

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### Telesat Corporation Unaudited Interim Condensed Consolidated Statements of Income For the three months ended March 31

<i>(in thousands of Canadian dollars, except per share amounts)</i>	Notes	2022	2021 (Note 3)
Revenue . . . . .	5	\$ 185,769	\$ 190,492
Operating expenses . . . . .	6	(64,366)	(40,365)
Depreciation . . . . .		(49,308)	(50,367)
Amortization . . . . .		(3,698)	(4,115)
Other operating losses, net . . . . .		(30)	(673)
Operating income . . . . .		68,367	94,972
Interest expense . . . . .	7	(48,503)	(41,995)
Gain on extinguishment of debt . . . . .	12	21,030	—
Interest and other income . . . . .		660	121
Gain (loss) on changes in fair value of financial instruments . . . . .		2,358	(25,124)
Gain on foreign exchange . . . . .		36,147	35,113
Income before tax . . . . .		80,059	63,087
Tax expense . . . . .	8	(19,429)	(21,765)
<b>Net income</b> . . . . .		<u>\$ 60,630</u>	<u>\$ 41,322</u>
<b>Net income attributable to:</b>			
Telesat Corporation shareholders . . . . .		\$ 13,983	\$ 41,322
Non-controlling interest . . . . .		46,647	—
		<u>\$ 60,630</u>	<u>\$ 41,322</u>
<b>Net income per common share attributable to Telesat Corporation shareholders</b>			
Basic . . . . .		\$ 1.16	\$ 0.83
Diluted . . . . .		\$ 1.13	\$ 0.83
<b>Total Weighted Average Common Shares Outstanding</b>			
Basic . . . . .	15	12,023,077	49,546,692
Diluted . . . . .	15	13,562,260	49,812,075

See accompanying notes to the unaudited interim condensed consolidated financial statements

**Telesat Corporation**  
**Unaudited Interim Condensed Consolidated Statements of Comprehensive Income**  
**For the three months ended March 31**

<i>(in thousands of Canadian dollars)</i>	<b>2022</b>	<b>2021</b>
		<b>(Note 3)</b>
Net income . . . . .	\$ 60,630	\$ 41,322
Other comprehensive loss		
Items that may be reclassified into profit or loss		
Foreign currency translation adjustments . . . . .	(17,543)	(14,102)
Other comprehensive loss . . . . .	(17,543)	(14,102)
<b>Total comprehensive income . . . . .</b>	<b>\$ 43,087</b>	<b>\$ 27,220</b>
<b>Total comprehensive income attributable to:</b>		
Telesat Corporation shareholders . . . . .	\$ 9,783	\$ 27,220
Non-controlling interest . . . . .	33,304	—
	<b>\$ 43,087</b>	<b>\$ 27,220</b>

See accompanying notes to the unaudited interim condensed consolidated financial statements

**Telesat Corporation**  
**Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity**

<i>(in thousands of Canadian dollars)</i>	Notes	Common shares/Public shares	Preferred shares	Total share capital	Accumulated earnings	Equity- settled employee benefits reserve	Foreign currency translation reserve	Total reserves	Total Telesat Corporation/ Telesat Canada shareholders' equity	Non- controlling Interest	Total shareholders' equity
<b>Telesat Canada balance as at January 1, 2021</b> .....		\$ 26,580	\$ 129,118	\$ 155,698	\$ 1,266,514	\$ 85,648	\$ (47,924)	\$ 37,724	\$ 1,459,936	\$ —	\$ 1,459,936
Initial impact of change in accounting policy. ....	3	—	—	—	(758)	—	—	—	(758)	—	(758)
Net income. ....		—	—	—	41,322	—	—	—	41,322	—	41,322
Other comprehensive loss, net of tax expense of \$nil ...		—	—	—	—	—	(14,102)	(14,102)	(14,102)	—	(14,102)
Share-based compensation ....		—	—	—	—	1,711	—	1,711	1,711	—	1,711
<b>Telesat Canada balance as at March 31, 2021</b> .....		<u>\$ 26,580</u>	<u>\$ 129,118</u>	<u>\$ 155,698</u>	<u>\$ 1,307,078</u>	<u>\$ 87,359</u>	<u>\$ (62,026)</u>	<u>\$ 25,333</u>	<u>\$ 1,488,109</u>	<u>\$ —</u>	<u>\$ 1,488,109</u>
<b>Telesat Canada balance as at April 1, 2021</b> ...		\$ 26,580	\$ 129,118	\$ 155,698	\$ 1,307,078	\$ 87,359	\$ (62,026)	\$ 25,333	\$ 1,488,109	\$ —	\$ 1,488,109
Net income. ....		—	—	—	59,980	—	—	—	59,980	53,723	113,703
Dividends declared on Director Voting Preferred shares. ...		—	—	—	(10)	—	—	—	(10)	—	(10)
Issuance of share capital on settlement of restricted share units. ....		—	16	16	—	—	—	—	16	—	16
Other comprehensive income, net of tax recovery of \$14,424 .....		—	—	—	9,946	—	2,029	2,029	11,975	25,570	37,545
Share-based compensation ....		—	—	—	—	47,311	—	47,311	47,311	24,702	72,013
Reallocation related to transaction. ....		16,261	(129,134)	(112,873)	(1,026,965)	(96,006)	44,137	(51,869)	(1,191,707)	1,176,624	(15,083)
<b>Telesat Corporation balance as at December 31, 2021</b> ..		<u>\$ 42,841</u>	<u>\$ —</u>	<u>\$ 42,841</u>	<u>\$ 350,029</u>	<u>\$ 38,664</u>	<u>\$ (15,860)</u>	<u>\$ 22,804</u>	<u>\$ 415,674</u>	<u>\$ 1,280,619</u>	<u>\$ 1,696,293</u>
<b>Telesat Corporation balance as at January 1, 2022</b> ....		\$ 42,841	\$ —	\$ 42,841	\$ 350,029	\$ 38,664	\$ (15,860)	\$ 22,804	\$ 415,674	\$ 1,280,619	\$ 1,696,293
Net income. ....		—	—	—	13,983	—	—	—	13,983	46,647	60,630
Issuance of share capital on settlement of restricted share units. ....		344	—	344	—	(739)	—	(739)	(395)	—	(395)
Other comprehensive loss, net of tax recovery of \$Nil .....		—	—	—	—	—	(4,200)	(4,200)	(4,200)	(13,343)	(17,543)
Share-based compensation ....		—	—	—	—	6,417	—	6,417	6,417	17,731	24,148
<b>Telesat Corporation balance as at March 31, 2022</b> ....		<u>\$ 43,185</u>	<u>\$ —</u>	<u>\$ 43,185</u>	<u>\$ 364,012</u>	<u>\$ 44,342</u>	<u>\$ (20,060)</u>	<u>\$ 24,282</u>	<u>\$ 431,479</u>	<u>\$ 1,331,654</u>	<u>\$ 1,763,133</u>

See accompanying notes to the unaudited interim condensed consolidated financial statements

**Telesat Corporation**  
**Unaudited Interim Condensed Consolidated Balance Sheets**

<i>(in thousands of Canadian dollars)</i>	Notes	March 31, 2022	December 31, 2021 (Note 3)
<b>Assets</b>			
Cash and cash equivalents . . . . .		\$ 1,512,590	\$ 1,449,593
Trade and other receivables . . . . .		68,772	122,698
Other current financial assets . . . . .		856	861
Current income tax recoverable . . . . .		3,311	3,219
Prepaid expenses and other current assets . . . . .		56,744	41,064
<b>Total current assets</b> . . . . .		1,642,273	1,617,435
Satellites, property and other equipment . . . . .	5,9	1,374,771	1,429,688
Deferred tax assets . . . . .		45,962	46,187
Other long-term financial assets . . . . .		14,019	16,348
Long-term income tax recoverable . . . . .		15,137	12,277
Other long-term assets . . . . .	5	31,067	31,254
Intangible assets . . . . .	5	759,897	762,659
Goodwill . . . . .		2,446,603	2,446,603
<b>Total assets</b> . . . . .		<u>\$ 6,329,729</u>	<u>\$ 6,362,451</u>
<b>Liabilities</b>			
Trade and other payables . . . . .		\$ 39,090	\$ 54,628
Other current financial liabilities . . . . .		52,665	36,647
Income taxes payable . . . . .		706	5,622
Other current liabilities . . . . .		82,175	85,058
Current indebtedness . . . . .	12	4,561	—
<b>Total current liabilities</b> . . . . .		179,197	181,955
Long-term indebtedness . . . . .	12	3,712,640	3,792,597
Deferred tax liabilities . . . . .		293,764	296,318
Other long-term financial liabilities . . . . .		22,135	23,835
Other long-term liabilities . . . . .		358,860	371,453
<b>Total liabilities</b> . . . . .		<u>4,566,596</u>	<u>4,666,158</u>
<b>Shareholders' Equity</b>			
Share capital . . . . .	13	43,185	42,841
Accumulated earnings . . . . .		364,012	350,029
Reserves . . . . .		24,282	22,804
<b>Total Telesat Corporation shareholders' equity</b> . . . . .		431,479	415,674
Non-controlling interest . . . . .	13	1,331,654	1,280,619
<b>Total shareholders' equity</b> . . . . .		<u>1,763,133</u>	<u>1,696,293</u>
<b>Total liabilities and shareholders' equity</b> . . . . .		<u>\$ 6,329,729</u>	<u>\$ 6,362,451</u>

See accompanying notes to the unaudited interim condensed consolidated financial statements

**Telesat Corporation**  
**Unaudited Interim Condensed Consolidated Statements of Cash Flows**  
**For the three months ended March 31**

<i>(in thousands of Canadian dollars)</i>	<b>Notes</b>	<b>2022</b>	<b>2021</b> <b>(Note 3)</b>
<b>Cash flows from operating activities</b>			
Net income . . . . .		\$ 60,630	\$ 41,322
Adjustments to reconcile net income to cash flows from operating activities			
Depreciation . . . . .		49,308	50,367
Amortization . . . . .		3,698	4,115
Tax expense . . . . .		19,429	21,765
Interest expense . . . . .		48,503	41,995
Interest income . . . . .		(964)	(433)
Gain on foreign exchange . . . . .		(36,147)	(35,113)
(Gain) loss on changes in fair value of financial instruments . . . . .		(2,358)	25,124
Share-based compensation . . . . .		24,169	1,711
Loss on disposal of assets . . . . .		30	673
Gain on extinguishment of debt . . . . .		(21,030)	—
Deferred revenue amortization . . . . .		(16,434)	(17,738)
Pension expenses . . . . .		1,893	2,014
Other . . . . .		(510)	(4,453)
Income taxes paid, net of income taxes received . . . . .	19	(29,471)	(30,635)
Interest paid, net of interest received . . . . .	19	(22,109)	(18,453)
Operating assets and liabilities . . . . .	19	(35,194)	16,790
<b>Net cash from operating activities . . . . .</b>		<b>43,443</b>	<b>99,051</b>
<b>Cash flows generated from (used in) investing activities</b>			
Satellite programs . . . . .		(8,420)	(16,746)
Purchase of property and other equipment . . . . .		(9,633)	(3,297)
C-band clearing proceeds . . . . .		64,651	—
<b>Net cash generated from (used in) investing activities . . . . .</b>		<b>46,598</b>	<b>(20,043)</b>
<b>Cash flows used in financing activities</b>			
Repurchase of Senior Unsecured Notes . . . . .	19	(14,880)	—
Payments of principal on lease liabilities . . . . .	19	(368)	(605)
Satellite performance incentive payments . . . . .	19	(1,364)	(1,733)
Government grant received . . . . .		4,541	—
<b>Net cash used in financing activities . . . . .</b>		<b>(12,071)</b>	<b>(2,338)</b>
Effect of changes in exchange rates on cash and cash equivalents . . . . .		(14,973)	(11,957)
Increase in cash and cash equivalents . . . . .		62,997	64,713
Cash and cash equivalents, beginning of period . . . . .		1,449,593	818,378
<b>Cash and cash equivalents, end of period . . . . .</b>		<b>\$ 1,512,590</b>	<b>\$ 883,091</b>

See accompanying notes to the unaudited interim condensed consolidated financial statements

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

## **1. BACKGROUND OF THE COMPANY**

Telesat Corporation (the “Corporation”) is incorporated under the *Business Corporations Act* (British Columbia) in October 2020 and is headquartered in Ottawa, Canada.

The Corporation is a global satellite operator, providing mission-critical communications solutions to support the requirements of sophisticated satellite users throughout the world. Telesat Corporation’s state-of-the-art fleet consists of 14 geostationary satellites and the Canadian payload on Viasat-1.

The Corporation has commenced the development of a constellation of low earth orbit (“LEO”) satellites and integrated terrestrial infrastructure, called “Telesat Lightspeed”. In January 2018, the first LEO satellite was successfully launched into orbit. This Phase 1 LEO satellite has demonstrated certain key features of the Telesat Lightspeed system design, specifically the capability of the satellite and customer terminals to deliver low latency broadband experience.

The Corporation began trading on the Nasdaq Global Select Market and the Toronto Stock Exchange on November 19, 2021 under the ticker symbol “TSAT”. This followed the closing of Telesat Canada’s transaction with Loral Space & Communications Inc. (“Loral”) and Public Sector Pension Investment Board (“PSP Investments”) (the “Transaction”), in which Loral’s stockholders and Telesat Canada’s other equity holders exchanged their interests for equity in the new public holding structure.

The Transaction resulted in the Loral stockholders, PSP Investments and certain individual shareholders (other than the Voting Directors) of Telesat Canada owning indirectly through the Corporation and Telesat Partnership LP (the “Partnership”) approximately the same percentage of equity as they held in Telesat Canada; the Corporation becoming the publicly traded general partner of the Partnership; and the Partnership indirectly owning all of the economic interests in Telesat Canada and Loral becoming a wholly owned subsidiary of the Partnership.

For further details on the Transaction, refer to the Corporation’s Registration Statement on Form F-4 filed with the U.S. Securities Exchange Commission (“SEC”) on June 24, 2021, which can be obtained on the SEC’s website at <http://www.sec.gov> and the Non-Offering Prospectus filed with the Ontario Securities Commission (“OSC”) on November 16, 2021, which can be obtained on the website <http://www.sedar.com>.

References herein to “Telesat” or “Company” refer to Telesat Canada and its subsidiaries prior to November 19, 2021 and Telesat Corporation and its subsidiaries subsequently.

Unless the context states or requires otherwise, references herein to the “financial statements” or similar terms refer to the unaudited interim condensed consolidated financial statements of Telesat.

On May 5, 2022, these financial statements were approved by the Audit Committee of the Board of Directors and authorized for issue.

## **2. BASIS OF PRESENTATION**

### ***Statement of Compliance***

The financial statements represent the interim financial statements of the Company and its subsidiaries, on a consolidated basis, prepared in accordance with *International Accounting Standard 34, Interim Financial Reporting* (“IAS 34”).

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

**2. BASIS OF PRESENTATION (cont.)**

The financial statements should be read in conjunction with the December 31, 2021 consolidated financial statements of the Corporation. The financial statements use the same basis of presentation and significant accounting policies as outlined in Notes 3 and 4 of the consolidated financial statements for the year ended December 31, 2021, with the exception of those outlined in the changes in accounting policies in Note 3 and the significant accounting policies in Note 4 below. The results of operations for the three months ended March 31, 2022 and 2021 are not necessarily indicative of the results that may be expected for a full fiscal year.

***Basis of Consolidation***

*Subsidiaries*

These consolidated financial statements include the results of the Telesat and subsidiaries controlled by the Company. Control is achieved when the Company has power over an entity, has exposure, or rights to variable returns from its involvement with an entity, and has the ability to use the power over an entity to affect the amount of its return.

The portion of equity ownership in a subsidiary that is not directly or indirectly attributable to the Company is booked under non-controlling interest. Non-controlling interests in subsidiaries are identified separately from the Company's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*Joint arrangements*

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to their share of the assets and revenue, and obligations for the liabilities and expenses, relating to the arrangement.

The Company's consolidated financial statements include the Company's share of the assets, liabilities, revenue and expenses of its interest in joint operations.

The consolidated financial statements have been prepared on an historical cost basis except for certain financial instruments which were measured at their fair values, as explained in the accounting policies below. Historical cost is based on the fair value of the consideration given or received in exchange for assets or liabilities.

**3. CHANGES IN ACCOUNTING POLICIES**

*IFRS Interpretation Committee ("IFRIC"), Software as a Service arrangements*

In April 2021, the IFRIC published an agenda decision clarifying how arrangements in respect of a specific part of cloud technology, Software as a Service ("SaaS") should be accounted for. The IFRIC interpretation provided specific guidance and included explanatory material which provided additional insights with respect to circumstances in relation to configuration and customization costs incurred in implementing SaaS. Among other

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

**3. CHANGES IN ACCOUNTING POLICIES (cont.)**

things, the interpretation clarified the nature of expenditures that met the definition of an intangible asset, the methods of differentiating between intangible assets and expenses and the pattern in which an entity benefits from expenditure that does not qualify as an intangible asset.

The Company adopted the IFRIC agenda decision retroactively.

An adjustment was recorded as a decrease to the opening balance of accumulated earnings as at January 1, 2021 in the amount of \$758.

The impact on the balance sheet as at December 31, 2021 was as follows:

Satellites, property and other equipment . . . . .	\$ (2,087)
Intangible assets . . . . .	\$ (1,419)
Accumulated earnings. . . . .	\$ 3,506

The impact on the financial statements for the three months ended March 31, 2021 was as follows:

Operating expenses . . . . .	\$ 411
Satellites, property and other equipment . . . . .	\$ (411)
Net income per common share attributable to Telesat Corporation shareholders – Basic . . . . .	\$ (0.01)
Net income per common share attributable to Telesat Corporation shareholders – Diluted. . . . .	\$ (0.01)

**4. SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies are detailed in Note 4 of the consolidated financial statements for the year ended December 31, 2021. Significant changes to the accounting policies as a result of adoption of *IFRIC, Software as a service arrangements* have been disclosed below.

*Software as a service arrangements*

Based upon guidance received from the IASB staff's analysis of submissions to the IFRS interpretation committee, a SaaS cloud computing arrangement would be evaluated as to whether it met the criteria under IAS 38 *Intangible Assets* or IFRS 16 *Leases*. If an arrangement did not meet either of those criteria, the arrangement would be accounted for as a service contract.

Telesat may enter into a SaaS cloud computing arrangement with a supplier where the contract conveys to Telesat a right to receive future access over the contract term to the supplier's application software running on the supplier's cloud infrastructure. The right to receive access does not provide Telesat with a software asset and, therefore, the access to the software is a service which is received over the contract term.

The assessment of whether configuration or customization of a software results in an intangible asset for Telesat depends on the nature and output of the configuration and customization performed. In some circumstances, the arrangement may result in additional code from which Telesat has the power to obtain the future economic benefits and to restrict others' access to those benefits. In that case, in determining whether to recognise the additional code as an intangible asset, Telesat assesses whether the additional code is identifiable and meets the recognition criteria in IAS 38.

Separately acquired intangible rights (i.e. software licenses in cloud computing arrangements) are normally recognized as assets.



**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

**4. SIGNIFICANT ACCOUNTING POLICIES (cont.)**

***Critical judgments in applying accounting policies***

The critical accounting judgments and estimates used in the application of the Company's accounting policies are consistent with those outlined in Note 5 of the consolidated financial statements for the year ended December 31, 2021, with the exception of the update noted below.

***Software as a service arrangements***

The Company's accounting policy relating to SaaS is described in Note 4. Judgment by management is required to determine whether configuration or customization of a software results in an intangible asset for Telesat.

***Future Changes in Accounting Policies***

The IASB periodically issues new and amended accounting standards. The new and amended standards determined to be applicable to the Company are disclosed below. The remaining new and amended standards have been excluded as they are not applicable.

***Amendments to IAS 1 and IFRS Practice Statement 2***

In February 2021, the IASB issued amendments to *IAS 1, Presentation of Financial Statements* in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments require entities to disclose their material accounting policies rather than their significant accounting policies.

The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and that accounting policy information may be material because of its nature, even if the related amounts are immaterial. On the other hand, although a transaction, other event or condition to which the accounting policy information relates may be material, it does not necessarily mean that the corresponding accounting policy information is material to the entity's financial statements.

The amendments are applied prospectively and are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

The changes will only impact the level of disclosures within the Company's financial statements.

The Company is currently evaluating the impact of the amendment.

***Amendments to IAS 12***

In May 2021, the IASB issued amendments to IAS 12, Income Taxes.

In specified circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. The amendments clarify that such initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Accordingly, entities are required to recognize deferred tax associated with transactions, such as leases and decommissioning obligations, which give rise to equal and offsetting temporary differences.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 with early adoption permitted.

There will be no impact on its condensed consolidated financial statements as a result of the amendments.

There are no other new and amended standards determined to be applicable to Telesat.

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**5. SEGMENT INFORMATION**

Telesat operates in a single operating segment, in which it provides satellite-based services to its broadcast, enterprise and consulting customers around the world.

The Company derives revenue from the following services:

**Broadcast** — Direct-to-home television, video distribution and contribution, and occasional use services.

**Enterprise** — Telecommunication carrier and integrator, government, consumer broadband, resource, maritime and aeronautical, retail and satellite operator services.

**Consulting and other** — Consulting services related to space and earth segments, government studies, satellite control services, and research and development.

Revenue derived from the above services were as follows:

Three months ended March 31,	2022	2021
Broadcast . . . . .	\$ 96,983	\$ 98,953
Enterprise . . . . .	85,408	88,622
Consulting and other . . . . .	3,378	2,917
<b>Revenue</b> . . . . .	<u>\$ 185,769</u>	<u>\$ 190,492</u>

Equipment sales included within the various services were as follows:

Three months ended March 31,	2022	2021
Enterprise . . . . .	\$ 3,356	5,540
<b>Total equipment sales</b> . . . . .	<u>\$ 3,356</u>	<u>\$ 5,540</u>

***Geographic Information***

Revenue by geographic regions was based on the point of origin of the revenue, which was the destination of the billing invoice, and was allocated as follows:

Three months ended March 31,	2022	2021
Canada . . . . .	\$ 81,620	\$ 87,771
United States . . . . .	74,963	70,162
Europe, Middle East & Africa . . . . .	7,896	9,447
Latin America & Caribbean . . . . .	12,276	14,677
Asia & Australia . . . . .	9,014	8,435
<b>Revenue</b> . . . . .	<u>\$ 185,769</u>	<u>\$ 190,492</u>

For disclosure purposes, the satellites and the intangible assets have been classified based on ownership. Satellites, property and other equipment and intangible assets by geographic regions were allocated as follows:

As at,	March 31, 2022	December 31, 2021
Canada . . . . .	\$ 781,550	\$ 812,478
United Kingdom . . . . .	522,750	541,126
Europe, Middle East & Africa . . . . .	18,325	19,310
United States . . . . .	49,637	54,390
All others . . . . .	2,509	2,384
<b>Satellites, property and other equipment</b> . . . . .	<u>\$ 1,374,771</u>	<u>\$ 1,429,688</u>

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**5. SEGMENT INFORMATION (cont.)**

As at,	March 31, 2022	December 31, 2021
Canada . . . . .	\$ 702,328	\$ 706,083
United States . . . . .	37,607	38,039
Latin America & Caribbean . . . . .	14,290	12,643
All others . . . . .	5,672	5,894
<b>Intangible assets</b> . . . . .	<u>\$ 759,897</u>	<u>\$ 762,659</u>

Other long-term assets by geographic regions were allocated as follows:

As at,	March 31, 2022	December 31, 2021
Canada . . . . .	\$ 30,838	\$ 30,979
United Kingdom . . . . .	229	275
<b>Other long-term assets</b> . . . . .	<u>\$ 31,067</u>	<u>\$ 31,254</u>

Goodwill was not allocated to geographic regions.

**Major Customers**

For the three months ended March 31, 2022 and 2021, there were two significant customers each representing more than 10% of consolidated revenue.

**6. OPERATING EXPENSES**

Three months ended March 31,	2022	2021
Compensation and employee benefits <sup>(a)</sup> . . . . .	\$ 43,066	\$ 22,206
Other operating expenses <sup>(b)</sup> . . . . .	13,458	8,413
Cost of sales <sup>(c)</sup> . . . . .	7,842	9,746
<b>Operating expenses</b> . . . . .	<u>\$ 64,366</u>	<u>\$ 40,365</u>

- (a) Compensation and employee benefits included salaries, bonuses, commissions, post-employment benefits and charges arising from share-based compensation.
- (b) Other operating expenses included general and administrative expenses, marketing expenses, insurance expenses, professional fees and facility costs. The balance for the three months ended March 31, 2022 included \$0.8 million of leases not capitalized due to exemptions and variable lease payments not included in the measurement of the leases liabilities (Three months ended March 31, 2021 - \$0.5 million).
- (c) Cost of sales included the cost of third-party satellite capacity, the cost of equipment sales and other costs directly attributable to fulfilling the Company's obligations under customer contracts.

**7. INTEREST EXPENSE**

Three months ended March 31,	2022	2021
Interest on indebtedness . . . . .	\$ 41,194	\$ 32,191
Interest on derivative instruments . . . . .	1,839	3,571
Interest on satellite performance incentive payments . . . . .	477	602
Interest on significant financing component . . . . .	4,411	4,959
Interest on employee benefit plans . . . . .	117	324
Interest on leases . . . . .	465	348
<b>Interest expense</b> . . . . .	<u>\$ 48,503</u>	<u>\$ 41,995</u>

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**8. INCOME TAXES**

Three months ended March 31,	2022	2021
Current tax expense . . . . .	\$ 21,625	\$ 24,119
Deferred tax recovery . . . . .	(2,196)	(2,354)
<b>Tax expense . . . . .</b>	<b>\$ 19,429</b>	<b>\$ 21,765</b>

A reconciliation of the statutory income tax rate, which is a composite of Canadian federal and provincial rates, to the effective income tax rate was as follows:

Three months ended March 31,	2022	2021
Income before tax . . . . .	\$ 80,059	\$ 63,087
Multiplied by the statutory income tax rates. . . . .	26.46%	26.46%
	21,184	16,693
Income tax recorded at rates different from the Canadian tax rate. . . . .	(1,765)	(2,815)
Permanent differences. . . . .	(962)	5,961
Effect of temporary differences not recognized as deferred tax assets. . . . .	1,212	4,346
Taxes related to prior periods . . . . .	—	(2,526)
Other . . . . .	(240)	106
<b>Tax expense . . . . .</b>	<b>\$ 19,429</b>	<b>\$ 21,765</b>
<b>Effective income tax rate . . . . .</b>	<b>24.27%</b>	<b>34.50%</b>

**9. SATELLITES, PROPERTY AND OTHER EQUIPMENT**

For the three months ended March 31, 2022, the Company had additions of \$7.5 million (March 31, 2021 — \$43.0 million) primarily related to acquisitions associated with the LEO program.

**10. GOODWILL**

Goodwill is tested for impairment at the entity level because it represents the lowest level at which goodwill supports the Company's operations and is monitored internally. An assessment is performed annually, or more frequently whenever events or changes in circumstances indicate that the carrying amounts of these assets are likely to exceed their recoverable amount.

During the first quarter of 2022, we reviewed the most sensitive assumptions to determine whether or not there were any changes from the assumptions from the valuation that was performed at the end of 2021. Based upon the review performed, the only significant material difference noted was related to the discount rates utilized on the valuation of Geo and U.S. C-band clearing proceeds. In both cases, the discount rate increased from 7.5% to 9.0%.

With this change taken into account, there was no impairment on the goodwill.

**11. LEASE LIABILITIES**

The expected undiscounted contractual cash flows of the lease liabilities as at March 31, 2022 were as follows:

Remainder 2022	2023	2024	2025	2026	Thereafter	Total
\$2,670	\$ 3,568	\$ 3,433	\$ 3,170	\$ 2,953	\$ 34,924	\$ 50,718

The undiscounted contractual cash flows included \$15.3 million of interest payments.

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**12. INDEBTEDNESS**

On October 11, 2019, Telesat Canada issued, through a private placement, US\$550 million of 6.5% Senior Unsecured Notes at an interest rate of 6.5%, which mature in October 2027 (“Senior Unsecured Notes”).

On December 6, 2019, Telesat Canada issued, through private placement, US\$400 million 4.875% Senior Secured Notes, at an interest rate of 4.875%, which mature in June 2027 (“Senior Secured Notes”).

On April 27, 2021, Telesat Canada issued US\$500 million in aggregate principal amount of 5.625% Senior Secured Notes maturing on December 6, 2026 (“2026 Senior Secured Notes”).

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Senior Secured Credit Facilities		
Revolving Credit Facility . . . . .	\$ —	\$ —
Term Loan B – U.S. Facility (March 31, 2022 and December 31, 2021 – US\$1,552,815) . . . . .	1,941,795	1,962,292
Senior Unsecured Notes (March 31, 2022 – US\$521,600, December 31, 2021 – US\$550,000). . . . .	652,261	695,035
2026 Senior Secured Notes (US\$500,000) . . . . .	625,250	631,850
Senior Secured Notes (US\$400,000) . . . . .	500,200	505,480
	<u>3,719,506</u>	<u>3,794,657</u>
Deferred financing costs, prepayment options and loss on repayment. . . . .	(2,305)	(2,060)
	<u>3,717,201</u>	<u>3,792,597</u>
Less: current indebtedness (March 31, 2022 – US\$3,647). . . . .	(4,561)	—
<b>Long-term indebtedness . . . . .</b>	<u><u>\$ 3,712,640</u></u>	<u><u>\$ 3,792,597</u></u>

In March 2022, Telesat repurchased for retirement Senior Unsecured Notes with a principal amount of \$40.0 million (US\$32.0 million) by way of open market purchases in exchange for \$19.4 million (US\$15.6 million). Of this balance, \$14.9 million (US\$11.9 million) was settled prior to March 31, 2022, with \$4.5 million (US\$3.6 million) settled in April 2022.

The repurchase resulted in a write-off of the related debt issue costs and prepayment options in the amount of \$0.4 million (US\$0.3 million) and a gain on extinguishment of debt of \$21.0 million (US\$16.8 million).

**13. SHARE CAPITAL**

The Class A Common shares together with the Class B Variable Voting shares represent the Corporation’s Public Shares (“Telesat Public Shares”). The Class C Fully Voting shares and Class C Limited Voting shares shall be referred to as (“Class C Shares”). The Telesat Public Shares and Class C Shares shall represent Telesat Corporation Shares (“Telesat Corporation Shares”). Class A Special Voting Share, Class B Special Voting Share and Class C Special Voting Share together are referred as (“Special Voting Shares”).

The number of shares and stated value of the outstanding shares were as follows:

	<b>March 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Number of shares</b>	<b>Stated value</b>	<b>Number of shares</b>	<b>Stated value</b>
Telesat Public Shares. . . . .	11,920,059	\$ 36,845	11,907,246	\$ 36,501
Class C Shares. . . . .	112,841	6,340	112,841	6,340
	<u>12,032,900</u>	<u>\$ 43,185</u>	<u>12,020,087</u>	<u>\$ 42,841</u>

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

**13. SHARE CAPITAL (cont.)**

During the three months ended March 31, 2022, 27,573 Restricted Share Units (“RSUs”) were settled for 12,813 Telesat Public Shares, on a net settlement basis.

In addition, three Special Voting Shares and one Golden Share with a nominal stated value have been issued and were outstanding as at March 31, 2022 and December 31, 2021.

The number and stated value of the outstanding Limited Partnership units (“LP Units”) of Telesat Partnership LP as at March 31, 2022 and December 31, 2021, were as follows:

	Number of units	Stated value
Class A and Class B LP Units. . . . .	19,428,491	\$ 53,169
Class C LP Units. . . . .	18,098,362	59,683
	<u>37,526,853</u>	<u>\$ 112,852</u>

On consolidation into the Corporation, the stated value of the LP Units is included under non-controlling interest.

**14. NON-CONTROLLING INTEREST**

Non-controlling interests represent equity interests in the Partnership that are not attributable to the Company. As of March 31, 2022 and December 31, 2021, the Corporation held general partnership interest representing approximately 24% economic interest in the Partnership. The remaining 76% economic interest represents exchangeable units held by the limited partnership unit holders.

Net income attributable to non-controlling interests for 2022 represents the non-controlling interests’ portion of the Partnership’s net income.

**15. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net income for the period attributable to shareholders of each class of shares by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated to give effect to share option awards and RSU awards.

The following table presents reconciliations of the numerator of the basic and diluted per share computations:

Three months ended March 31	2022	2021
Net income attributable to Telesat Common Shares. . . . .	\$ 13,983	\$ 41,322
Effect of diluted securities . . . . .	1,342	—
Diluted net income attributable to Telesat Common Shares. . . . .	<u>\$ 15,325</u>	<u>\$ 41,322</u>

The following table presents reconciliations of the denominators of the basic and diluted per share computations:

Three months ended March 31	2022	2021
Basic total weighted average number of Telesat Common Shares outstanding . .	12,023,077	49,546,692
Effect of diluted securities		
Stock options. . . . .	15,321	237,810
RSUs. . . . .	1,523,862	27,573
Diluted total weighted average number of Telesat Common Shares outstanding . . . . .	<u>13,562,260</u>	<u>49,812,075</u>

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

**15. EARNINGS PER SHARE (cont.)**

Effect of diluted securities represents Telesat Common Shares assumed to be issued for no consideration. The difference between the number of Telesat Common Shares assumed issued on exercise and Telesat Common Shares assumed repurchased are treated as an issuance of common shares for no consideration.

Net income was equal to diluted net income for the period presented.

For the three months ended March 31, 2021, for the purposes of earnings per share, the Common Shares, Non-Voting Participating Preferred Shares and Voting Participating Preferred Shares of Telesat Canada have equivalent economic rights. The quantity of shares of Telesat Canada, have been converted to take into account the impact of the conversion which occurred in the Transaction.

For the three months ended March 31, 2022, for the purpose of earnings per share, all of the Telesat Public Shares and Class C Shares have equivalent economic rights.

**16. GOVERNMENT GRANT**

In May 2019, Telesat entered into an agreement for a non-refundable government contribution of a value up to \$85 million to July 31, 2023 relating to the Telesat Lightspeed Constellation.

For the three months ended March 31, 2022, the Company recorded \$4.2 million relating to the agreement (Three months ended March 31, 2021 — \$1.6 million).

Of the amount recorded in the three months ended March 31, 2022, \$3.0 million was recorded as a reduction to satellites, property and other equipment and \$1.2 million was recorded as a reduction to operating expenses (Three months ended March 31, 2021 — \$0.8 million as a reduction to satellites, property and other equipment and \$0.8 million recorded as a reduction to operating expenses).

**17. CAPITAL DISCLOSURES**

The Senior Secured Credit Facilities, Senior Secured Notes and 2026 Senior Secured Notes are secured by substantially all of the Company's assets, excluding the assets of unrestricted subsidiaries. If the Revolving Facility is drawn, the Senior Secured Credit Facilities require the Company to comply with a first lien net leverage ratio test. As at March 31, 2022, the first lien net leverage ratio was 4.66:1.00, which was less than the maximum test ratio of 5.75:1.00.

The Company's operating results are tracked against budget on a monthly basis, and this analysis is reviewed by senior management. The Company partly manages its interest rate risk on variable interest rate debt through the use of interest rate swaps (Note 18).

**18. FINANCIAL INSTRUMENTS**

**Measurement of Risks**

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at March 31, 2022.

*Credit risk*

Credit risk is the risk that a counterparty to a financial asset will default, resulting in the Company incurring a financial loss. As at March 31, 2022, the maximum exposure to credit risk is equal to the carrying value of the financial assets which totaled \$1,596.2 million (December 31, 2021 — \$1,589.5 million).



**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**18. FINANCIAL INSTRUMENTS (cont.)**

The following table provides breakdown by maturity of financial assets as at March 31, 2022:

	Carrying amount	Contractual cash flows					
		Remaining 2022	2023	2024	2025	2026	Thereafter
Cash and cash equivalents . . . . .	\$ 1,512,590	\$ 1,512,590	\$ —	\$ —	\$ —	\$ —	\$ —
Trade and other receivables, excluding deferred receivables . . . . .	63,524	63,524	—	—	—	—	—
Deferred receivables . . . . .	16,707	3,967	4,284	2,912	1,413	1,327	2,804
Other financial assets . . . . .	3,380	856	1,756	—	—	—	768
	<u>\$ 1,596,201</u>	<u>\$ 1,580,937</u>	<u>\$ 6,040</u>	<u>\$ 2,912</u>	<u>\$ 1,413</u>	<u>\$ 1,327</u>	<u>\$ 3,572</u>

Cash and cash equivalents are invested with high quality investment grade financial institutions and are governed by the Company's corporate investment policy, which aims to reduce credit risk by restricting investments to high-grade, mainly U.S. dollar and Canadian dollar denominated investments.

The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks related to trade accounts receivable. The Company's standard payment terms are 30 days with interest typically charged on balances remaining unpaid at the end of standard payment terms. The Company's historical experience with customer defaults has been minimal. As at March 31, 2022, North American and International customers made up 62% and 38% of the outstanding trade receivable balance, respectively (December 31, 2021 — 54% and 46%, respectively). Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts as at March 31, 2022 was \$4.9 million (December 31, 2021 — \$5.2 million).

The Company mitigates the credit risk associated with derivative instruments by entering into them with only high quality financial institutions.

*Foreign exchange risk*

The Company's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The Company's main currency exposures lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and indebtedness with the most significant impact being on the U.S. dollar denominated indebtedness. As at March 31, 2022 and December 31, 2021, the entire indebtedness was denominated in U.S. dollars, with the Canadian dollar equivalent of the U.S. dollar denominated indebtedness equaling \$3,719.5 million and \$3,794.7 million, respectively, before netting of deferred financing costs, prepayment options and loss on repayment.

As at March 31, 2022, the impact of a 5 percent increase (decrease) in the value of the Canadian dollar against the U.S. dollar on financial assets and liabilities would have decreased (increased) net income by \$168.6 million (December 31, 2021 — \$174.0 million) and increased (decreased) other comprehensive income by \$56.2 million (December 31, 2021 — \$57.0 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

*Interest rate risk*

The Company is exposed to interest rate risk on its cash and cash equivalents and its indebtedness. The interest rate risk on the indebtedness is from a portion of the indebtedness having a variable interest rate. Changes in the interest rates could impact the amount of interest that the Company is required to pay or receive.

In October 2017, the Company entered into four interest rate swaps to hedge the interest rate risk associated with the variable interest rate on US\$1,800.0 million of the U.S. denominated Term Loan B at fixed interest rates, excluding applicable margins, ranging from 1.72% to 2.04%. As at March 31, 2022, one interest rate swap of US\$450 million, with expiration term of September 2022, was outstanding to hedge the interest rate risk associated with the variable interest rate on the U.S. denominated Term Loan B at fixed interest rate, excluding applicable margins, of 2.04%.



**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**18. FINANCIAL INSTRUMENTS (cont.)**

If the interest rates on the variable rate indebtedness change by 0.25%, the result would be an increase or decrease to net income of \$1.2 million for the three months ended March 31, 2022 (for the three months ended March 31, 2021 — \$1.2 million).

*Liquidity risk*

The Company maintains credit facilities to ensure it has sufficient funds available to meet current and foreseeable financial requirements.

The contractual maturities of financial liabilities as at March 31, 2022 were as follows:

	Carrying amount	Contractual cash flows (undiscounted)	Remaining 2022	2023	2024	2025	2026	Thereafter
Trade and other payables . . . . .	\$ 39,090	\$ 39,090	\$ 39,090	\$ —	\$ —	\$ —	\$ —	\$ —
Customer and other deposits . . .	1,602	1,602	1,132	108	17	204	—	141
Satellite performance incentive payments . . . . .	29,024	35,515	6,980	7,388	5,244	3,079	3,136	9,688
Other financial liabilities . . . . .	2,492	2,492	2,492	—	—	—	—	—
Interest rate swaps . . . . .	1,955	2,971	2,971	—	—	—	—	—
Indebtedness <sup>(1)</sup> . . . . .	3,759,052	4,581,333	154,539	165,790	165,899	164,853	2,728,058	1,202,194
	<u>\$ 3,833,215</u>	<u>\$ 4,663,003</u>	<u>\$ 207,204</u>	<u>\$ 173,286</u>	<u>\$ 171,160</u>	<u>\$ 168,136</u>	<u>\$ 2,731,194</u>	<u>\$ 1,212,023</u>

(1) Indebtedness excludes deferred financing costs, prepayment options and loss on repayment.

The interest payable and interest payments included in the carrying value and contractual cash flows, respectively, in the above table, were as follows:

	Interest payable	Interest payments
Satellite performance incentive payments . . . . .	\$ 352	\$ 6,751
Indebtedness . . . . .	\$ 39,546	\$ 861,827

Financial assets and liabilities recorded on the balance sheets and the fair value hierarchy levels used to calculate those values were as follows:

As at March 31, 2022	FVTPL	Amortized cost	Total	Fair value	Fair value hierarchy
Cash and cash equivalents . . .	\$ —	\$ 1,512,590	\$ 1,512,590	\$ 1,512,590	Level 1
Trade and other receivables . . .	—	68,772	68,772	68,772	(3)
Other current financial assets . . . . .	—	856	856	856	Level 1
Other long-term financial assets <sup>(1)</sup> . . . . .	37	13,982	14,019	14,019	Level 1, Level 2
Trade and other payables . . . .	—	(39,090)	(39,090)	(39,090)	(3)
Other current financial liabilities . . . . .	(1,955)	(50,710)	(52,665)	(54,145)	Level 2
Other long-term financial liabilities . . . . .	—	(22,135)	(22,135)	(22,415)	Level 2
Indebtedness <sup>(2)</sup> . . . . .	—	(3,719,506)	(3,719,506)	(2,615,854)	Level 2
	<u>\$ (1,918)</u>	<u>\$ (2,235,241)</u>	<u>\$ (2,237,159)</u>	<u>\$ (1,135,267)</u>	

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**18. FINANCIAL INSTRUMENTS (cont.)**

<u>As at December 31, 2021</u>	<u>FVTPL</u>	<u>Amortized cost</u>	<u>Total</u>	<u>Fair value</u>	<u>Fair value hierarchy</u>
Cash and cash equivalents. . . .	\$ —	\$ 1,449,593	\$ 1,449,593	\$ 1,449,593	Level 1
Trade and other receivables. . .	—	122,698	122,698	122,698	(3)
Other current financial assets. . . . .	—	861	861	861	Level 1
Other long-term financial assets <sup>(1)</sup> . . . . .	1,038	15,310	16,348	16,348	Level 1, Level 2
Trade and other payables. . . .	—	(54,628)	(54,628)	(54,628)	(3)
Other current financial liabilities . . . . .	(5,367)	(31,280)	(36,647)	(38,250)	Level 2
Other long-term financial liabilities . . . . .	—	(23,835)	(23,835)	(24,240)	Level 2
Indebtedness <sup>(2)</sup> . . . . .	—	(3,794,657)	(3,794,657)	(3,314,387)	Level 2
	<u>\$ (4,329)</u>	<u>\$ (2,315,938)</u>	<u>\$ (2,320,267)</u>	<u>\$ (1,842,005)</u>	

- (1) Other long-term financial assets classified as fair value through profit or loss were calculated using level 2 of the fair value hierarchy. All other balances were calculated using level 1 of the fair value hierarchy.
- (2) Indebtedness excludes deferred financing costs, prepayment options and loss on prepayment.
- (3) Trade and other receivables and trade and other payables approximate fair value due to the short-term maturity of these instruments.

**Assets pledged as security**

The Senior Secured Credit Facilities, Senior Secured Notes and 2026 Senior Secured Notes are secured by substantially all of Telesat's assets excluding the assets of unrestricted subsidiaries.

**Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market under current market conditions at the measurement date. Where possible, fair values are based on the quoted market values in an active market. In the absence of an active market, the Company determines fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs.

The fair value hierarchy is as follows:

Level 1 is based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially all of the full term of the assets or liabilities.

Level 3 is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

**18. FINANCIAL INSTRUMENTS (cont.)**

Estimates of fair values are affected significantly by the assumptions for the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate fair value due to the short-term maturity of these instruments. As at March 31, 2022, cash and cash equivalents included \$3.9 million (December 31, 2021 — \$81.0 million) of short-term investments.

The fair value of the satellite performance incentive payments, included in other current and long-term financial liabilities, was determined using a discounted cash flow methodology. The calculation is performed on a recurring basis. As at March 31, 2022 and December 31, 2021, the discount rate used was 4.7% and 4.6%, respectively.

The fair value of the indebtedness was based on transactions and quotations from third parties considering market interest rates and excluding deferred financing costs, prepayment options and loss on repayment. The calculation of the fair value of the indebtedness is performed on a recurring basis. The rates used were as follows:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Term Loan B – U.S. Facility – Senior Secured Credit Facilities . . . . .	74.75%	88.25%
Senior Unsecured Notes . . . . .	49.19%	77.65%
Senior Secured Notes . . . . .	73.13%	88.72%
2026 Senior Secured Notes . . . . .	76.41%	94.09%

*Fair value of derivative financial instruments*

Derivatives were valued using a discounted cash flow methodology. The calculations of the fair value of the derivatives are performed on a recurring basis.

Interest rate swap future cash flows were determined based on current yield curves and exchange rates and then discounted based on discount curves.

Prepayment option cash flows were calculated with a third party option valuation model which is based on the current price of the debt instrument and discounted based on a discount curve.

The discount rates used to discount cash flows as at March 31, 2022 ranged from 0.34% to 3.12% (December 31, 2021 — 0.08% to 1.37%).

The fair value of the derivative assets and liabilities was calculated based on the level 2 of the fair value hierarchy. The current and long-term portions of the fair value of the Company's derivative assets and liabilities, as at each balance sheet date, were as follows:

<b>As at March 31, 2022</b>	<b>Other long-term financial assets</b>	<b>Other current financial liabilities</b>	<b>Total</b>
Interest rate swaps . . . . .	\$ —	\$ (1,955)	\$ (1,955)
Prepayment options . . . . .	37	—	37
	<u>\$ 37</u>	<u>\$ (1,955)</u>	<u>\$ (1,918)</u>

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**18. FINANCIAL INSTRUMENTS (cont.)**

As at December 31, 2021	Other long-term financial assets	Other current financial liabilities	Total
Interest rate swaps . . . . .	\$ —	\$ (5,367)	\$ (5,367)
Prepayment options . . . . .	1,038	—	1,038
	<u>\$ 1,038</u>	<u>\$ (5,367)</u>	<u>\$ (4,329)</u>

The reconciliation of the fair value of derivative assets and liabilities was as follows:

Fair value, December 31, 2021 and January 1, 2022 . . . . .	\$ (4,329)
Unrealized gains (losses) on derivatives	
Prepayment options . . . . .	(1,007)
Interest rate swaps . . . . .	3,365
Impact of foreign exchange . . . . .	53
Fair value, March 31, 2022 . . . . .	<u>\$ (1,918)</u>

**19. EMPLOYEE BENEFIT PLANS**

The expenses included on the consolidated statements of income was as follows:

Three months ended March 31, 2022	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Consolidated statements of income						
Operating expenses . . . . .	\$ 1,583	\$ 132	\$ 1,715	\$ 178	\$ —	\$ 178
Interest (income) expense . . . . .	\$ (200)	\$ 130	\$ (70)	\$ 183	\$ 4	\$ 187

Three months ended March 31, 2021	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Consolidated statements of income						
Operating expenses . . . . .	\$ 1,973	\$ —	\$ 1,973	\$ 41	\$ —	\$ 41
Interest expense . . . . .	\$ 186	\$ —	\$ 186	\$ 138	\$ —	\$ 138

No amounts were recorded on the statements of comprehensive income for the three months ended March 31, 2022 or 2021.

The balance sheet obligations, distributed between pension and other post-employment benefits were as follows:

As at March 31, 2022	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Included in other long-term liabilities . . .	\$ —	\$ 17,997	\$ 17,997	\$ 22,631	\$ 4,690	\$ 27,321
Included in other long-term assets . . . . .	\$ 29,974	\$ —	\$ 29,974	\$ —	\$ —	\$ —

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**19. EMPLOYEE BENEFIT PLANS (cont.)**

As at December 31, 2021	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Included in other long-term liabilities . . .	\$ —	\$ 17,927	\$ 17,927	\$ 22,429	\$ 4,865	\$ 27,294
Included in other long-term assets . . . . .	\$ 30,105	\$ —	\$ 30,105	\$ —	\$ —	\$ —

**20. SUPPLEMENTAL CASH FLOW INFORMATION**

Cash and cash equivalents were comprised of the following:

As at March 31,	2022	2021
Cash. . . . .	\$ 1,508,720	\$ 818,394
Short-term investments <sup>(1)</sup> . . . . .	3,870	64,697
Cash and cash equivalents. . . . .	<u>\$ 1,512,590</u>	<u>\$ 883,091</u>

- (1) Consisted of short-term investments with an original maturity of three months or less or which are available on demand with no penalty for early redemption.

Income taxes paid, net of income taxes received was comprised of the following:

Three months ended March 31,	2022	2021
Income taxes paid . . . . .	\$ (29,481)	\$ (30,681)
Income taxes received . . . . .	10	46
	<u>\$ (29,471)</u>	<u>\$ (30,635)</u>

Interest paid, net of interest received was comprised of the following:

Three months ended March 31,	2022	2021
Interest paid. . . . .	\$ (23,119)	\$ (19,026)
Interest received . . . . .	1,010	573
	<u>\$ (22,109)</u>	<u>\$ (18,453)</u>

The reconciliation of the liabilities arising from financing activities were as follows:

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2022. . . . .	\$ 3,792,597	\$ 30,344	\$ 35,678
Cash outflows . . . . .	(14,880)	(1,364)	(368)
Amortization of deferred financing costs, prepayment options and loss on repayment . . . . .	186	—	—
Gain on extinguishment of debt . . . . .	(21,030)	—	—
Interest paid. . . . .	—	—	(465)
Interest accrued. . . . .	—	—	465
Impact of foreign exchange. . . . .	(39,672)	(308)	(45)
Balance as at March 31, 2022. . . . .	<u>\$ 3,717,201</u>	<u>\$ 28,672</u>	<u>\$ 35,265</u>

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

**20. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)**

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2021 .....	\$ 3,187,152	\$ 37,574	\$ 29,051
Cash outflows .....	—	(1,733)	(605)
Amortization of deferred financing costs, prepayment options and loss on repayment .....	28	—	—
Non-cash additions/adjustments .....	—	—	6,083
Interest paid .....	—	—	(348)
Interest accrued .....	—	—	348
Other .....	—	25	14
Impact of foreign exchange .....	(40,796)	(454)	(86)
Balance as at March 31, 2021 .....	<u>\$ 3,146,384</u>	<u>\$ 35,412</u>	<u>\$ 34,457</u>

The net change in operating assets and liabilities was comprised of the following:

Three months ended March 31,	2022	2021
Trade and other receivables .....	\$ (11,401)	\$ 18,164
Financial assets .....	1,154	452
Other assets .....	(15,940)	(3,301)
Trade and other payables .....	(5,019)	531
Financial liabilities .....	(786)	1,031
Other liabilities .....	(3,202)	(87)
	<u>\$ (35,194)</u>	<u>\$ 16,790</u>

Non-cash investing activities were comprised of:

Three months ended March 31,	2022	2021
Satellites, property and other equipment .....	\$ (2,617)	\$ 23,101

**21. COMMITMENTS AND CONTINGENT LIABILITIES**

The following were the Company's off-balance sheet contractual obligations as at March 31, 2022:

	Remaining 2022	2023	2024	2025	2026	Thereafter	Total
Property leases .....	\$ 699	\$ 1,088	\$ 1,074	\$ 992	\$ 990	\$ 11,892	\$ 16,735
Capital commitments .....	22,301	20,744	39,766	50,145	—	—	132,956
Other operating commitments .....	22,885	9,196	7,380	4,138	1,976	9,431	55,006
	<u>\$ 45,885</u>	<u>\$ 31,028</u>	<u>\$ 48,220</u>	<u>\$ 55,275</u>	<u>\$ 2,966</u>	<u>\$ 21,323</u>	<u>\$ 204,697</u>

Property leases consisted of off-balance sheet contractual obligations for land or building usage, while capital commitments included commitments for capital projects. Other operating commitments consisted of third party satellite capacity arrangements as well as other commitments that are not categorized as property leases or capital commitments. The Company's off-balance sheet obligations included the future minimum payments for the non-cancellable period of each respective obligation, which have various terms and expire between 2022 to 2039.

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
**(all amounts in thousands of Canadian dollars, except where otherwise noted)**

**21. COMMITMENTS AND CONTINGENT LIABILITIES (cont.)**

Certain variable costs associated with the capitalized leases have been included in property leases commitments with a termination date co-terminus with the lease liability.

The Company has entered into contracts for the development of the Telesat Lightspeed constellation and other capital expenditures. The total outstanding commitments as at March 31, 2022 were included in capital commitments.

The Company has agreements with various customers for prepaid revenue on several service agreements which take effect when the satellite is placed in service. The Company is responsible for operating and controlling these satellites. As at March 31, 2022, customer prepayments of \$351.9 million (December 31, 2021 — \$368.1 million), a portion of which is refundable under certain circumstances, were reflected in other current and long-term liabilities.

In the normal course of business, the Company has executed agreements that provide for indemnification and guarantees to counterparties in various transactions. These indemnification undertakings and guarantees may require the Company to compensate the counterparties for costs and losses incurred as a result of certain events including, without limitation, loss or damage to property, change in the interpretation of laws and regulations (including tax legislation), claims that may arise while providing services, or as a result of litigation that may be suffered by the counterparties. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount the Company could be required to pay counterparties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments under such indemnifications.

Telesat Corporation and Telesat CanHoldco have entered into an indemnification agreement with PSP Investments where they will indemnify PSP Investments on a grossed-up basis for PSP Investment's pro rata share of the costs relating to: (a) certain losses and litigation proceedings related to the Transaction, (b) certain losses with regard to Loral and out-of-pocket expenses of Loral and (c) certain tax matters.

In the case of indemnification for certain tax matters only, there is a cap of US\$50 million (other than with respect to defense costs and grossed-up payments) and all other indemnification obligations are uncapped.

**Legal Proceedings**

Telesat previously received assessments from Brazilian tax authorities alleging that additional taxes are owed on revenue earned for the period 2003 to 2018. The total disputed amount for the period 2003 to 2018, including interest and penalties, is now \$86 million. The disputes relate to the Brazilian tax authorities' characterization of revenue. The Company has challenged the assessments. The Company believes the likelihood of a favorable outcome in these disputes is more likely than not and, as such, no reserve has been established.

The Canadian tax authorities have also reassessed the Company for \$11 million relating to its Scientific Research and Experimental Development claims for the years 2016 and 2017. The Company has challenged the reassessments. The Company believes the likelihood of a favorable outcome in these disputes is more likely than not and, as such, no reserve has been established.

Other than the legal proceedings disclosed above, and in Note 33 of the Company's December 31, 2021 consolidated financial statements, the Company is not aware of any proceedings outstanding or threatened as of the date hereof by or against it or relating to its business which may have, or have had in the recent past, significant effects on the Company's financial position or profitability.

**Telesat Corporation**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**March 31, 2022**  
(all amounts in thousands of Canadian dollars, except where otherwise noted)

## **22. RELATED PARTY TRANSACTIONS**

### **Transactions with subsidiaries**

The Company and its subsidiaries regularly engage in inter-group transactions. These transactions include the purchase and sale of satellite services and communications equipment, providing and receiving network and call centre services, access to orbital slots and management services. The transactions have been entered into over the normal course of operations. Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and therefore have not been disclosed.

### **Compensation of executives and Board level directors**

Compensation of the Company's executives consists of short-term benefits (including salaries), post-employment benefits and share-based compensation. Compensation of the Company's Board level directors consists of cash and share-based compensation. The transactions have been entered into with the Company in the normal course of operations.

During the three months ended March 31, 2022, 27,573 RSUs were settled for 12,813 Telesat Public Shares, on a net settlement basis.

### **Transactions with related parties**

The Company and certain of its subsidiaries used to engage in transactions with related parties. The Company's related parties included Loral and Red Isle until November 18, 2021 at which point under the Transaction Agreement Loral became a fully consolidated subsidiary. Any transactions entered into with Loral have been entered into over the normal course of operations. Following the Transaction Agreement, related parties included Red Isle and MHR. There were no transactions or balances with Red Isle or MHR during any of the periods presented.

During the three months ended March 31, 2021, the Company and its subsidiaries had entered into the following transactions with Loral.

	<b>Sales of goods and services</b>	<b>Purchase of goods and services</b>
Revenue. . . . .	\$ 32	\$ —
Operating expenses. . . . .	\$ —	\$ 1,593

### **Other related party transactions**

The Company funds certain defined benefit pension plans. Contributions made to the plans the three months ended March 31, 2022 were \$1.3 million (March 31, 2021 — \$1.2 million).

## **23. Subsequent event**

In April 2022, Telesat repurchased for retirement Senior Unsecured Notes with a principal amount of \$35.0 million (US\$28.0 million) by way of open market purchases in exchange for \$17.8 million (US\$14.2 million). The repurchase resulted in a write-off of the related debt issue costs and prepayment options in the amount of \$0.4 million (US\$0.3 million) and a gain on extinguishment of \$17.5 million (US\$14.0 million).