in the third quarter and first nine months of fiscal 2008.

### **Operating costs**

For the third quarter and the first nine months of fiscal 2008, operating costs increased by \$13 million, or 8.5% and \$40.9 million, or 9.1%, compared to last year, to reach \$166.7 million and \$488.3 million, respectively. The increase in operating costs for the third quarter and first nine-month period of 2008 was mainly attributable to the cable sector and due to servicing additional RGUs in Canada and Portugal. In addition, for the first nine-month period, operating costs were impacted by the timing of certain marketing initiatives in Portugal, including a major campaign to

increase brand awareness, and costs related to the design of internal controls and review of business processes to comply with National Instrument 52-109.

### **Operating income before amortization**

Operating income before amortization grew, essentially by its Cable segment, by \$21.4 million, or 22.4%, to reach \$117.2 million in the third quarter of fiscal 2008 and by \$57.1 million, or 21.1%, to reach \$327.8 million in the first nine months of fiscal 2008 compared to the corresponding periods of the prior year. The cable sector contributed to the growth by \$19.6 million and \$56 million during the third quarter and first nine months of fiscal 2008, respectively.

### **FIXED CHARGES**

(\$000, except percentages)	Quarters ended May 31,			Nine months ended May 31		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
	(unaudited)	(unaudited)		(unaudited)	(unaudited)	
Amortization	58,564	47,725	22.7	167,949	136,498	23.0
Financial expense	17,746	21,603	(17.9)	52,487	67,132	(21.8)

Fiscal 2008 third-quarter and first nine-month period amortization amounted to \$58.6 million and \$167.9 million compared to \$47.7 million and \$136.5 million for the same periods the year before. Amortization expense increased for both periods mainly due to the following factors in the cable sector: the completion, in the fourth quarter of fiscal 2007, of the purchase price allocation of the Cabovisão acquisition, which includes the revaluation of tangible and intangible assets for an additional amortization expense of approximately \$6.2 million and \$16.4 million in the third quarter and first nine months, respectively, and additional capital expenditures arising from the required customer premise equipment to sustain RGU growth and to support the deployment of the Digital Television service in Portugal.

Fiscal 2008 third-quarter and first nine-month period financial expense decreased by \$3.9 million and \$14.6 million, respectively, compared to the same periods in fiscal 2007. During the first nine months of fiscal 2008, the Company's cable subsidiary reduced its level of Indebtedness (defined as bank indebtedness and long-term debt) from the net proceeds of subordinate voting shares issued during fiscal 2007. During the first nine-month period of fiscal 2007, Cogeco Cable also recorded a one-time charge of \$2.6 million related to the early repayment of its Second Secured Debentures, Series A.

### **INCOME TAXES**

Fiscal 2008 third-quarter income tax expense amounted to \$10.3 million compared to \$8.1 million in fiscal 2007. The effective tax rate for the three months ended May 31, 2008 was 25.2% compared to 30.4% for the same period of 2007, mainly due to the cable sector's lower corporate income tax rates in Canada and to income tax reductions in European operations resulting from the revaluation of tangible and intangible assets upon the completion of the Cabovisão purchase price allocation in the fourth quarter of fiscal 2007.

For the first nine months of fiscal 2008, income tax expense amounted to \$5.1 million compared to \$18.8 million in 2007. Included in first nine months of 2008 expense is a recovery of \$24.1 million related to the reduction in corporate income tax rates announced on October 16, 2007 by the Canadian federal government in its Economic Statement. According to the new tax initiatives,

corporate income tax rates have been further reduced from 20.5% to 19.5% effective January 1, 2008, from 20% to 19% effective January 1, 2009, from 19% to 18% effective January 1, 2010, from 18.5% to 16.5% effective January 1, 2011, and to 15% effective January 1, 2012. These corporate income tax rates were considered substantively enacted on December 14, 2007. The effective tax rates for the first nine months of 2008 and 2007 were 4.8% and 28.1%, respectively. Excluding the effect of the tax rate reductions, the effective tax rate for the first nine months of 2008 was 27.3%.

## **GAIN ON DILUTION RESULTING FROM SHARES ISSUED BY A SUBSIDIARY**

During the first nine months of 2007, the Company's subsidiary, Cogeco Cable Inc., completed a public offering totalling 5,000,000 subordinate voting shares. The offering resulted in gross proceeds of \$192.5 million and net proceeds of \$184.2 million. The Company's subsidiary has also issued, during the first nine months of fiscal 2007, 7,344 subordinate voting shares pursuant to its Employee Stock Purchase Plan and 305,573 subordinate voting shares pursuant to its Employee Stock Option Plan for cash considerations of \$0.2 million and \$5.7 million, respectively. As a result, the Company's interest in Cogeco Cable Inc. decreased from 39.2% to 34.6% and a gain on dilution of \$30.9 million was recorded for the nine-month period ended May 31, 2007.

## **NON-CONTROLLING INTEREST**

The non-controlling interest represents a participation of approximately 67.7% in Cogeco Cable's results. During the third quarter and first nine months of 2008, the non-controlling interest amounted to \$21.1 million and \$68.6 million, respectively, due to the cable sector's strong results. The non-controlling interest for the comparable periods of last year amounted to \$13.3 million and \$30.6 million, respectively.

## **NET INCOME**

Fiscal 2008 third-quarter net income amounted to \$9.5 million, or \$0.57 per share, compared to \$3.1 million, or \$0.18 per share, for the same period last year. The net income increase in the third quarter of fiscal 2008 was mainly due to growth in operating income before amortization exceeding those of the fixed charges, net of non-controlling interest, from the cable sector, and to the loss from discontinued operations of \$2 million in the third quarter of fiscal 2007.

Fiscal 2008 first nine-month period net income amounted to \$15.5 million, or \$0.93 per share, compared to \$44.4 million, or \$2.67 per share, for the same period in 2007. The net income decrease in the first nine months of fiscal 2008 was due to the following factors: a gain on dilution amounting to \$30.9 million was recorded in the first nine months of fiscal 2007, a loss from discontinued operations of \$18.1 million recorded in the first nine months of fiscal 2008, partially offset by the growth in operating income before amortization exceeding those of the fixed charges and the effect of income tax rate reductions of \$24 million, net of non-controlling interest, from the cable sector.

Excluding the effect of the fiscal 2007 gain on dilution and the effect of the fiscal 2008 income tax rate reductions net of non-controlling interest and the loss from discontinued operations, net income for the third quarter of fiscal 2008 would have amounted to \$9.5 million, or \$0.57 per share, compared to \$5.1 million, or \$0.31 per share, for the same period in 2007, an improvement of 87.5% and 83.9%, respectively. For the 2008 nine-month period, net income, excluding the adjustments discussed above, would have amounted to \$25.7 million, or \$1.54 per share, compared to \$17.6 million, or \$1.06 per share, in 2007, an increase of 45.9% and 45.3%, respectively. Please consult the "Non-GAAP financial measures" section for further details.

## CASH FLOW AND LIQUIDITY

(\$000)	Quarters ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Operating activities</b>				
Cash flow from operations	96,068	76,862	262,819	205,412
Changes in non-cash operating items	16,825	(25,193)	(10,380)	(102,005)
	112,893	51,669	252,439	103,407
<b>Investing activities <sup>(1)</sup></b>	<b>(74,415)</b>	<b>(53,541)</b>	<b>(197,487)</b>	<b>(179,875)</b>
<b>Financing activities <sup>(1)</sup></b>	<b>18,771</b>	<b>(15,255)</b>	<b>(39,815)</b>	<b>26,143</b>
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	1,063	(1,774)	1,265	1,486
Net change in cash and cash equivalents	58,312	(18,901)	16,402	(48,839)
Cash and cash equivalents at beginning	24,369	41,578	66,279	71,516
Cash and cash equivalents at end	82,681	22,677	82,681	22,677

<sup>(1)</sup> Excludes assets acquired under capital leases.

Fiscal 2008 third-quarter cash flow from operations reached \$96.1 million, 25% higher than for the comparable period last year, primarily due to the increase in operating income before amortization and to a reduction in financial expense in the cable sector. Changes in non-cash operating items generated cash inflows compared to cash outflows for the same period last year, attributable to the cable sector and mainly as a result of an increase in accounts payable and accrued liabilities and in income tax liabilities.

Fiscal 2008 first nine-month period cash flow from operations reached \$262.8 million, an increase of 27.9% compared to the same period the year before, primarily due to the growth in operating income before amortization and to a reduction in financial expense in the cable sector. Changes in non-cash operating items generated lower cash outflows than for the same period last year, attributable to the cable sector and mainly as a result of a smaller decrease in accounts payable and accrued liabilities, and an increase in income tax liabilities. The larger reduction in accounts payable and accrued liabilities in the first nine months of fiscal 2007 was due to non-recurring payments made by the Portuguese cable subsidiary in accordance with the terms of the acquisition.

In the third quarter of fiscal 2008, investing activities stood at \$74.4 million mainly due to capital expenditures of \$50.9 million, a business acquisition of \$16.1 million and from an increase of \$7.1 million in deferred charges in the cable sector. The capital expenditures from the cable sector increased compared to the same period last year due to the following factors:

- An increase in customer premise equipment capital spending resulted from higher RGU growth fuelled in part by increased interest for High Definition technology for the Canadian operations combined with the deployment of Digital Television in Portugal, partly offset by lower RGU growth in Portugal.
- A decrease in scalable infrastructure capital spending mainly due to the timing of the expansion and the headend improvements, system powering and equipment reliability to sustain increased customer demand for HSI and Telephony services.
- An increase in capital expenditures associated with the network upgrade and rebuild due to the construction costs incurred to increase the number of homes passed in Portugal.

In the first nine months of fiscal 2008, investing activities stood at \$197.5 million mainly due to capital expenditures of \$160.3 million, an increase of \$20.6 million in deferred charges in the cable sector and a business acquisition of \$16.1 million. The capital expenditures from the cable sector decreased compared to the same period last year due to the following factors:

- A reduction in customer premise equipment resulted from the timing to acquire such equipment in fiscal 2007, in the Canadian operations, to ensure the availability of equipment required to sustain expected RGU growth, partly offset by the deployment of Digital Television service in Portugal.
- An increase in support capital due to the improvement in information systems to sustain the business operations and to the acquisition of vehicles.

Deferred Charges are mainly attributable to reconnect costs. Fiscal 2008 third-quarter and first nine-month period capital spending amounted to \$7.1 million and \$20.6 million compared to \$6 million and \$19.3 million for the same periods the year before. The higher reconnect costs associated with RGUs in Canada combined with the deployment of the Digital television service in Portugal explained the increases recorded so far in 2008.

In the third quarter and first nine months of fiscal 2008, the Company generated free cash flow in the amount of \$37.1 million and \$79.5 million, respectively, compared to \$19.1 million and \$20.3 million for the same periods of the preceding year. The free cash flow increases over last year's same periods are attributable to the cable sector and are mainly due to an increase in operating income before amortization and to a reduction in financial expense. The aggregate of the capital expenditures and deferred charges remained essentially the same compared to the same periods in the prior year.

Indebtedness increased by \$22.9 million in the third quarter of fiscal 2008. This increase is primarily due to the issuance by Cogeco Cable on March 5, 2008 of a \$100 million senior unsecured debenture by way of a private placement, the proceeds of which were used in part by the cable subsidiary to reimburse its bank indebtedness of \$17.7 million and to finance the acquisition of MaXess Networx® for \$16.1 million. The debenture bears interest at a fixed rate of 5.936%, is redeemable at Cogeco Cable's option at any time, in whole or in part, prior to maturity, at 100% of the principal amount plus a make-whole premium and will mature on March 5, 2018. The increase in Indebtedness was partly offset by repayments on the revolving credit facility of \$58.6 million in the cable sector and a reduction of the Company's Term Facility for an amount of \$2 million from the free cash flow of \$37.1 million and the increase in non-cash operating items of \$16.8 million. For the same period last year, Indebtedness decreased by \$13.6 million. The decrease in the level of Indebtedness is mainly due to the free cash flow generated of \$19.1 million and to the decrease of \$18.9 million in cash and cash equivalents, partly offset by a decline of \$25.2 million in non-cash operating items. In addition, dividends of \$0.07 per share for subordinate and multiple voting shares, totalling \$1.2 million, were paid by the Company during the third quarters of fiscal 2008 and fiscal 2007. Dividends paid by a subsidiary to non-controlling interests were \$3.3 million during the third quarter, for consolidated dividend payments of \$4.4 million.

During the first nine months of fiscal 2008, the level of Indebtedness decreased by \$29.7 million mainly due to a net reduction of the amount outstanding on the revolving credit facility of \$123.1 million in the cable sector and a reduction of the Company's Term Facility of \$6.5 million. This decrease was partly offset by the issuance of a senior unsecured debenture, as discussed above. For the same period last year, Indebtedness decreased by \$156.7 million mainly due to the completion of a public offering of 5,000,000 subordinate shares for a net proceeds of \$184.2 million, the generated free cash flow of \$20.3 million and the decrease of \$48.8 million in cash and cash equivalents, partly offset by a decline of \$102 million in non-cash operating items. In addition, quarterly dividends of \$0.07 per share for subordinate and multiple voting shares, totalling \$3.5 million, were paid by the Company during the first nine months of fiscal 2008 compared to quarterly dividends of \$0.0625 per share for the first quarter and \$0.07 per share for the second

and third quarters, totalling \$3.4 million, were paid during the first nine months of fiscal 2007. Dividends paid by a subsidiary to non-controlling interests were \$9.8 million during the first nine months of fiscal 2008, bringing the consolidated dividend payments to \$13.3 million.

As at May 31, 2008, the Company had a working capital deficiency of \$350.4 million compared to \$127.3 million as at August 31, 2007. The greater deficiency is mainly attributable to Cogeco Cable's US\$150 million Senior Secured Notes, Series A and its related derivative financial instruments of \$91.3 million for an aggregate amount of \$240.1 million due on October 31, 2008. Due to the nature of its business, COGECO maintains a working capital deficiency due to a low level of accounts receivable since the majority of the cable subsidiary's customers pay before their services are rendered, contrary to accounts payable and accrued liabilities, which are paid after products or services are rendered, thus enabling the cable subsidiary to use cash and cash equivalents to reduce Indebtedness.

As at May 31, 2008, the cable subsidiary had used \$366.8 million of its \$900 million Term Facility and the Company had drawn \$19 million of its \$50 million Term Facility.

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, 2007, except for the changes in the presentation of assets and liabilities related to discontinued operations, there have been major changes to the balance of Fixed assets, Cash and cash equivalents, Accounts payable and accrued liabilities, Income tax liabilities, Accounts receivable, Future income tax assets, Future income tax liabilities, Goodwill, Accumulated other comprehensive income (loss), Non-controlling interest, Derivative financial instruments, and Indebtedness.

The \$55.2 million increase in fixed assets is mainly due to increased capital expenditures to sustain RGU growth and by the appreciation of the Euro over the Canadian dollar in the cable sector. The \$16.4 million increase in cash and cash equivalents is mainly related to the net proceeds of issuance of senior unsecured debentures, as discussed in the "Cash Flow and Liquidity" section, as well as the free cash flow generated of \$79.5 million, partly offset by the net reductions of the cable subsidiary's revolving credit facility of \$123.1 million and the Company's Term Facility of \$6.5 million, the acquisition of MaXess Networx® for \$16.1 million and dividends paid totalling \$13.3 million, \$9.8 million of which were paid by the cable sector. The \$13.9 million reduction in accounts payable and accrued liabilities is primarily related to the timing of payments made to suppliers in the cable sector. The \$14 million increase in income tax liabilities and the \$9.8 million reduction in future income tax assets are due to the utilization of Cogeco Cable's tax loss carry forwards before fiscal 2008. The \$7.6 million accounts receivable increase is essentially due to revenue growth and its related level of receivables in the cable sector. The \$21 million future income tax liabilities reduction, also attributable to the cable sector, is mainly due to the corporate income tax rate reductions announced by the Canadian federal government and considered substantively enacted on December 14, 2007. The \$25.2 million goodwill increase is due to the appreciation of the Euro over the Canadian dollar in the cable sector. The \$4.9 million increase in accumulated other comprehensive income (loss) is mainly the result of the appreciation of the Euro over the Canadian dollar, partly offset by the changes in accounting policies related to financial instruments in the cable sector. The \$74.1 million increase in non-controlling interest is mainly due to the improved results in the cable sector. Finally, the derivative financial instruments have increased by \$91.3 million and Indebtedness has decreased by \$88.2 million as a result of accounting changes and factors previously discussed in the "Cash Flow and Liquidity" section, net

of the unfavourable impact of the appreciation of the Euro over the Canadian dollar. Please consult the "Accounting policies and estimates" section for further details.

A description of COGECO's share data as at June 30, 2008 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	14,851,586	119,393
<b>Options to purchase Subordinate voting shares</b>		
Outstanding options	169,758	
Exercisable options	169,758	

In the normal course of business, COGECO has incurred financial obligations, primarily in the form of long-term debt, operating and capital leases and guarantees. COGECO's obligations, discussed in the 2007 annual MD&A, have not materially changed since August 31, 2007, except that on December 14, 2007, the Company concluded an amended and restated credit agreement with a group of four Canadian banks led by the Canadian Imperial Bank of Commerce ("CIBC"), which will now act as agent for the banking syndicate. The annually renewable three-year amended credit agreement establishes a revolving credit of \$50 million to which may be added a further credit of \$25 million under certain conditions. The amended credit agreement maintains certain financial commitments with the same security by the Company, its subsidiary Cogeco Radio-Television Inc., and indirect subsidiary, Cogeco Diffusion Inc.

In November 2007, the Company posted a guarantee for a maximum amount of \$12 million in favour of CIBC, the bank of the TQS Group. On March 18, 2008, the Company was unconditionally relieved from all of its obligations under the guarantee, as CIBC was fully repaid by Remstar Corporation for all indebtedness of the TQS Group under the TQS credit agreement.

Furthermore, on March 5, 2008, Cogeco Cable issued a \$100 million senior unsecured debenture by way of a private placement. The debenture bears interest at a fixed rate of 5.936%, is redeemable at the Cogeco Cable's option at any time, in whole or in part, prior to maturity, at 100% of the principal amount plus a make-whole premium and will mature on March 5, 2018.

On June 30, 2008, Cogeco Cable completed the acquisition of all the assets of FibreWired Burlington Hydro Communications, Burlington Hydro Electric's telecommunications division (City of Burlington's energy company) for a total consideration of \$12.5 million. FibreWired Burlington Hydro Communications operates a broadband network equipped with next generation Ethernet technology, provides Burlington organizations with the broadband capacity they need for data networking, high-speed Internet access, hosting services, e-business applications, video conferencing and other advanced communications. Cogeco Cable will use this network to expand its commercial broadband service offering in the area, which is in Cogeco Cable's footprint.

On June 13, 2008, Cogeco Cable announced the acquisition of all of the shares of Toronto Hydro Telecom Inc., the telecommunications subsidiary of Toronto Hydro Corporation (City of Toronto's energy company) for a total purchase price of \$200 million, subject to certain conditions, including regulatory approval by the Commissioner of Competition. In addition, the Company will assume a working capital deficiency and liabilities of approximately \$4 million. Toronto Hydro Telecom Inc. offers data communications and other telecommunications services such as Ethernet, private line, Voice-over-Internet protocol ("VoIP"), high-speed Internet access, dark fibre, data storage, data security and co-location to a wide range of business customers and organizations throughout the Greater Toronto Area ("GTA"). This agreement will allow Cogeco Cable to further the development of its business telecommunications activities.

On March 31, 2008, Cogeco Cable completed the acquisition of all the assets of MaXess Networx®, ENWIN Energy Ltd.'s telecommunications division (City of Windsor's energy company), for a total cost of \$16.1 million, including transaction costs. MaXess Networx® operates a broadband network equipped with next generation ATM and Ethernet technology and provides organizations in south-western Ontario with the broadband capacity required for data networking, high-speed Internet access, e-business applications, video conferencing and other advanced communications.

## **DIVIDEND DECLARATION**

At its July 9, 2008 meeting, the Board of Directors of COGECO declared a quarterly eligible dividend of \$0.07 per share for subordinate and multiple voting shares, payable on August 6, 2008, to shareholders of record on July 23, 2008.

## **FOREIGN EXCHANGE MANAGEMENT**

The Company's subsidiary, Cogeco Cable, has entered into cross-currency swap agreements to set the liability for interest and principal payments on its US\$150 million Senior Secured Notes. These agreements have the effect of converting the U.S. interest coupon rate of 6.83% per annum to an average Canadian dollar fixed interest rate of 7.254% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CAN\$1.5910. Amounts due under the US\$150 million Senior Secured Notes, Series A decreased by CAN\$9.5 million at the end of the third quarter compared to August 31, 2007 due to the Canadian dollar's appreciation. The fair value of cross-currency swaps increased by a net amount of \$7.8 million, of which \$9.5 million offset the foreign exchange gain on the US\$ debt. The difference of \$1.7 million was recorded as an increase of other comprehensive income.

As noted in the MD&A of the 2007 Annual Report, Cogeco Cable's investment in the Portuguese subsidiary, Cabovisão, is exposed to market risk attributable to fluctuations in foreign currency exchange rates, primarily changes in the value of the Canadian dollar versus the Euro. This risk is mitigated since the major part of the purchase price for Cabovisão was borrowed directly in Euros. This debt is designated as a hedge of net investments in self-sustaining foreign subsidiaries and, accordingly, Cogeco Cable realized a foreign exchange gain of CAN\$16.2 million in the first nine months of 2008, which is presented net of non-controlling interest of \$11 million in other comprehensive income. The exchange rate used to convert the Euro into Canadian dollars for the balance sheet accounts as at May 31, 2008 was \$1.5448 per Euro compared to \$1.4390 per Euro as at August 31, 2007. The average exchange rates prevailing during the third quarter and first nine months of 2008 used to convert the operating results of the European operations were \$1.5694 and \$1.4851 per Euro, respectively, compared to \$1.5202 and \$1.4946 per Euro, respectively, for the same periods last year.

**CABLE SECTOR****CUSTOMER STATISTICS**

	2008	Net additions (losses)				% of Penetration <sup>(1)</sup>	
		Quarters ended		Nine months ended		2008	2007
		May 31, 2008	2007	May 31, 2008	2007		
RGUs <sup>(2)</sup>	2,675,774	50,889	52,434	190,109	251,112		
Basic Cable service customers	1,159,161	(1,589)	2,784	16,001	38,160		
HSI service customers	628,978	6,865	16,454	53,119	81,202	56.7	51.7
Digital Television service customers	440,066	26,055	8,583	60,187	43,768	38.5	44.5
Telephony service customers	447,569	19,558	24,613	60,802	87,982	44.2	38.2

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

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

In Canada, third-quarter 2008 RGU net additions were higher than for the same period last year but reflect an early sign of maturation in some services. In Portugal, fiscal 2008 third-quarter and first nine-month periods were marked by an unfavourable economic environment, aggressive marketing campaigns from competitors, including periodic intense price competition, and the arrival of multiple triple-play providers in the Portuguese market. Cabovisão did not match the competition's highly discounted offering at all times. These factors were the main contributors to net customer losses in the Basic Cable and lower customer growth in HSI and in Telephony services compared to the same period last year. The net RGU growth in the European operations is attributable to the launch of the Digital Television service in the third quarter of 2008. Management considers the current competitive dynamic in Portugal to be transitory. Cabovisão's performance since its acquisition by Cogeco Cable has exceeded management's original business plan, and long-term growth prospects remain excellent in management's view.

The net loss of customers for Basic Cable in the Canadian market stood at 520 customers compared to 2,910 customers for the same period last year. Third-quarter Basic Cable service customer losses are due to the end of the school year for college and university students. In addition, 2007 third-quarter net losses were unusually high due to the end of an aggressive promotional offer which resulted in a significant number of customer disconnections. In Portugal, Basic Cable service decreased by 1,069 customers compared to an increase of 5,694 customers in the same period of the prior year.

In Canada, the number of net additions to HSI service stood at 8,480 customers compared to 11,030 customers for the same period last year. During the third quarter of 2008, the growth in HSI customer net additions continues to stem from the enhancement of the product offering, the impact of the bundled offer (*Cogeco Complete Connection*) of Television, HSI and Telephony services, and promotional activities. HSI service customers in Portugal decreased by 1,615 customers compared to an increase of 5,424 customers in 2007.

Canadian net additions of Digital Television service stood at 11,585 customers compared to 8,583 customers for the same period last year due to targeted marketing initiatives in 2008 to improve the penetration rate. It also reflects the continuing strong interest for High Definition technology. The Digital Television service was launched in Portugal in the third quarter of 2008, with the addition of 14,470 customers in that period.

Telephony customers grew in both operating units. In Canada, net additions stood at 17,113 to reach 200,165 compared to a growth of 19,065 for the same period last year. The lower growth is mostly attributable to the increased penetration in areas where the service is already offered and

to fewer new areas where the service was launched. Telephony service coverage, as a percentage of homes passed, has now reached 83% compared to 77% last year. Telephony service in Portugal grew by 2,445 customers compared to 5,548 customers for the same period of the preceding year.

## OPERATING RESULTS

(\$000, except percentages)	Quarters ended May 31,			Nine months ended May 31,		
	2008	2007	Change	2008	2007	Change
	\$	\$	%	\$	\$	%
	(unaudited)	(unaudited)		(unaudited)	(unaudited)	
Revenue	274,944	240,612	14.3	791,879	694,566	14.0
Operating costs	157,454	142,738	10.3	458,857	417,671	9.9
Management fees - COGECO Inc.	-	-	-	8,714	8,568	1.7
Operating income before amortization	117,490	97,874	20.0	324,308	268,327	20.9
Operating margin	42.7%	40.7%		41.0%	38.6%	

### Revenue

Fiscal 2008 third-quarter consolidated revenue improved by \$34.3 million, or 14.3%, to reach \$274.9 million, and for the first nine-month period by \$97.3 million, or 14% to reach \$791.9 million. Driven by an increased number of RGUs combined with rate increases, 2008 third-quarter Canadian operations revenue went up by \$28.2 million, or 15.4%, and 2008 first nine-month period by \$86.7 million, or 16.5%.

Fiscal 2008 third-quarter European operations revenue increased by \$6.2 million, or 10.7%, to reach \$64 million, and 2008 nine-month period by \$10.6 million, or 6.3%, to reach \$179.5 million compared to the same periods last year. European operations have generated lower RGU growth and implemented rate increases. Furthermore, the strength of the Euro against the Canadian dollar compared with last year has increased revenue growth when translated to Canadian dollars.

### Operating costs

For the third quarter and the first nine months of fiscal 2008, operating costs, excluding management fees payable to COGECO Inc., increased by \$14.7 million, or 10.3% and \$41.2 million, or 9.9%, compared to last year, to reach \$157.5 million and \$458.9 million, respectively. The increase in operating costs for the third quarter 2008 was mainly attributable to servicing additional RGUs in Canada and Portugal. The increase in operating costs for the first nine-month period was attributable to servicing additional RGUs in Canada and Portugal, the timing of certain marketing initiatives in Portugal, including a major campaign to increase brand awareness, and costs related to the design of internal controls and review of business processes to comply with National Instrument 52-109.

### Operating income before amortization

Fiscal 2008 third-quarter and first nine-month period operating income before amortization increased by \$19.6 million, or 20%, to reach \$117.5 million and by \$56 million, or 20.9%, to reach \$324.3 million, respectively, as a result of RGU growth and various rate increases outpacing operating cost increases. Cogeco Cable's third-quarter of 2008 operating margin increased to 42.7% from 40.7% due to rate increases implemented during the first quarter of fiscal 2008 and the third quarter of fiscal 2007. The operating margin in Canada improved to 44.3% from 43.2% and in Europe to 37.7% from 32.7%.

For the first nine months of fiscal 2008, the operating margin improved to 41% from 38.6% due to the reasons described above with the Canadian operating margin improving to 42.6% from 40.2% and the European operating margin to 35.4% from 33.7% when compared to the same period the year before.

## **FISCAL 2009 PRELIMINARY FINANCIAL GUIDELINES**

### **Cable sector**

The fiscal 2009 preliminary financial guidelines exclude the acquisition of Toronto Hydro Telecom Inc., which is subject to the approval by the Commissioner of Competition. The revised guidelines, with other changes as required, will be presented upon completion of the transaction and the release of the 2008 year-end results.

For fiscal 2009, Cogeco Cable expects to grow revenue and operating income before amortization. The preliminary guidelines take into consideration the global economical slowdown that is occurring and should continue during 2009. In Canada and Portugal, mortgage interest rate increases and higher commodity prices are leaving consumers with a lower level of disposable income. In addition, Portugal's anticipated gross domestic product growth for 2009 will be negatively impacted as the Government deficit will be one of the highest of the European Union in recent history, while the competitive landscape should remain unchanged. Results from this scenario should generate slower growth when compared to prior years.

The revenue increase of approximately 10% should come from the combined Canadian and European operations. The Canadian operations revenue should increase by approximately 13% from continued deployment of Telephony service, by expanded penetration of HSI service and Digital Television services in fiscal 2008 and 2009 and the impact of the rate increases implemented in fiscal 2008 in Ontario and in Québec, averaging \$1.75 per Basic Cable service customer for both divisions. Cogeco Cable plans to expand its Canadian Basic Cable Service clientele through consistently effective marketing, competitive product offerings and superior customer service. As the penetration of HSI, Telephony and Digital Television services increase, the demand for these products should slow, reflecting maturity. Revenue from the European operations should increase by approximately 3.5% from €162 million to €168 million mainly from rate increases of approximately €1.30 (CDN\$2) per Basic Cable service customer implemented in fiscal 2008, sustained RGU growth from fiscal 2008 and 2009 and from the launch of Digital Television service in the second half of fiscal 2008. The European operations should contribute to approximately 2% in revenue growth due to the effect of foreign exchange translation. For fiscal 2008, the expected Canadian dollar value of the Euro should be approximately \$1.48 per Euro while for fiscal 2009, it is anticipated that the Euro should be converted at a rate of approximately \$1.44 per Euro.

Growth in revenue and sustained cost control should help achieve a significant increase in operating income before amortization by approximately 12% to 13%. Cogeco Cable expects to achieve an operating margin of approximately 42.5%.

Cogeco Cable expects the amortization of capital assets and deferred charges to increase by \$25 million, mainly due to capital expenditures and deferred charges for RGU additions in fiscal 2008 and 2009. Management expects that cash flows generated by operations will finance capital expenditures and deferred charges, expected to amount to \$275 million, essentially the same as for fiscal 2008. Cogeco Cable expects to generate free cash flow in the order of \$105 million, an increase of approximately \$35 million compared to fiscal 2008 projections. Generated free cash flow should be used primarily to reduce Indebtedness, thus improving the cable subsidiary's leverage ratios. Given the anticipated decrease in Indebtedness, financial expense will decline by

approximately \$7 million. Net income of approximately \$125 million should be achieved as a result of growth in operating income before amortization exceeding the increase in fixed charges.

## Consolidated

<i>(\$ million, except customer data and operating margin)</i>	Preliminary Projections Fiscal 2009 \$	Revised Projections Fiscal 2008 April 10, 2008 \$
<b>Consolidated Financial Guidelines</b>		
Revenue	1,198	1,090
Operating income before amortization	500	445
Net income	42	22
Free cash flow	110	75
<b>Cable sector- Financial Guidelines</b>		
Revenue	1,165	1,060
Operating income before amortization	495	440
Operating margin	42.5%	41% to 42%
Financial expense	65	72
Amortization	250	225
Net income	125	123
Capital expenditures and deferred charges	275	275
Free cash flow	105	70
<b>Customer Addition Guidelines</b>		
RGUs	175,000	225,000

## UNCERTAINTIES AND MAIN RISK FACTORS

There have been no significant changes in the risk factors and uncertainties facing COGECO since August 31, 2007, except for the Part II Licence Fees payable to the Canadian Radio-television and Telecommunications Commission (CRTC). On December 14, 2006, the Federal Court of Canada ruled that the Part II Licence Fees payable to the CRTC are an unlawful tax. Both the Plaintiffs (the members of the Canadian Association of Broadcasters, Videotron Ltee and CF Cable TV Inc.) and the Defendant (the Crown) have appealed this decision to the Federal Court of Appeal. The Defendant was seeking to reverse the Court decision that Part II Licence Fees are unlawful and the Plaintiffs were seeking a Court order requiring a refund of past fees paid. The Appeal hearing was held on December 4 and 5 in Ottawa and a decision was rendered on April 28, 2008 in favour of the Crown, to the effect that the fees are valid regulatory charges. On June 26 and 27, 2008, the Plaintiffs filed applications for leave to appeal to the Supreme Court of Canada. The Defendant must respond to these applications within 60 days. COGECO has accrued the full amount with respect to these fees for fiscal year 2007 and the first nine months of fiscal 2008.

## ACCOUNTING POLICIES AND ESTIMATES

There has been no significant change in COGECO's accounting policies and estimates and future accounting pronouncements since August 31, 2007, except as described below. A description of the Company's policies and estimates can be found in the 2007 annual MD&A.

## ***Financial instruments***

Effective September 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3865, Hedges.

### *Statement of Comprehensive Income*

A new statement entitled Consolidated Statements of Comprehensive Income was added to the Company's consolidated financial statements and includes net income as well as other comprehensive income. Other comprehensive income represents changes in shareholders' equity arising from transactions and events from non-owner sources, such as changes in foreign currency translation adjustments of net investments in self-sustaining foreign subsidiaries and long-term debt designated as a hedge of net investments in self-sustaining foreign subsidiaries and changes in the fair value of effective cash flow hedging instruments.

### *Recognition and Measurement of Financial Instruments*

Under these new standards, all financial assets, including derivatives, must be classified as available for sale, held for trading, held to maturity or loans and receivables. All financial liabilities, including derivatives, must be classified as held for trading or other liabilities. All financial instruments classified as available for sale or held for trading are recognized at fair value on the consolidated balance sheet while financial instruments classified as loans and receivables or other liabilities will continue to be measured at amortized cost using the effective interest rate method. The standards allow the Company to designate certain financial instruments, on initial recognition, as held for trading.

All of the Company's financial assets are classified as held for trading or loans and receivables. The Company has classified its cash and cash equivalents as held for trading. Accounts receivable have been classified as loans and receivables. All of the Company's financial liabilities were classified as other liabilities, except for the Company's subsidiary's cross-currency swaps, which were classified as held for trading. Held for trading assets and liabilities are carried at fair value on the consolidated balance sheet, with changes in fair value recorded in the consolidated statement of income, except for the changes in fair value of the cross-currency swaps, which are designated as cash flow hedges of the Senior Secured Notes, Series A and are recorded in other comprehensive income. Loans and receivables and all financial liabilities are carried at amortized cost using the effective interest method. Upon adoption, the Company determined that none of its financial assets are classified as available for sale or held to maturity. Except for the treatment of transaction costs and derivative financial instruments mentioned below, the provisions of the new accounting standards had no impact on the consolidated financial statements on September 1, 2007 and May 31, 2008.

### *Transaction costs*

Effective September 1, 2007, transaction costs are capitalized on initial recognition and presented as a reduction of the related financing, except for transaction costs on the revolving loan and the swingline facility, which are presented as deferred charges. These costs are amortized over the term of the related financing using the effective interest rate method, except for transaction costs on the revolving loan and the swingline facility, which are amortized over the term of the related financing on a straight-line basis. Previously, all transaction costs were capitalized and amortized on a straight-line basis over the term of the related financing, over a period not exceeding five years. The impact of these adjustments reduced deferred charges by \$1.2 million, reduced long-

term debt by \$3.1 million, increased future income tax liabilities by \$0.6 million, increased non-controlling interest by \$0.9 million and increased retained earnings by \$0.4 million.

#### *Cash flow hedge*

All derivatives are measured at fair value with changes in fair value recorded in the consolidated statements of income unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the variability of cash flows relating to the hedged asset or liability is recognized in the consolidated statement of income. Any hedge ineffectiveness is recognized in the consolidated statement of income immediately. Accordingly, the Company's subsidiary's cross-currency swaps must be measured at fair value in the consolidated financial statements. Since these cross-currency swaps are used to hedge cash flows on Senior Secured Notes, Series A denominated in U.S. dollars, the changes in fair value are recorded in other comprehensive income. The impact of measuring the cross-currency swaps at fair value on the interim consolidated financial statements on September 1, 2007, increased derivative financial instruments liabilities by \$83.5 million, decreased deferred credit presented in long-term debt by \$80.2 million, decreased future income tax liabilities by \$1.1 million, decreased non-controlling interest by \$1.5 million and decreased opening accumulated other comprehensive income by \$0.7 million. The impact of measuring the cross-currency swaps at fair value on the interim consolidated financial statements for the third quarter decreased derivative financial instruments liabilities by \$1.6 million, increased future income tax liabilities by \$0.1 million, increased non-controlling interest by \$0.1 million and increased accumulated other comprehensive income by \$0.1 million. The impact of measuring the cross-currency swaps at fair value on the interim consolidated financial statements for the nine-month period ended May 31, 2008 increased derivative financial instruments liabilities by \$7.8 million, decreased future income tax liabilities by \$0.6 million, increased non-controlling interest by \$0.8 million and increased accumulated other comprehensive income by \$0.4 million.

#### *Net investment hedge*

Financial statements of self-sustaining foreign subsidiaries are translated using the rate in effect at the balance sheet date for asset and liability items, and using the average exchange rates during the period for revenue and expenses. Adjustments arising from this translation are deferred and recorded as foreign currency translation adjustments in accumulated other comprehensive income and are included in income only when a reduction in the investment in these foreign subsidiaries is realized. Unrealized foreign exchange gains and losses on long-term debt denominated in foreign currency, that is designated as a hedge of net investments in self-sustaining foreign subsidiaries, are recorded as foreign currency translation adjustments in accumulated other comprehensive income, net of income taxes and non-controlling interest. As a result, an amount of \$1.0 million was reclassified as at August 31, 2007 from the foreign currency translation adjustment to the accumulated other comprehensive income and the Company's comparative financial statements were restated in accordance with transition rules.

#### *Embedded derivatives*

All embedded derivatives that are not closely related to the host contracts, are measured at fair value, and with changes in fair value recorded in the consolidated statement of income. On September 1, 2007 and as at May 31, 2008, there are no significant embedded derivatives or non-financial derivatives that require separate fair value recognition on the consolidated balance sheet. In accordance with the new standards, the Company selected September 1, 2002 as its transition date for adopting the standard related to embedded derivatives.

### ***Upcoming standards***

In 2006, the CICA issued Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These Sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently evaluating the impact of these new standards.

### ***Accounting changes***

In July 2006, the CICA issued Section 1506, Accounting Changes, which modifies certain aspects of the previous standard. A reporting entity may not change its accounting method unless required by primary source of GAAP or to provide a more reliable and relevant presentation of the financial statements. In addition, changes in accounting methods must be applied retroactively and additional information must be disclosed. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007. During the first quarter, the Company adopted this new standard and concluded that it had no significant impact on these consolidated financial statements.

## **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 and net income, excluding gain on dilution, loss from discontinued operations and income tax adjustments, net of non-controlling interest.

### ***Cash flow from operations***

Cash flow from operations is used by COGECO's management and investors to evaluate cash flow generated by operating activities from continuing operations, excluding the impact of changes in non-cash operating items. This allows the Company to isolate the cash flow 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. Cash flow from operations is calculated as follows:

<i>(\$000)</i>	Quarters ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flow from operating activities	112,893	51,669	252,439	103,407
Changes in non-cash operating items	(16,825)	25,193	10,380	102,005
Cash flow from operations	96,068	76,862	262,819	205,412

**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. Free cash flow is calculated as follows:

(\$000)	Quarters ended May 31,		Nine months ended May 31,	
	2008 \$	2007 \$	2008 \$	2007 \$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flow from operations	96,068	76,862	262,819	205,412
Acquisition of fixed assets	(50,940)	(51,249)	(160,286)	(163,067)
Increase in deferred charges	(7,050)	(6,000)	(20,661)	(19,258)
Assets acquired under capital leases – as per Note 13b)	(971)	(561)	(2,417)	(2,793)
<b>Free cash flow</b>	<b>37,107</b>	<b>19,052</b>	<b>79,455</b>	<b>20,294</b>

**Net income excluding loss (gain) on dilution, loss from discontinued operations and income tax adjustments net of non-controlling interest.**

Net income excluding loss (gain) on dilution, loss from discontinued operations and income tax adjustments, net of non-controlling interest, is used by COGECO's management and investors in order to evaluate what would have been the net income excluding gain on dilution, loss from discontinued operations and income tax adjustments net of non-controlling interest. This allows the Company to isolate the one time adjustments in order to evaluate the net income from continuing operations.

(\$000)	Quarters ended May 31,		Nine months ended May 31,	
	2008 \$	2007 \$	2008 \$	2007 \$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income	9,538	3,059	15,452	44,356
Adjustments:				
Loss (gain) on dilution	3	64	85	(30,919)
Discontinued operations	-	1,966	18,057	4,170
Income tax adjustments net of non-controlling interest	-	-	(7,909)	-
<b>Net income excluding above adjustments</b>	<b>9,541</b>	<b>5,089</b>	<b>25,685</b>	<b>17,607</b>

**ADDITIONAL INFORMATION**

This MD&A was prepared on July 9, 2008. 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 approximately 2,676,000 revenue-generating units (RGUs) to 2,410,000 homes passed in its Canadian and Portuguese service territories. Through its two-way broadband

cable networks, Cogeco Cable provides its residential and commercial customers with Analogue and Digital Television, High Speed Internet, as well as Telephony services. Through its Cogeco Radio-Television subsidiary, COGECO owns and operates the RYTHME FM radio stations in Montréal, Québec City, Trois-Rivières and Sherbrooke, as well as the 93<sup>3</sup> 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).

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**Source:** **COGECO Inc.**  
Pierre Gagné  
Vice President, Finance and Chief Financial Officer  
Tel.: 514 764-4700

**Information:** **Media**  
Marie Carrier  
Director, Corporate Communications  
Tel.: 514 764-4700

**Analyst Conference Call:** **Thursday, July 10, 2008 at 11:00 A.M. (EDT)**  
Media representatives may attend as listeners only.

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

Canada/USA Access Number: 1 866 321-8231  
International Access Number: + 1 416 642-5213  
Confirmation Code: 4152342  
By Internet at [www.cogeco.ca/investors](http://www.cogeco.ca/investors)

A rebroadcast of the conference call will be available until July 17, by dialing:  
Canada and USA access number: 1 888 203-1112  
International access number: + 1 647 436-0148  
Confirmation code: 4152342

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

Quarters ended	May 31,		February 29 / 28,		November 30,		August 31,	
<i>(\$000, except percentages and per share data)</i>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	283,878	249,424	271,894	238,378	260,255	230,233	251,300	181,419
Operating income before amortization	117,204	95,791	109,346	87,478	101,209	87,371	100,595	73,000
<i>Operating margin</i>	41.3%	38.4%	40.2%	36.7%	38.9%	37.9%	40.0%	40.2%
Amortization	58,564	47,725	56,346	44,018	53,039	44,755	54,723	35,259
Financial expense	17,746	21,603	17,373	23,915	17,368	21,614	18,924	16,747
Income taxes	10,285	8,055	(14,426)	4,233	9,277	6,535	(7,480)	(12,389)
Loss (gain) on dilution	3	64	(25)	(30,990)	107	7	(27,011)	-
Non-controlling interest	21,068	13,318	33,763	9,647	13,762	7,619	24,240	20,652
Income from continuing operations	9,538	5,025	16,315	36,655	7,656	6,846	37,097	12,749
Loss from discontinued operations	-	(1,966)	(425)	(2,109)	(17,632)	(95)	(6,713)	(2,449)
Net income (loss)	9,538	3,059	15,890	34,546	(9,976)	6,751	30,384	10,300
Cash flow from operations	96,068	76,862	85,374	63,353	81,377	65,197	78,153	56,759
Earnings (loss) per share								
Basic								
Income from continuing operations	0.57	0.30	0.98	2.21	0.46	0.41	2.23	0.77
Loss from discontinued operations	-	(0.12)	(0.03)	(0.13)	(1.06)	(0.01)	(0.40)	(0.15)
Net income (loss)	0.57	0.18	0.95	2.08	(0.60)	0.41	1.82	0.62
Diluted								
Income from continuing operations	0.57	0.30	0.97	2.20	0.46	0.41	2.21	0.77
Loss from discontinued operations	-	(0.12)	(0.03)	(0.13)	(1.06)	(0.01)	(0.40)	(0.15)
Net income (loss)	0.57	0.18	0.95	2.07	(0.60)	0.41	1.81	0.62

<sup>(1)</sup> Includes operating results of the cable subsidiary, Cabovisão, since the date of acquisition of control on August 1, 2006.

Cable sector operating results are generally not subject to material seasonal fluctuations. However, the loss of Basic Cable service customers is usually greater, and the addition of HSI service customers is generally lower, in the fourth quarter, mainly due to students leaving campuses at the end of the school year

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

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	May 31, 2008	August 31, 2007
<b>Homes Passed</b>		
Ontario <sup>(1)</sup>	1 023 089	997 498
Québec	498 863	486 592
<b>Canada</b>	<u>1 521 952</u>	<u>1 484 090</u>
<b>Portugal</b>	887 476	859 376
<b>Total</b>	<u><u>2 409 428</u></u>	<u><u>2 343 466</u></u>
<b>Revenue Generating Units</b>		
Ontario	1 365 816	1 256 244
Québec	583 183	532 264
<b>Canada</b>	<u>1 948 999</u>	<u>1 788 508</u>
<b>Portugal</b>	726 775	697 157
<b>Total</b>	<u><u>2 675 774</u></u>	<u><u>2 485 665</u></u>
<b>Basic Cable Service Customers</b>		
Ontario	600 000	594 889
Québec	258 570	254 268
<b>Canada</b>	<u>858 570</u>	<u>849 157</u>
<b>Portugal</b>	300 591	294 003
<b>Total</b>	<u><u>1 159 161</u></u>	<u><u>1 143 160</u></u>
<b>Discretionary Service Customers</b>		
Ontario	495 082	468 764
Québec	212 033	204 585
<b>Canada</b>	<u>707 115</u>	<u>673 349</u>
<b>Portugal</b>	-	-
<b>Total</b>	<u><u>707 115</u></u>	<u><u>673 349</u></u>
<b>Pay TV Service Customers</b>		
Ontario	98 014	88 835
Québec	45 540	42 180
<b>Canada</b>	<u>143 554</u>	<u>131 015</u>
<b>Portugal</b>	57 671	54 723
<b>Total</b>	<u><u>201 225</u></u>	<u><u>185 738</u></u>
<b>High Speed Internet Service Customers</b>		
Ontario	349 274	316 363
Québec	115 394	99 473
<b>Canada</b>	<u>464 668</u>	<u>415 836</u>
<b>Portugal</b>	164 310	160 023
<b>Total</b>	<u><u>628 978</u></u>	<u><u>575 859</u></u>
<b>Digital Television Service Customers</b>		
Ontario	277 274	246 267
Québec	148 322	133 612
<b>Canada</b>	<u>425 596</u>	<u>379 879</u>
<b>Portugal</b>	14 470	-
<b>Total</b>	<u><u>440 066</u></u>	<u><u>379 879</u></u>
<b>Telephony Service Customers</b>		
Ontario	139 268	98 725
Québec	60 897	44 911
<b>Canada</b>	<u>200 165</u>	<u>143 636</u>
<b>Portugal</b>	247 404	243 131
<b>Total</b>	<u><u>447 569</u></u>	<u><u>386 767</u></u>

(1) An audit of homes passed in Ontario was completed during the first quarter of fiscal 2007 and, as a result, the number of homes passed was reduced by 42,386

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

<i>(In thousands of dollars, except per share data)</i>	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	283,878	249,424	816,027	718,035
Operating costs	166,674	153,633	488,268	447,395
Operating income from continuing operations before amortization	117,204	95,791	327,759	270,640
Amortization (note 4)	58,564	47,725	167,949	136,498
Operating income from continuing operations	58,640	48,066	159,810	134,142
Financial expense (note 5)	17,746	21,603	52,487	67,132
Income from continuing operations before income taxes and the following items	40,894	26,463	107,323	67,010
Income taxes (note 6)	10,285	8,055	5,136	18,823
Loss (gain) on dilution resulting from shares issued by a subsidiary (note 7)	3	64	85	(30,919)
Non-controlling interest	21,068	13,318	68,593	30,584
Share in the loss (earnings) of a general partnership	-	1	-	(4)
Income from continuing operations	9,538	5,025	33,509	48,526
Loss from discontinued operations (note 15)	-	(1,966)	(18,057)	(4,170)
Net income	9,538	3,059	15,452	44,356
<b>Earnings (loss) per share (note 8)</b>				
Basic				
Income from continuing operations	0.57	0.30	2.01	2.93
Loss from discontinued operations	-	(0.12)	(1.08)	(0.25)
Net income	0.57	0.18	0.93	2.67
Diluted				
Income from continuing operations	0.57	0.30	2.00	2.91
Loss from discontinued operations	-	(0.12)	(1.08)	(0.25)
Net income	0.57	0.18	0.92	2.66

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

<i>(In thousands of dollars)</i>	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Net income</b>	<b>9,538</b>	<b>3,059</b>	<b>15,452</b>	<b>44,356</b>
<b>Other comprehensive income</b>				
Unrealized gains (losses) on derivative financial instruments designated as cash flow hedges, net of income taxes expense of \$279,000 and income taxes recovery of \$908,000 and non-controlling interest of \$860,000 and \$4,653,000	412	-	(2,226)	-
Reclassification of realized losses (gains) to net income on derivative financial instruments designated as cash flow hedges, net of income taxes recovery of \$199,000 and income taxes expense of \$1,465,000 and non-controlling interest of \$738,000 and \$5,421,000	(353)	-	2,594	-
Unrealized gains (losses) on translation of net investments in self-sustaining foreign subsidiaries, net of non-controlling interest of \$15,588,000 and \$32,087,000 (\$32,069,000 and \$6,474,000 in 2007)	7,454	(15,405)	15,345	3,110
Unrealized gains (losses) on translation of long-term debts designated as hedge of net investments in self-sustaining foreign subsidiaries, net of non-controlling interest of \$10,837,000 and \$21,162,000 (net of income taxes recovery of \$1,703,000 and non-controlling interest of \$22,165,000 and \$5,646,000 in 2007)	(5,182)	10,648	(10,120)	(2,711)
	2,331	(4,757)	5,593	399
<b>Comprehensive income</b>	<b>11,869</b>	<b>(1,698)</b>	<b>21,045</b>	<b>44,755</b>

**COGECO INC.**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

<i>(In thousands of dollars)</i>	Nine months ended May 31,	
	2008	2007
	\$	\$
	(unaudited)	(unaudited)
<b>Balance at beginning, as reported</b>	274,946	204,734
Changes in accounting policies (note 1)	424	-
<b>Balance at beginning, as restated</b>	275,370	204,734
Net income	15,452	44,356
Dividends on multiple voting shares	(387)	(374)
Dividends on subordinate voting shares	(3,114)	(2,987)
<b>Balance at end</b>	287,321	245,729

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

<i>(In thousands of dollars)</i>	May 31, 2008	August 31, 2007
	\$	\$
	(unaudited)	(unaudited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	82,681	66,279
Accounts receivable	60,288	52,734
Income taxes receivable	2,073	3,138
Prepaid expenses	6,291	8,675
Future income tax assets	8,145	17,986
Current assets related to discontinued operations (note 15)	-	38,700
	<b>159,478</b>	<b>187,512</b>
Income taxes receivable	1,444	1,345
Investments	739	739
Fixed assets	1,178,511	1,123,270
Deferred charges	56,687	55,450
Intangible assets (note 8)	1,082,627	1,083,750
Goodwill (note 8)	367,772	342,584
Non-current assets related to discontinued operations (note 15)	-	42,109
	<b>2,847,258</b>	<b>2,836,759</b>
<b>Liabilities and Shareholders' equity</b>		
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness	2,090	-
Accounts payable and accrued liabilities	206,578	220,450
Income tax liabilities	15,186	1,209
Deferred and prepaid income	28,471	29,837
Derivative financial instruments	91,285	-
Current portion of long-term debt (note 10)	166,303	17,327
Current liabilities related to discontinued operations (note 15)	-	46,031
	<b>509,913</b>	<b>314,854</b>
Long-term debt (note 10)	797,029	1,036,256
Share in the partners' deficiency of a general partnership	-	518
Deferred and prepaid income	11,765	11,501
Pension plan liabilities and accrued employees benefits	8,748	7,378
Future income tax liabilities	246,656	267,646
Non-controlling interest	862,639	788,557
Long-term liabilities related to discontinued operations (note 15)	-	17,589
	<b>2,436,750</b>	<b>2,444,299</b>
<b>Shareholders' equity</b>		
Capital stock (note 11)	119,405	119,078
Treasury shares (note 11)	(1,522)	(1,054)
Contributed surplus – stock-based compensation	1,444	499
Retained earnings	287,321	274,946
Accumulated other comprehensive income (loss) (note 12)	3,860	(1,009)
	<b>410,508</b>	<b>392,460</b>
	<b>2,847,258</b>	<b>2,836,759</b>

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

<i>(In thousands of dollars)</i>	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash flow from operating activities</b>				
Income from continuing operations	9,538	5,025	33,509	48,526
Adjustments for:				
Amortization (note 4)	58,564	47,725	167,949	136,498
Amortization of deferred financing costs	742	532	2,215	1,713
Future income taxes (note 6)	4,690	7,520	(13,050)	12,542
Non-controlling interest	21,068	13,318	68,593	30,584
Loss (gain) on dilution resulting from shares issued by a subsidiary (note 7)	3	64	85	(30,919)
Stock-based compensation	1,022	2,990	2,092	6,078
Loss (gain) on disposal of fixed assets	151	(130)	388	(169)
Other	290	(182)	1,038	559
	96,068	76,862	262,819	205,412
Changes in non-cash operating items (note 13a))	16,825	(25,193)	(10,380)	(102,005)
	112,893	51,669	252,439	103,407
<b>Cash flow from investing activities</b>				
Acquisition of fixed assets (note 13b))	(50,940)	(51,249)	(160,286)	(163,067)
Increase in deferred charges	(7,050)	(6,000)	(20,661)	(19,258)
Business acquisition and related adjustments (note 2)	(16,105)	3,279	(16,105)	1,894
Decrease in restricted cash	-	-	-	88
Other	(320)	429	(435)	468
	(74,415)	(53,541)	(197,487)	(179,875)
<b>Cash flow from financing activities</b>				
Increase (decrease) in bank indebtedness	(15,686)	(20)	2,090	(1,112)
Increase in long-term debt	99,759	22,861	99,810	22,861
Repayment of long-term debt	(61,182)	(36,485)	(131,593)	(178,478)
Issue of subordinate voting shares	266	974	327	1,431
Acquisition of treasury shares	-	(1,054)	(468)	(1,054)
Dividends on multiple voting shares	(129)	(129)	(387)	(374)
Dividends on subordinate voting shares	(1,038)	(1,037)	(3,114)	(2,987)
Issue of shares by a subsidiary to non-controlling interest, net of issue costs	62	1,411	3,354	190,066
Dividends paid by a subsidiary to non-controlling interest	(3,281)	(1,776)	(9,834)	(4,210)
	18,771	(15,255)	(39,815)	26,143
<b>Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies</b>				
	1,063	(1,774)	1,265	1,486
<b>Cash flow from continuing operations</b>	58,312	(18,901)	16,402	(48,839)
Cash flow from discontinued operations (note 15)	-	-	-	-
<b>Net change in cash and cash equivalents</b>	58,312	(18,901)	16,402	(48,839)
Cash and cash equivalents at beginning	24,369	41,578	66,279	71,516
<b>Cash and cash equivalents at end</b>	82,681	22,677	82,681	22,677

See supplemental cash flow information in note 13.

## COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 1. Basis of Presentation

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

While management believes that the disclosures presented are adequate, these unaudited interim consolidated financial statements and notes should be read in conjunction with COGECO Inc.'s annual consolidated financial statements for the year ended August 31, 2007. 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 on financial instruments described below and the presentation of the investment in the discontinued operations (see note 15).

#### Financial instruments

Effective September 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges*.

#### **Statement of Comprehensive Income**

A new statement, entitled Consolidated Statements of Comprehensive Income, was added to the Company's consolidated financial statements and includes net income as well as other comprehensive income. Other comprehensive income represents changes in shareholders' equity arising from transactions and events from non-owner sources, such as changes in foreign currency translation adjustments of net investments in self-sustaining foreign subsidiaries and long-term debt designated as a hedge of net investments in self-sustaining foreign subsidiaries and changes in the fair value of effective cash flow hedging instruments.

#### **Recognition and Measurement of Financial Instruments**

Under these new standards, all financial assets, including derivatives, must be classified as available for sale, held for trading, held to maturity, or loans and receivables. All financial liabilities, including derivatives, must be classified as held for trading or other liabilities. All financial instruments classified as available for sale or held for trading are recognized at fair value on the consolidated balance sheet while financial instruments classified as loans and receivables or other liabilities will continue to be measured at amortized cost using the effective interest rate method. The standards allow the Company to designate certain financial instruments, on initial recognition, as held for trading.

All of the Company's financial assets are classified as held for trading or loans and receivables. The Company has classified its cash and cash equivalents as held for trading. Accounts receivable has been classified as loans and receivables. All of the Company's financial liabilities were classified as other liabilities, except for the Company's subsidiary's cross-currency swaps, which were classified as held for trading. Held for trading assets and liabilities are carried at fair value on the consolidated balance sheet, with changes in fair value recorded in the consolidated statements of income, except for the changes in fair value of the cross-currency swaps, which are designated as cash flow hedges of the Senior Secured Notes Series A and are recorded in other comprehensive income. Loans and receivables and all financial liabilities are carried at amortized cost using the effective interest method. Upon adoption, the Company determined that none of its financial assets are classified as available for sale or held to maturity. Except for the treatment of transaction costs and derivative financial instruments mentioned below, the provisions of the new accounting standards had no impact on the consolidated financial statements on September 1, 2007 and May 31, 2008.

**COGECO INC.**

Notes to Consolidated Financial Statements

May 31, 2008

*(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***1. Basis of Presentation (continued)****Transaction costs**

Effective September 1, 2007, transaction costs are capitalized on initial recognition and presented as a reduction of the related financing, except for transaction costs on the revolving loan and the swingline facility, which are presented as deferred charges. These costs are amortized over the term of the related financing using the effective interest rate method, except for transaction costs on the revolving loan and the swingline facility, which are amortized over the term of the related financing on a straight-line basis. Previously, all transaction costs were capitalized and amortized on a straight-line basis over the term of the related financing, over a period not exceeding five years. The impact of these adjustments reduced deferred charges by \$1.2 million, reduced long-term debt by \$3.1 million, increased future income tax liabilities by \$0.6 million, increased non-controlling interest by \$0.9 million and increased retained earnings by \$0.4 million.

**Cash flow hedge**

All derivatives are measured at fair value with changes in fair value recorded in the consolidated statements of income unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the variability of cash flows relating to the hedged asset or liability is recognized in the consolidated statements of income. Any hedge ineffectiveness is recognized in the consolidated statements of income immediately. Accordingly, the Company's subsidiary's cross-currency swaps must be measured at fair value in the consolidated financial statements. Since these cross-currency swaps are used to hedge cash flows on Senior Secured Notes Series A denominated in U.S. dollars, the changes in fair value are recorded in other comprehensive income. The impact of measuring the cross-currency swaps at fair value on the interim consolidated financial statements on September 1, 2007, increased derivative financial instruments liabilities by \$83.5 million, decreased deferred credit presented in long-term debt by \$80.2 million, decreased future income tax liabilities by \$1.1 million, decreased non-controlling interest by \$1.5 million and decreased opening accumulated other comprehensive income by \$0.7 million. The impact of measuring the cross-currency swaps at fair value on the interim consolidated financial statements for the three-month period ended May 31, 2008 decreased derivative financial instruments liabilities by \$1.6 million, increased future income tax liabilities by \$0.1 million, increased non-controlling interest by \$0.1 million and increased accumulated other comprehensive income by \$0.1 million. The impact of measuring the cross-currency swaps at fair value on the interim consolidated financial statements for the nine-month period ended May 31, 2008 increased derivative financial instruments liabilities by \$7.8 million, decreased future income tax liabilities by \$0.6 million, increased non-controlling interest by \$0.8 million and increased accumulated other comprehensive income by \$0.4 million.

**Net investment hedge**

Financial statements of self-sustaining foreign subsidiaries are translated using the rate in effect at the balance sheet date for asset and liability items, and using the average exchange rates during the period for revenue and expenses. Adjustments arising from this translation are deferred and recorded as foreign currency translation adjustment in accumulated other comprehensive income and are included in income only when a reduction in the investment in these foreign subsidiaries is realized. Unrealized foreign exchange gains and losses on long-term debt denominated in foreign currency, that is designated as a hedge of net investments in a self-sustaining foreign subsidiaries are recorded as foreign currency translation adjustments in accumulated other comprehensive income, net of income taxes and non-controlling interest. As a result, an amount of \$1.0 million was reclassified as at August 31, 2007 from the foreign currency translation adjustment to the accumulated other comprehensive income and the Company's comparative financial statements were restated in accordance with transitional provisions.

## COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 1. Basis of Presentation (continued)

#### Embedded derivatives

All embedded derivatives that are not closely related to the host contracts are measured at fair value, with changes in fair value recorded in the consolidated statements of income. On September 1, 2007 and as at May 31, 2008, there are no significant embedded derivatives or non-financial derivatives that require separate fair value recognition on the consolidated balance sheet. In accordance with the new standards, the Company selected September 1, 2002, as its transition date for adopting the standard related to embedded derivatives.

#### Upcoming standards

In 2006, the CICA issued Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These Sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently evaluating the impact of these new standards.

#### Accounting changes

In July 2006, the CICA issued Section 1506, *Accounting Changes*, which modifies certain aspects of the previous standard. A reporting entity may not change its accounting method unless required by primary source of GAAP or to provide a more reliable and relevant presentation of the financial statements. In addition, changes in accounting methods must be applied retroactively and additional information must be disclosed. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007. During the first quarter, the Company adopted this new standard and concluded that it had no significant impact on these consolidated financial statements.

#### Future accounting pronouncements

#### 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 are unchanged from the standards included in the previous Section 3062. The new Section will be applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

**COGECO INC.**

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

**2. Business acquisition**

**Acquisition of MaXess Networx®**

On March 31, 2008, the Company's subsidiary, Cogeco Cable Inc., completed the acquisition of all the assets of MaXess Networx®, ENWIN Energy Ltd.'s telecommunications division (City of Windsor's energy company) for a total consideration of \$15.6 million. MaXess Networx® operates a broadband network equipped with next generation ATM and Ethernet technology and provides organizations in south-western Ontario with the broadband capacity required for data networking, high-speed Internet access, e-business applications, video conferencing and other advanced communications.

The acquisition was accounted for using the purchase method. The results of MaXess Networx® have been consolidated as of the acquisition date.

The allocation of the purchase price of the acquisition is as follow:

	\$
	(unaudited)
<b>Consideration paid</b>	
Assets purchase price	15,555
Acquisition costs	550
	<b>16,105</b>
<b>Net assets acquired</b>	
Accounts receivable	276
Prepaid expenses	511
Fixed assets	13,794
Customer relationships	1,890
Accounts payable and accrued liabilities assumed	(350)
Deferred and prepaid income	(16)
	<b>16,105</b>

**COGECO INC.****Notes to Consolidated Financial Statements****May 31, 2008***(unaudited)**(amounts in tables are in thousands of dollars, except number of shares and per share data)***3. Segmented Information**

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

Three months ended May 31, (unaudited)	Cable		Head office and other <sup>(1)</sup>		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Revenue	274,944	240,612	8,934	8,812	283,878	249,424
Operating costs	157,454	142,738	9,220	10,895	166,674	153,633
Operating income from continuing operations before amortization	117,490	97,874	(286)	(2,083)	117,204	95,791
Amortization	58,209	47,278	355	447	58,564	47,725
Operating income from continuing operations	59,281	50,596	(641)	(2,530)	58,640	48,066
Financial expense	17,372	21,273	374	330	17,746	21,603
Income taxes	10,767	8,942	(482)	(887)	10,285	8,055
Loss on dilution resulting from shares issues by a subsidiary	-	-	3	64	3	64
Non-controlling interest	-	-	21,068	13,318	21,068	13,318
Income (loss) from continuing operations	31,142	20,381	(21,604)	(15,356)	9,538	5,025
Loss from discontinued operations	-	-	-	(1,966)	-	(1,966)
Net assets employed <sup>(2) (3)</sup>	2,491,409	2,398,297	26,354	29,586	2,517,763	2,427,883
Total assets <sup>(3)</sup>	2,807,517	2,714,339	39,741	122,420	2,847,258	2,836,759
Total assets related to discontinued operations <sup>(3)</sup>	-	-	-	80,809	-	80,809
Fixed assets <sup>(3)</sup>	1,174,975	1,119,498	3,536	3,772	1,178,511	1,123,270
Goodwill <sup>(3)</sup>	367,772	342,584	-	-	367,772	342,584
Acquisition of fixed assets	51,878	51,817	33	(7)	51,911	51,810

<sup>(1)</sup> Includes radio operation and eliminations.<sup>(2)</sup> Total assets from continuing operations less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.<sup>(3)</sup> As at May 31, 2008 and August 31, 2007.

## COGECO INC.

### Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 3. Segmented Information (continued)

Nine months ended May 31, (unaudited)	Cable		Head office and other <sup>(1)</sup>		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Revenue	791,879	694,566	24,148	23,469	816,027	718,035
Operating costs	467,571	426,239	20,697	21,156	488,268	447,395
Operating income from continuing operations before amortization	324,308	268,327	3,451	2,313	327,759	270,640
Amortization	166,885	135,159	1,064	1,339	167,949	136,498
Operating income from continuing operations	157,423	133,168	2,387	974	159,810	134,142
Financial expense	51,243	66,045	1,244	1,087	52,487	67,132
Income taxes	4,764	18,800	372	23	5,136	18,823
Loss (gain) on dilution resulting from shares issues by a subsidiary	-	-	85	(30,919)	85	(30,919)
Non-controlling interest	-	-	68,593	30,584	68,593	30,584
Income (loss) from continuing operations	101,416	48,323	(67,907)	203	33,509	48,526
Loss from discontinued operations	-	-	(18,057)	(4,170)	(18,057)	(4,170)
Net assets employed <sup>(2) (3)</sup>	2,491,409	2,398,297	26,354	29,586	2,517,763	2,427,883
Total assets <sup>(3)</sup>	2,807,517	2,714,339	39,741	122,420	2,847,258	2,836,759
Total assets related to discontinued operations <sup>(3)</sup>	-	-	-	80,809	-	80,809
Fixed assets <sup>(3)</sup>	1,174,975	1,119,498	3,536	3,772	1,178,511	1,123,270
Goodwill <sup>(3)</sup>	367,772	342,584	-	-	367,772	342,584
Acquisition of fixed assets	162,479	165,786	224	74	162,703	165,860

<sup>(1)</sup> Includes radio operation and eliminations.

<sup>(2)</sup> Total assets from continuing operations less cash and cash equivalents, accounts payable and accrued liabilities and deferred and prepaid income.

<sup>(3)</sup> As at May 31, 2008 and August 31, 2007.

The following tables sets out certain geographic market information based on client's location:

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue				
Canada	219,862	191,575	636,485	549,089
Europe	64,016	57,849	179,542	168,946
	283,878	249,424	816,027	718,035

## COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 3. Segmented Information (continued)

	May 31, 2008	August 31, 2007
	\$	\$
	(unaudited)	(unaudited)
Fixed assets		
Canada	859,170	815,754
Europe	319,341	307,516
	1,178,511	1,123,270
Goodwill		
Canada	-	-
Europe	367,772	342,584
	367,772	342,584

### 4. Amortization

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Fixed assets	50,105	42,417	143,099	120,471
Deferred charges	5,684	5,308	17,084	16,027
Intangible assets	2,775	-	7,766	-
	58,564	47,725	167,949	136,498

### 5. Financial expense

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest on long-term debt	17,788	18,221	51,620	61,409
Amortization of deferred financing costs	408	532	1,222	1,713
Other	(450)	2,850	(355)	4,010
	17,746	21,603	52,487	67,132

## COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 6. Income Taxes

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current	5,595	535	18,186	6,281
Future	4,690	7,520	(13,050)	12,542
	10,285	8,055	5,136	18,823

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

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Income before income taxes	40,894	26,462	107,323	67,014
Combined income tax rate	33.42%	34.83%	33.39%	34.80%
Income taxes at combined income tax rate	13,665	9,217	35,840	23,321
Loss or income subject to lower or higher tax rates	(944)	(475)	(1,294)	(248)
Decrease in future income taxes as a result of decreases in substantively enacted tax rates	-	-	(24,146)	-
Income taxes arising from non-deductible expenses	298	198	602	538
Effect of foreign income tax rate differences	(2,821)	(788)	(6,198)	(3,037)
Benefit related to prior years' minimum income taxes paid	-	-	-	(1,475)
Other	87	(97)	332	(276)
Income taxes at effective income tax rate	10,285	8,055	5,136	18,823

## COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 7. Gain on dilution resulting from shares issued by a subsidiary

On February 2007, the Company's subsidiary, Cogeco Cable Inc., completed a public offering totalling 5,000,000 subordinate voting shares. The offering resulted in gross proceeds of \$192,500,000 and net proceeds of \$184,211,000. The Company's subsidiary has also issued, during the first nine months of 2007, 7,344 subordinate voting shares pursuant to its Employee Stock Purchase Plan and 305,573 subordinate voting shares pursuant to its Employee Stock Option Plan for cash considerations of \$198,000 and \$5,657,000, respectively. As a result, the Company's interest in Cogeco Cable Inc. decreased from 39.2% to 34.6% and a gain on dilution of \$30,919,000 was recorded for the nine-month period ended May 31, 2007.

### 8. Earnings (Loss) per Share

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

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Income from continuing operations	9,538	5,025	33,509	48,526
Loss from discontinued operations	-	(1,966)	(18,057)	(4,170)
Net income	9,538	3,059	15,452	44,356
Weighted average number of multiple voting and subordinate voting shares outstanding	16,682,468	16,625,479	16,676,369	16,583,850
Effect of dilutive stock options <sup>(1)</sup>	54,599	87,434	70,256	100,094
Weighted average number of diluted multiple voting and subordinate voting shares outstanding	16,737,067	16,712,913	16,746,625	16,683,944
<b>Earnings (loss) per share</b>				
Basic				
Income from continuing operations	0.57	0.30	2.01	2.93
Loss from discontinued operations	-	(0.12)	(1.08)	(0.25)
Net income	0.57	0.18	0.93	2.67
Diluted				
Income from continuing operations	0.57	0.30	2.00	2.91
Loss from discontinued operations	-	(0.12)	(1.08)	(0.25)
Net income	0.57	0.18	0.92	2.66

<sup>(1)</sup> For the three and nine-month periods ended May 31, 2008, 33,182 and 22,121 stock options (none and 24,295 in 2007) were excluded from the calculation of diluted earnings per share since the exercise price of the options was greater than the average share price of the subordinate voting shares.

**COGECO INC.**

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

**9. Goodwill and Other Intangible Assets**

	May 31, 2008	August 31, 2007
	\$	\$
	(unaudited)	(unaudited)
Customer relationships	67,735	68,858
Broadcasting licenses	25,120	25,120
Customer base	989,772	989,772
	1,082,627	1,083,750
Goodwill	367,772	342,584
	1,450,399	1,426,334

**a) Intangible assets**

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

	Customer relationships	Broadcasting licenses	Customer Base	Total
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Balance as at August 31, 2007	68,858	25,120	989,772	1,083,750
Business acquisition (note 2)	1,890	-	-	1,890
Amortization	(7,766)	-	-	(7,766)
Foreign currency translation adjustment	4,753	-	-	4,753
Balance as at May 31, 2008	67,735	25,120	989,772	1,082,627

**b) Goodwill**

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

	\$
	(unaudited)
Balance as at August 31, 2007	342,584
Foreign currency translation adjustment	25,188
Balance as at May 31, 2008	367,772

## COGECO INC.

### Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 10. Long-Term Debt

	Maturity	Interest rate	May 31, 2008	August 31, 2007
		%	\$	\$
			(unaudited)	(unaudited)
<b>Parent company</b>				
Term Facility	2011 <sup>(1)</sup>	5.32 <sup>(2)</sup>	18,714	25,538
Obligations under capital leases	2010	6.49 – 6.61	85	108
<b>Subsidiaries</b>				
Term Facility				
Term loan – €104,551,500	2011	5.56 <sup>(2)</sup>	160,631	150,450
Term loan – €17,358,700	2011	5.06 <sup>(2)</sup>	26,638	24,979
Revolving loan – €115,500,000 (€196,725,000 as at August 31, 2007)	2011	5.19 <sup>(2)</sup>	178,424	283,087
Senior Secured Debentures Series 1	2009	6.75	149,753	150,000
Senior – Secured Notes				
Series A – US\$150 million	2008	6.83 <sup>(3)</sup>	148,782	158,430
Series B	2011	7.73	174,291	175,000
Senior Unsecured Debenture <sup>(4)</sup>	2018	5.94	99,759	–
Deferred credit <sup>(5)</sup>	2008	–	–	80,220
Obligations under capital leases	2012	6.42 – 8.30	6,205	5,760
Other	–	–	50	11
			<b>963,332</b>	<b>1,053,583</b>
Less current portion			<b>166,303</b>	<b>17,327</b>
			<b>797,029</b>	<b>1,036,256</b>

<sup>(1)</sup> On December 14, 2007, the Company concluded an amended and restated credit agreement with a group of four Canadian banks led by the Canadian Imperial Bank of Commerce (“CIBC”), which will now act as agent for the banking syndicate. The annually renewable three-year amended credit agreement establishes a revolving credit of \$50 million to which may be added a further credit of \$25 million under certain conditions. The amended credit agreement maintains certain financial commitments with the same security by the Company, its subsidiary Cogeco Radio-Television Inc. and indirect subsidiary, Cogeco Diffusion Inc. In November 2007, the Company posted a guarantee for a maximum amount of \$12 million in favour of CIBC, the bank of TQS Inc., its subsidiaries and its parent 3947424 Canada Inc. (“the TQS Group”). On March 18, 2008, the Company was unconditionally relieved from all of its obligations under the guarantee, as CIBC was fully repaid by Remstar Corporation Inc. for all indebtedness of the TQS Group under the TQS credit agreement.

<sup>(2)</sup> Average interest rate on debt as at May 31, 2008, including stamping fees.

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

<sup>(4)</sup> On January 8, 2008, the Company’s subsidiary, Cogeco Cable Inc., and the Solidarity Fund QFL entered into an agreement to issue a \$100 million senior unsecured debenture by way of a private placement, subject to usual market conditions. The debenture is redeemable at the Corporation’s option at any time, in whole or in part, prior to maturity, at 100% of the principal amount plus a make-whole premium.

<sup>(5)</sup> The deferred credit represents the amount that was deferred for hedge accounting purpose as at August 31, 2007 under cross-currency swaps entered into by the Company’s subsidiary, Cogeco Cable Inc., to hedge Senior Secured Notes Series A denominated in U.S. dollars. In accordance with the standards on financial instruments, the Company’s subsidiary’s cross-currency swaps are now presented as derivative financial instrument liabilities (see note 1).

**COGECO INC.**

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

**11. 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.

	May 31, 2008	August 31, 2007
	\$	\$
	(unaudited)	(audited)
Issued		
1,842,860 multiple voting shares	12	12
14,851,586 subordinate voting shares (14,829,792 as at August 31, 2007)	119,393	119,066
	119,405	119,078

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

	Nine months ended		Twelve months ended	
	May 31, 2008		August 31, 2007	
	Number of	Amount	Number of	Amount
	shares	\$	shares	\$
	(unaudited)	(unaudited)	(audited)	(audited)
Balance at beginning	14,829,792	119,066	14,702,556	117,540
Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan	21,794	327	120,196	1,526
Conversion of multiple voting shares into subordinate voting shares	-	-	7,040	-
Balance at end	14,851,586	119,393	14,829,792	119,066

## COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 11. Capital Stock (continued)

#### 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 nine months, no stock options were granted to employees by COGECO Inc. However, the Company's subsidiary, Cogeco Cable Inc., granted 113,084 stock options (201,587 in 2007) with an exercise price of \$41.45 to \$49.82 (\$26.63 to \$44.54 in 2007), of which 22,683 stock options (57,247 in 2007) were granted to COGECO Inc.'s employees. In 2007, the Company's subsidiary also granted 376,000 conditional stock options with an exercise price of \$26.63, of which 262,400 stock options were granted to COGECO Inc.'s employees. These conditional options vest over a period of three years beginning one year after the day such options were granted and are exercisable over ten years. The vesting of these options is conditional to the achievement of certain yearly financial objectives by the Portuguese subsidiary, Cabovisão — Televisão por Cabo, S.A., over a period of three years. The Company records compensation expense for options granted on or after September 1, 2003. As a result, a compensation expense of \$595,000 and \$1,502,000 (\$538,000 and \$1,439,000 in 2007) was recorded for the three and nine-month periods ended May 31, 2008.

The fair value of stock options granted by the Company's subsidiary, Cogeco Cable Inc., for the nine-month period ended May 31, 2008 was \$12.59 (\$7.39 in 2007) per option. The fair value was estimated at the grant date for purposes of determining the stock-based compensation expense using the binomial option pricing model based on the following assumptions:

	2008	2007
	%	%
	(unaudited)	(audited)
Expected dividend yield	0.90	1.27
Expected volatility	27	32
Risk-free interest rate	4.25	4.05
Expected life in years	4.0	4.0

As at May 31, 2008, the Company had outstanding stock options providing for the subscription of 169,758 subordinate voting shares. These stock options can be exercised at various prices ranging from \$14.00 to \$37.50 and at various dates up to October 19, 2011.

The Company and its subsidiary, Cogeco Cable Inc., also had Performance Unit Plans for key employees which were terminated in June 2007. A compensation expense of \$2,325,000 and \$4,589,000 was recorded for the three and nine-month periods ended May 31, 2007 related to these plans.

Effective October 13, 2006, the Company established a senior executives and designated employee incentive unit plan (the "Incentive Share Unit Plan") which is described in the Company's annual consolidated financial statements. During the first nine months, the Company granted 12,852 Incentive Share Units (25,556 in 2007). These shares were purchased for a cash consideration of \$468,000 (\$1,054,000 in 2007) and are held in trust for participants until they are completely vested. The trust, considered as a variable interest entity, is consolidated in the Company's financial statements with the value of the acquired shares presented as treasury shares in reduction of capital stock. A compensation expense of \$95,000 and \$258,000 (\$128,000 in 2007) was recorded for the three and nine-month periods ended May 31, 2008 related to this plan.

In April 2007, the Company and its subsidiary, Cogeco Cable Inc., established deferred share unit plans ("DSU Plans") which are described in the Company's annual consolidated financial statements. During the first nine months, 5,891 and 3,559 deferred share units were awarded to the participants in connection with the DSU Plans by the Company and its subsidiary, respectively. A compensation expense of \$332,000 was recorded for the three and nine month periods ended May 31, 2008 related to these plans.

## COGECO INC.

Notes to Consolidated Financial Statements

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(unaudited)

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

### 12. Accumulated Other Comprehensive Income (Loss)

	Translation of net investments in self- sustaining foreign subsidiaries	Cash flow hedges	Total
	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)
Balance as at August 31, 2007	(1,009)	-	(1,009)
Cumulative effect of changes in accounting policy (note 1)	-	(724)	(724)
Other comprehensive income	5,225	368	5,593
Balance as at May 31, 2008	4,216	(356)	3,860

### 13. Statements of Cash Flow

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

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Accounts receivable	(1,869)	3,292	(6,148)	(4,973)
Income taxes receivable	199	1,452	1,406	(2,703)
Prepaid expenses	1,222	(2,348)	2,418	(1,980)
Accounts payable and accrued liabilities	11,371	(27,553)	(20,995)	(96,142)
Income tax liabilities	5,643	(609)	13,833	759
Deferred and prepaid income	259	573	(894)	3,034
	16,825	(25,193)	(10,380)	(102,005)

#### b) Other information

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Fixed asset acquisitions through capital leases	971	561	2,417	2,793
Financial expense paid	20,319	25,621	53,063	70,207
Income taxes paid (received)	(245)	(610)	2,895	7,590

## COGECO INC.

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

### 14. Employee 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 May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Contributory defined benefit pension plans	657	607	1,973	1,821
Defined contribution pension plan and collective registered retirement savings plans	861	554	2,283	1,619
	1,518	1,161	4,256	3,440

### 15. Discontinued Operations

In October 2007, the Board of Directors of TQS, an indirect subsidiary of the Company, engaged CIBC World Markets to advise on and assess strategic options for the TQS network in the face of financial difficulties. TQS' position in the Quebec Francophone over-the-air television market deteriorated markedly in spite of the measures and investments initiated by the Company over the last several months. The gradual loss of advertising revenue to specialty TV networks and content accessible over the Internet, combined with increased production costs, the Canadian Radio-television and Telecommunications Commission's ("CRTC") refusal to grant general interest television networks the same ability to charge subscriber fees for signal distribution as the speciality television networks, the programming strategy of Société Radio-Canada ("SRC"), which acts like a commercial player rather than a publicly-owned television broadcaster and SRC's notice of disaffiliation in Saguenay, Sherbrooke and Trois-Rivières after a 50-year partnership all contributed to this decision. After considering CIBC World Markets' report, the Board of Directors of TQS concluded that it was in the best interest of TQS, its employees and creditors to request court protection. On December 18, 2007, the Québec Superior Court issued an order under the *Companies' Creditors Arrangement Act* (Canada) protecting TQS Inc., its subsidiaries and its parent 3947424 Canada Inc. ("the TQS Group") from claims by their creditors for an initial suspension period ending on January 17, 2008, which period was afterwards renewed. Under the order, RSM Richter Inc. has been appointed as monitor, with a mandate to support the applicants, under Court supervision, in preparing a creditors arrangement plan. On March 10, 2008, the Québec Superior Court agreed with TQS Inc.'s Board of Director decision to accept the offer made by Remstar Corporation Inc. to acquire all shares held by Cogeco Radio-Television Inc. and CTV Television Inc., the two shareholders of TQS. On May 22, 2008, the plan of arrangement proposed by Remstar Corporation Inc. was approved by the creditors of the TQS Group and subsequently approved by the Superior Court of Québec on June 4, 2008. Certain employees of TQS Inc. and their union filed a motion for leave to appeal the order of the Superior Court of Québec approving the plan on June 19, 2008. On June 26, 2008, the CRTC approved the proposed transfer of ownership and control of TQS Inc. to Remstar Corporation Inc.

Effective December 18, 2007, the Company has ceased to consolidate the financial statements of the TQS Group. Accordingly, the investment in the TQS Group as at August 31, 2007, as well as its results of operations and its cash flow for the period of September 1, 2007 to December 18, 2007 and for the three and nine-month periods ended May 31, 2007, have been reclassified as a discontinued operation.

**COGECO INC.**

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

**15. Discontinued Operations (continued)**

The Company has no investment in the TQS Group as at May 31, 2008. The assets and liabilities related to the discontinued operations as at August 31, 2007, were as follows:

	\$
	(unaudited)
Accounts receivable	23,611
Prepaid expenses	442
Broadcasting rights	14,647
Current assets	38,700
Broadcasting rights	17,456
Fixed assets	21,653
Broadcasting licenses	3,000
Non-current assets	42,109
Bank indebtedness	8,173
Accounts payable and accrued liabilities	28,893
Broadcasting rights payable	8,531
Income tax liabilities	141
Deferred and prepaid income	42
Current portion of long-term debt	251
Current liabilities	46,031
Share in the partner's deficiency of a general partnership	518
Broadcasting rights payable	4,408
Pension plan liabilities	1,444
Non-controlling interest	11,219
Long-term liabilities	17,589

**COGECO INC.**

Notes to Consolidated Financial Statements

May 31, 2008

(unaudited)

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

**15. Discontinued Operations (continued)**

The results of the discontinued operations were as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	-	28,329	38,499	84,901
Operating costs	-	28,625	35,822	88,010
Operating income (loss) before amortization	-	(296)	2,677	(3,109)
Amortization	-	1,110	1,364	3,288
Operating income (loss)	-	(1,406)	1,313	(6,397)
Financial expense	-	248	291	659
Impairment of assets	-	-	30,298	-
Loss before income taxes and the following items	-	(1,654)	(29,276)	(7,056)
Income taxes	-	1,624	-	(101)
Non-controlling interest	-	(1,311)	(11,219)	(2,780)
Shares in the earnings of a general partnership	-	(1)	-	(5)
Loss from discontinued operations	-	(1,966)	(18,057)	(4,170)

The cash flow of the discontinued operations were as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flow from operating activities	-	(187)	(3,973)	(8,054)
Cash flow from investing activities	-	(567)	(133)	(1,255)
Cash flow from financing activities	-	754	4,106	9,309
Cash flow from discontinued operations	-	-	-	-

## COGECO INC.

Notes to Consolidated Financial Statements

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*(unaudited)*

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

### 16. Contingent liability

The Canadian Radio-television Telecommunications Commission ("CRTC") collects two different types of fees from broadcast licensees. These are known as Part I and Part II fees. In 2003 and 2004, lawsuits were commenced in the Federal Court, alleging that the Part II licence fees are taxes rather than fees and that the regulations authorizing them are unlawful. On December 14, 2006, the Federal Court ruled that the CRTC did not have the jurisdiction to charge Part II fees. The Court ruled that licensees were not entitled to a refund of past fees paid. Both the Crown and the applicants have appealed this case to the Federal Court of Appeal. The applicants are seeking an order requiring a refund of past fees paid. The Crown is seeking to reverse the finding that Part II fees are unlawful. On October 1st, 2007, the CRTC sent a letter to all broadcast licensees, including the Company's subsidiaries Cogeco Cable Inc and Cogeco Radio-Television Inc. The letter stated that the CRTC will not collect Part II license fees due on November 30, 2007 and subsequent years unless the Federal Court of appeal or the Supreme Court of Canada (should the case be appealed to that level) reverses the Federal Court's decision. The Appeal hearing was held on December 4th and 5th, 2007 in Ottawa and a decision was rendered on April 28, 2008 in favour of the Crown, to the effect that the fees are valid regulatory charges. On June 26 and 27, 2008, the Plaintiffs filed applications for leave to appeal to the Supreme Court of Canada. The Defendant must respond to these applications within 60 days. The Company's subsidiaries have accrued the full amount with respect to these fees for fiscal year 2007 and the first nine months of fiscal 2008.

### 17. Subsequent events

#### **Acquisition of FibreWired Burlington Hydro Communications**

On May 1, 2008, the Company's subsidiary, Cogeco Cable Inc., announced the acquisition of all the assets of FibreWired Burlington Hydro Communications, Burlington Hydro Electric's telecommunications division (City of Burlington's energy company) for a total purchase price of \$12.5 million. FibreWired Burlington Hydro Communications operates a broadband network equipped with next generation ATM and Ethernet technology. This enables FibreWired Burlington Hydro Communications to provide organizations in Burlington with the broadband capacity required for data networking, high-speed Internet access, e-business applications, video conferencing and other advanced communications. The Company's subsidiary, which also offers broadband services to organizations in Burlington, will use this network to expand its service offering in the area. FibreWired Burlington Hydro Communications customers will also benefit from the Company's subsidiary's suite of business products and gain access to the Corporation's extensive fibre network spanning Ontario and Quebec. The acquisition was completed on June 30, 2008.

#### **Acquisition of Toronto Hydro Telecom Inc.**

On June 13, 2008 the Company's subsidiary, Cogeco Cable Inc., announced the acquisition of all of the shares of Toronto Hydro Telecom Inc. ("THTI"), the telecommunications subsidiary of Toronto Hydro Corporation (City of Toronto's energy company) for a total purchase price of \$200 million, subject to certain conditions, including regulatory approval by the Commissioner of Competition. In addition, the Corporation will assume a working capital deficiency and liabilities of approximately \$4 million. THTI offers data communications and other telecommunications services such as Ethernet, private line, Voice-over-Internet protocol ("VoIP"), high-speed Internet access, dark fibre, data storage, data security and co-location to a wide range of business customers and organizations throughout the Greater Toronto Area ("GTA"). This agreement will allow the Company's subsidiary to further the development of its business telecommunications activities.

### 18. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. Financial information for previous periods has been restated to reflect the termination of our investment in the TQS Group, which is no longer consolidated since December 18, 2007 (see note 15).