

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following management’s discussion and analysis (the “MD&A”) should be read in conjunction with Telesat Corporation’s unaudited interim condensed consolidated financial statements and the related notes for the three and six month periods ended June 30, 2022.

As used in this MD&A, unless the context states or requires otherwise, references to “Telesat,” “Company,” “we,” “our” and “us” refer to Telesat Canada and its subsidiaries for the period to November 18, 2021. The use of “we,” “our” and “us” refer to Telesat Corporation and its subsidiaries for the period from November 19, 2021 onwards. Unless the context states or requires otherwise, reference herein to “the consolidated financial statements” or “the financial statements” or similar terms refer to Telesat Corporation’s unaudited condensed consolidated financial statements included herein.

All figures reported in this MD&A are in Canadian dollars, except where we indicate otherwise, and are referenced as “\$” and “dollars”.

This MD&A contains a translation of some Canadian dollar amounts into United States dollars at specified exchange rates solely for your convenience. All references to “US\$” and “U.S. dollar” refers to United States dollars.

The financial statements presented herein have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting.

Certain totals, subtotals and percentages may not reconcile due to rounding.

The information contained in this MD&A takes into account information available up to August 4, 2022, unless otherwise noted.

This MD&A makes reference to certain non-IFRS measures, namely, Adjusted EBITDA, Adjusted EBITDA margin and Consolidated EBITDA. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Rather, these non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For a reconciliation of the non-IFRS measure to the most closely comparable IFRS measure, see below under the heading “Non-IFRS Measures”.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. When used in this MD&A, the words “believes,” “expects,” “plans,” “may,” “will,” “would,” “could,” “should,” “anticipates,” “estimates,” “project,” “intend” or “outlook” or other variations of these words or other similar expressions are intended to identify forward-looking statements and information. In addition, Telesat Corporation or its representatives have made or may make forward-looking statements, orally or in writing, which may be included in, but are not limited to, various filings made from time to time with the SEC and Canadian securities regulatory authorities, and press releases or oral statements made with the approval of an authorized executive officer of Telesat Corporation. Statements containing forward-looking information are not historical facts nor assurances of future performance but instead represent management’s expectations, estimates and projections regarding future events or circumstances.

These forward-looking statements and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Actual results may differ materially from anticipated results as a result of certain risks and uncertainties which are described, but are not limited to, the risks listed below and in the section entitled “Risk Factors” included in Telesat Corporation’s annual report on Form 20-F for the year ended December 31, 2021 (the “Annual Report”) filed

with the SEC and the Canadian securities regulatory authorities on March 18, 2022, which can be obtained on the SEC's website at <http://www.sec.gov> and the System for Electronic Document Analysis and Retrieval ("SEDAR") at <http://www.sedar.com>. There may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change, except where we are expressly required to do so by law.

Factors that could cause actual results to differ from those projected include, but are not limited to (1) risks associated with financial factors, including swings in the global financial markets, increases in interest rates, and access to capital; (2) risks associated with satellite services, including dependence on large customers, launch delays and failures, in-orbit failures and competition; (3) risks and uncertainties associated with Telesat Lightspeed, including overcoming technological challenges, access to spectrum and markets, governmental restrictions or regulations, supply chain disruptions, the impact of inflation on development costs and financing, raising sufficient capital to design and implement the system and competition from other low earth orbit systems; (4) regulatory risks, such as the effect of industry and government regulations that affect Telesat; and (5) other risks, including risks relating to and resulting from the COVID-19 pandemic. The foregoing list of important factors is not exclusive. Furthermore, Telesat operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond Telesat's control.

These factors should not be construed as exhaustive and should be read with the other cautionary statements in this MD&A. These forward-looking statements are based on our current expectations, estimates, forecasts and projections about our business and the industry in which we operate and management's beliefs and assumptions, and are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this MD&A may turn out to be inaccurate.

Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data. These forward-looking statements speak only as at the date of this MD&A. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC and the Canadian securities regulatory authorities, after the date of this MD&A.

This MD&A contains estimates, projections, market research and other information concerning our industry, our business, and the markets for our services. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties, and actual events or circumstances may differ materially from events and circumstances that are assumed in this information.

Unless otherwise expressly stated, we obtained this industry, business, market and other data from our own internal estimates and research as well as from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry and general publications, government data and similar sources.

In addition, assumptions and estimates of our and our industry's future performance are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the section of our Annual Report entitled "Risk Factors." These and other factors could cause our future performance to differ materially from our assumptions and estimates.

Any references to forward-looking statements in this MD&A include forward-looking information within the meaning of applicable Canadian securities laws.

Additional information regarding the Company, including the Annual Report, can be obtained on the SEC's website at <http://www.sec.gov> and on SEDAR at <http://www.sedar.com>.

OVERVIEW OF THE BUSINESS

We are a leading global satellite services operator, providing our customers with mission-critical communications services since the start of the satellite communications industry in the 1960s. Through a combination of advanced satellites and ground facilities and a highly expert and dedicated staff, our communications solutions support the requirements of sophisticated satellite users throughout the world. We are organized into one operating segment, the satellite services business; however, we provide our services through three business categories: Broadcast, Enterprise and Consulting and other.

The satellite services business is capital intensive and the build-out of a satellite fleet requires substantial time and investment. Once the investment in a satellite is made, the incremental costs to maintain and operate the satellite are relatively low over the life of the satellite, with the exception of in-orbit insurance. We have been able to generate a large contracted revenue backlog by entering into long-term contracts with some of our customers for all or substantially all of a satellite's life. Historically, this has resulted in revenue from the satellite services business being fairly predictable.

As at June 30, 2022, we provided satellite services to customers from our fleet of 14 in-orbit geostationary satellites, as well as our Canadian payload on the ViaSat-1 satellite. We also manage the operations of additional satellites for third parties.

We have commenced the development of what we believe will be the world's most advanced constellation of low earth orbit ("LEO") satellites and integrated terrestrial infrastructure, called "Telesat Lightspeed" — a platform designed to revolutionize the provision of global broadband connectivity. In January 2018, our 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 a low latency broadband experience. We also installed ground infrastructure at our teleport in Allan Park in Canada to support testing with a variety of existing and prospective customers and potential suppliers of the Telesat Lightspeed system hardware who have been participating in trials since the second half of 2018.

Telesat and its affiliates operate satellites pursuant to authorizations granted by governments, including those of Canada, the United States, Brazil, the Kingdom of Tonga and the United Kingdom, to access and use certain geostationary orbital locations and associated spectrum resources. The use of these orbital locations, as well as our other operations, is subject to a variety of Canadian and international regulations.

Revenue

We earn most of our revenue by providing video and data services using satellite transponder capacity. We also earn revenue by providing ground-based transmit and receive services, selling equipment, managing satellite networks, and providing consulting services in the field of satellite communications.

We recognize revenue from satellite services on a monthly basis as services are performed in an amount that reflects the consideration we expect to receive in exchange for those services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability is considered probable.

Consulting revenue for cost plus contracts is recognized as the approved time and labor is completed by Telesat. We recognize consulting revenue for fixed price contracts using the input method to determine the progress towards complete satisfaction of the performance obligation. Equipment sale revenue is recognized when the customer obtains control of the equipment, being at the time the equipment is delivered to and accepted by the customer.

Expenses

Our operating expenses consist of labor, the cost of which has historically been relatively stable, and variable operating expenses which include in-orbit insurance and direct-billed expenses, such as third-party contractor services.

Interest expense is significant and arises principally from our: Senior Secured Credit Facilities comprised of two outstanding secured credit facilities comprising a revolving facility maturing in 2024 and Term Loan B maturing in 2026 (together, the "Senior Secured Credit Facilities"); 6.5% senior unsecured notes due in 2027 issued by Telesat Canada and Telesat LLC, as the co-issuer (the "Senior Unsecured Notes"); 4.875% senior secured notes due in 2027 issued by Telesat Canada and Telesat LLC, as the co-issuer (the "Senior Secured Notes"); and 5.625% senior secured notes due in December 2026 issued by Telesat Canada and Telesat LLC, as the co-issuer (the "2026 Senior Secured Notes").

Foreign exchange gains or losses incurred on the translation of our U.S. dollar denominated indebtedness and the gains or losses on financial instruments resulting from variations in the fair value of interest rate swaps, the prepayment options on our Senior Unsecured Notes, the prepayment option on our Senior Secured Notes and the prepayment option on our 2026 Senior Secured Notes remain significant components of our total expenses.

Other significant operating expenses include the straight-line depreciation of the cost of each of our satellites over their useful lives and amortization expense related to various finite-life intangible assets.

OPERATING HIGHLIGHTS

Repurchase of Senior Unsecured Notes

During the six months ended June 30, 2022 we repurchased for retirement Senior Unsecured Notes with a principal amount of \$202.1 million (US\$160.0 million) by way of open market purchases in exchange for \$97.2 million (US\$77.0 million). These repurchased Senior Unsecured Notes have been retired.

FUTURE OUTLOOK

Our desirable spectrum rights, commitment to providing the highest level of customer service, deep technical expertise and culture of innovation have enabled us to successfully develop our business to date. Leveraging these strengths and building on our existing contractual revenue backlog, our focus is on profitably growing our business by increasing the utilization of our in-orbit satellites and, in a disciplined manner, deploying expansion satellite capacity where we anticipate there will be strong market demand.

After decades of developing and successfully operating our geosynchronous orbit-based satellite services business, we are now poised to revolutionize the provision of global broadband connectivity by developing what we believe will be the world's most advanced constellation of LEO satellites and integrated terrestrial infrastructure, Telesat Lightspeed.

We believe we are well-positioned to serve our customers and the markets in which we participate. We actively pursue opportunities to develop new satellites, particularly in conjunction with current or prospective customers who will commit to long-term service agreements prior to the time the satellite construction contract is signed. Although we regularly pursue opportunities to develop new satellites, we do not procure additional or replacement satellites until we believe there is a demonstrated need and a sound business plan for such satellite capacity.

As we move through 2022, we remain focused on increasing the utilization of our existing satellites, the development of our global Telesat Lightspeed constellation, and identifying and pursuing opportunities to invest in expansion satellite capacity all while maintaining our operating discipline.

RESULTS OF OPERATIONS

Review of financial performance

Our net loss for the three months ended June 30, 2022 was \$4.4 million compared to net income of \$53.0 million for the same period in the prior year.

Our net income for the six months ended June 30, 2022 was \$56.3 million compared to a net income of \$94.3 million for the same period in the prior year.

The negative variations for the three and six months ended June 30, 2022 of \$57.4 million and \$38.1 million, respectively, were principally due to non-cash foreign exchange losses compared to a non-cash foreign exchange gains for the same periods in the prior year, primarily as a result of the U.S. dollar strengthening in the three and six months ended June 30, 2022 as opposed to the weakening in the same periods in the prior year. This was partially offset by the gain on extinguishment of debt.

Below are the foreign exchange rates used for our interim condensed consolidated financial statements and this MD&A:

	Q1 2022	Q2 2022	Q2 YTD 2022	June 30, 2022
US\$ to \$ spot rate	—	—	—	1.2873
US\$ to \$ average rates.	1.2667	1.2765	1.2716	—
	Q1 2021	Q2 2021	Q2 YTD 2021	December 31, 2021
US\$ to \$ spot rate	—	—	—	1.2637
US\$ to \$ average rates.	1.2747	1.2282	1.2514	—

Revenue

(\$ millions except percentages)	Three Months Ended June 30,		% Increase (Decrease)	Six Months Ended June 30,		% Increase (Decrease)
	2022	2021		2022	2021	
Broadcast	\$ 89.6	\$ 96.9	(7.5)%	\$ 186.6	\$ 195.8	(4.7)%
Enterprise	94.3	87.9	7.2%	179.7	176.5	1.8%
Consulting and other	2.8	3.1	(10.6)%	6.1	6.0	2.2%
Revenue	\$ 186.6	\$ 187.9	(0.7)%	\$ 372.4	\$ 378.4	(1.6)%

Total revenue for the three months ended June 30, 2022 decreased by \$1.3 million to \$186.6 million compared to \$187.9 million for the same period in the prior year. Total revenue for the six months ended June 30, 2022, decreased by \$6.0 million to \$372.4 million compared to \$378.4 million in the same period in the prior year.

Revenue from Broadcast services decreased by \$7.3 million and \$9.3 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The decrease for the three months ended June 30, 2022 was primarily due to a reduction on renewal of a long-term agreement with a North American direct to-home (“DTH”) customer, partially offset by a favorable foreign exchange impact on the conversion of U.S. dollar denominated revenue into the Canadian dollar equivalent. The decrease for the six months ended June 30, 2022 was primarily due to a reduction on renewal of a long-term agreement with a North American DTH customer, combined with a reduction of services by another one of our North American DTH customers. This was partially offset by a favorable foreign exchange impact on the conversion of U.S. dollar denominated revenue into the Canadian dollar equivalent.

Revenue from Enterprise services increased by \$6.4 million and \$3.1 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The increase for the three months ended June 30, 2022 was primarily due to a favorable foreign exchange impact on the conversion of U.S. dollar denominated revenue into the Canadian dollar equivalent, an increase in services provided to customers in the mobility market as they continue to recover from the impact of COVID-19 combined with charges relating to the early termination of capacity by a customer. This was partially offset by a decrease in revenues from terminations and reductions on contract renewal of certain services. The increase for the six months ended June 30, 2022 was primarily due to a favorable foreign exchange impact on the conversion of U.S. dollar denominated revenue into the Canadian dollar equivalent, increased services provided to customers in the mobility market as they continue to recover from the impact of COVID-19, charges relating to an early termination of capacity by a customer combined with higher revenue associated with the Defense Advanced Research Projects Agency (DARPA) program. This was partially offset by a decrease in revenues from terminations and reductions on contract renewal of certain services and a decrease in equipment sales to Canadian government customers.

Consulting and other revenue decreased by \$0.3 million for the three months and increased by \$0.1 million for the six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The variations are due to changes in the level of consulting activity.

Expenses

(\$ millions except percentages)	Three Months Ended June 30,		% Increase (Decrease)	Six Months Ended June 30,		% Increase (Decrease)
	2022	2021		2022	2021	
Depreciation	\$ 46.5	\$ 52.4	(11.2)%	\$ 95.8	\$ 102.7	(6.8)%
Amortization	3.7	3.9	(5.1)%	7.4	8.1	(7.7)%
Other operating (gains) losses, net . .	—	0.1	(68.9)%	0.1	0.7	(92.9)%
Operating expenses	58.9	65.0	(9.4)%	123.3	105.4	17.0%
Expenses	\$ 109.2	\$ 121.4	(10.1)%	\$ 226.6	\$ 217.0	4.4%

Depreciation

Depreciation of satellites, property and other equipment decreased by \$5.9 million and \$6.9 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The decreases in depreciation were primarily due to the end of useful life, for accounting purposes, of our Anik F3 satellite.

Amortization

Amortization of intangible assets decreased by \$0.2 million and \$0.6 million for the three and six months ended June 30, 2022, when compared to the same periods in the prior year. The decrease was primarily related to the end of useful life, for accounting purposes, of certain revenue backlog.

Other operating (gains) losses, net

The other operating gains or losses for all periods presented related to the gains or losses on disposal of assets.

Operating expenses

(\$ million except percentages)	Three Months Ended June 30,		% Increase (Decrease)	Six Months Ended June 30,		% Increase (Decrease)
	2022	2021		2022	2021	
Compensation and employee benefits	\$ 40.3	\$ 45.3	(11.1)%	\$ 83.4	\$ 67.5	23.5%
Other operating expenses	11.5	14.8	(22.1)%	25.0	23.2	7.6%
Cost of sales	7.1	4.9	43.9%	15.0	14.7	1.8%
Operating expenses	\$ 58.9	\$ 65.0	(9.4)%	\$ 123.3	\$ 105.4	17.0%

Total operating expenses decreased by \$6.1 million and increased by \$17.9 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year.

Compensation and employee benefits decreased by \$5.0 million and increased by \$15.8 million for the three and six months ended June 30, 2022, respectively, in comparison to the same periods in the prior year. The decrease for the three months ended June 30, 2022 was primarily due to lower non-cash share-based compensation related to the acceleration of expense arising from the cancellation of stock options in the second quarter of 2021. The increase for the six months ended June 30, 2022, was primarily due to higher non-cash share-based compensation as a result of the issuance of equity awards in 2021 and 2022.

Other operating expenses decreased by \$3.3 million and increased by \$1.8 million for the three and six months ended June 30, 2022, respectively, in comparison to the same periods in the prior year. The decrease for the three months ended June 30, 2022 was primarily due to higher professional fees incurred in 2021 relating to Telesat becoming a public company. The increase for the six months ended June 30, 2022 was primarily due to a reversal of a bad debt provision in the first quarter of 2021, which had the impact of lowering operating expenses in the prior year period, and higher expenses (including insurance) associated with becoming a public company. This was partially offset by higher professional fees incurred in 2021 relating to Telesat becoming a public company.

Cost of sales increased by \$2.2 million and \$0.3 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The increases were primarily due to higher costs associated with our consulting services.

Interest Expense

(\$ millions except percentages)	Three Months Ended June 30,		% Increase (Decrease)	Six Months Ended June 30,		% Increase (Decrease)
	2022	2021		2022	2021	
Debt service costs	\$ 44.4	\$ 40.5	9.8%	\$ 87.5	\$ 76.2	14.8%
Interest expense on significant financing component	4.3	4.7	(8.3)%	8.7	9.7	(9.7)%
Interest expense on satellite performance incentive payments. . .	0.5	0.6	(18.9)%	0.9	1.2	(19.9)%
Interest expense on employee benefit plans	0.1	0.3	(63.9)%	0.2	0.6	(63.9)%
Interest expense on leases	0.3	0.4	(15.0)%	0.8	0.8	7.4%
Interest expense	\$ 49.7	\$ 46.5	6.9%	\$ 98.2	\$ 88.5	11.0%

Interest expense included interest related to our debt, as well as, interest related to our derivative instruments, significant financing components on certain revenue agreements, satellite performance incentive payments, employee benefit plans and leases.

Debt service costs, which included interest expense on indebtedness and derivative instruments, increased by \$4.0 million and \$11.2 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The increases in interest expense were primarily due to a higher interest rate on our U.S. TLB Facility, combined with interest on the 2026 Senior Secured Notes, which were issued towards the end of April 2021. This was partially offset by the impact of the repurchase for retirement of Senior Unsecured Notes in 2022 and the impact of the maturity of one of our interest rate swaps in September 2021.

Interest expense on significant financing component decreased by \$0.4 million and \$0.9 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The decreases in interest expense were primarily due to lower average prepayment balances for revenue agreements with a significant financing component.

Interest on satellite performance incentive payments decreased by \$0.1 million and \$0.2 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year, primarily due to declining balances of satellite performance incentive liabilities.

Interest expense on employee benefit plans decreased by \$0.2 million and \$0.4 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The decrease was primarily due to a decreased estimate of interest expense according to actuarial reports.

Interest expense on leases decreased by \$0.1 million and increased by \$0.1 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year.

Gain on Extinguishment of Debt

(\$ millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gain on extinguishment of debt	\$ 85.9	\$ —	\$ 106.9	\$ —

The gain on extinguishment of debt for the three month period ended June 30, 2022 resulted from our repurchase for retirement of Senior Unsecured Notes with a principal amount of \$162.1 million (US\$128.0 million) by way of open market purchases in exchange for \$77.8 million (US\$61.4 million).

The gain on extinguishment of debt for the six month period ended June 30, 2022 resulted from our repurchase for retirement of Senior Unsecured Notes with a principal amount of \$202.1 million (US\$160.0 million) by way of open market purchases in exchange for \$97.2 million (US\$77.0 million).

Interest and Other Income

(\$ millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest and other income	\$ 2.6	\$ 1.7	\$ 3.2	\$ 1.8

Interest and other income increased by \$0.9 million and \$1.5 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year. The increase was primarily due to higher interest rates earned on our outstanding cash and cash equivalent balances, combined with higher cash and cash equivalent balances.

Foreign Exchange and Derivatives

(\$ millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gain (loss) on changes in fair value of financial instruments.	\$ 2.3	\$ 3.8	\$ 4.6	\$ (21.3)
Gain (loss) on foreign exchange	\$ (98.8)	\$ 40.6	\$ (62.7)	\$ 75.8

The gain on changes in fair value of financial instruments for the three months ended June 30, 2022 was \$2.3 million compared to a gain of \$3.8 million for the same period in the prior year, resulting in a negative change of \$1.5 million. The gain on changes in fair value of financial instruments for the six months ended June 30, 2022 was \$4.6 million compared to a loss of \$21.3 million for the same period in the prior year, resulting in a positive change of \$26.0 million.

The gain or losses on changes in fair value of financial instruments primarily reflected changes in the fair values of our interest rate swaps, and prepayment options on our Senior Unsecured Notes, Senior Secured Notes and 2026 Senior Secured Notes. The gains or losses on changes in fair value of financial instruments were as a result of changes in key economic variables, such as foreign exchange rates, credit spreads and swap rates.

The foreign exchange loss for the three months ended June 30, 2022 was \$98.8 million compared to a foreign exchange gain of \$40.6 million for the same period in the prior year, resulting in a negative change of \$139.5 million.

The loss for the three months ended June 30, 2022 was mainly the result of a stronger U.S. dollar to Canadian dollar spot rate as at June 30, 2022 (\$1.2873), compared to the spot rate as at March 31, 2022 (\$1.2505), and the resulting unfavorable impact on the translation of our U.S. dollar denominated indebtedness.

The gain for the three months ended June 30, 2021 was mainly due to a weaker U.S. dollar to Canadian dollar spot rate at June 30, 2021 (\$1.2398), compared to the spot rate at March 31, 2021 (\$1.2562) and the resulting favorable impact on the translation of our U.S. dollar denominated debt.

The foreign exchange loss for the six months ended June 30, 2022 was \$62.7 million compared to a foreign exchange gain of \$75.8 million for the same period in the prior year, resulting in a negative change of \$138.4 million.

The loss for the six months ended June 30, 2022 was primarily due to a stronger U.S. dollar to Canadian dollar spot rate as at June 30, 2022 (\$1.2873), compared to the spot rate as at December 31, 2021 (\$1.2637) and the resulting unfavorable impact on the translation of our U.S. dollar denominated indebtedness.

The gain for the six months ended June 30, 2021 was primarily due to a weaker U.S. dollar to Canadian dollar spot rate at June 30, 2021 (\$1.2398), compared to the spot rate at December 31, 2020 (\$1.2725), and the resulting favorable impact on the translation of our U.S. dollar denominated debt.

Income Taxes

(\$ millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Current tax expense	\$ 31.2	\$ 17.5	\$ 52.8	\$ 41.7
Deferred tax recovery	(7.2)	(4.5)	(9.4)	(6.8)
Tax expense	\$ 24.0	\$ 13.1	\$ 43.5	\$ 34.8

The tax expense increased by \$11.0 million and \$8.6 million for the three and six months ended June 30, 2022, respectively, when compared to the same periods in the prior year.

The increase for the three months ended June 30, 2022 was primarily due to an increase in operating income and gain on extinguishment of debt. The increase for the six months ended June 30, 2022 was primarily due to gain on extinguishment of debt, partially offset by a decrease in operating income.

Backlog

Contracted revenue backlog (“backlog”) represents our expected future revenue from existing service contracts (without discounting for present value) including any deferred revenue that we will recognize in the future in respect of cash already received. The majority of our contracted revenue backlog is generated from contractual agreements for satellite capacity. We do not include revenue beyond the stated expiration date of a contract regardless of the potential for a renewal. As at June 30, 2022, our contracted backlog was approximately \$1.9 billion, which does not include any backlog associated with the Telesat Lightspeed program.

Generally, following the successful launch of a satellite, if the satellite is operating nominally, our customers may only terminate their service agreements for satellite capacity by paying us all, or substantially all, of the payments that would have otherwise become due over the term of the service agreement. However, if certain of our existing satellites were to experience an in-orbit failure, or otherwise fail to operate as anticipated, our customers may be entitled to terminate their agreement and we may be obligated to return all or a portion of the customer prepayments made under service agreements for that satellite and reduce the associated contractual revenue from revenue backlog. Any repayments under such conditions would be funded by insurance proceeds we may receive, cash on hand, short-term investments, and funds available under our Revolving Credit Facility (as defined below).

We expect our backlog as at June 30, 2022 to be recognized as follows:

(\$ millions)	Remaining 2022	2023	2024	2025	2026	Thereafter
Backlog	\$ 311	\$ 508	\$ 325	\$ 219	\$ 186	\$ 376

LIQUIDITY AND CAPITAL RESOURCES

Cash and Available Credit

As at June 30, 2022, we had \$1,482.2 million of cash and short-term investments, including \$1,014.1 million held in unrestricted subsidiaries, as well as approximately US\$200.0 million (or Canadian dollar equivalent) borrowing availability under our Revolving Credit Facility.

Cash Flows generated from Operating Activities

Cash generated from operating activities for the six months ended June 30, 2022 was \$69.2 million, a \$83.3 million decrease compared to the same period in the prior year. The decrease was primarily due to a decrease in cash flows from operating assets and liabilities, combined with higher interest paid on indebtedness.

Cash Flows generated from (used in) Investing Activities

Cash generated from investing activities for the six months ended June 30, 2022 was \$31.4 million. This consisted of proceeds received from the Phase I accelerated clearing payments for the repurposing of C-band spectrum. This cash inflow was partially offset by \$15.9 million on purchases associated with the Telesat Lightspeed constellation and \$17.4 million of payments for property and other equipment.

Cash used in investing activities for the six months ended June 30, 2021 was \$90.0 million. This consisted of \$78.4 million on purchases associated with the Telesat Lightspeed constellation and \$11.5 million of payments for property and other equipment.

Cash Flows used in Financing Activities

Cash used in financing activities for the three months ended June 30, 2022 was \$93.7 million. This was primarily due to the repurchase of a portion of the Senior Unsecured Notes for retirement, combined with payments on the satellite performance incentive liabilities. This was partially offset by cash received from our government grant.

Cash generated from financing activities for the six months ended June 30, 2021 was \$608.4 million. This was primarily due to proceeds received from the issuance of the 2026 Senior Secured Notes, partially offset by debt issue costs associated with the issuance of the 2026 Senior Secured Notes.

Government Grant

In 2019, we entered into an agreement with the Government of Canada ("GoC") pursuant to which the GoC would contribute up to \$85.0 million to support the development of the Telesat Lightspeed constellation through the GoC Strategic Innovation Fund. In return for the grant, Telesat has made a number of commitments to the Government of Canada, including commitments to conduct over \$200.0 million of research and development activities in Canada as well as to expand its Canadian workforce.

The costs that were incurred in connection with this program are summarized below:

(\$ millions)	Six months ended June 30, 2022	Year ended December 31, 2021
Satellites, property and other equipment	\$ 20.3	\$ 323.0
Intangible assets	—	—
Total capital expenditures	20.3	323.0
Operating expenses	20.6	31.7
Total costs incurred	\$ 40.9	\$ 354.7

Total research and development costs for Telesat Lightspeed for the six months ended June 30, 2022 decreased by \$63.8 million from \$104.7 million to \$40.9 million, when compared to the same period in the prior year. The decrease was primarily driven by a reduction in the development activities in the Telesat Lightspeed program for the six months ended June 30, 2022.

The following claims against the government grant have been made against the costs incurred associated with the program:

(\$ millions)	Six months ended June 30, 2022	Year ended December 31, 2021
Satellites, property and other equipment	\$ 3.4	\$ 10.0
Intangible assets	—	—
Total capital expenditures	3.4	10.0
Operating expenses	2.4	4.8
Total claims	\$ 5.7	\$ 14.8

Liquidity

A large portion of our annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. We believe cash and short-term investments as at June 30, 2022, cash flows from operating activities, and drawings on the Revolving Credit Facility under our Senior Secured Credit Facilities will be adequate to meet our expected cash requirements for at least the next twelve months for activities in the normal course of business, including required interest and principal payments on our indebtedness and our capital requirements. This includes the commitments we have made to date for our Telesat Lightspeed program, but it does not include the capital that would be required to commence construction of the constellation.

The construction of any satellite replacement or expansion program will require significant capital expenditures, in particular the planned Telesat Lightspeed constellation. Cash required for any future satellite programs may be funded from a range of sources including: cash and short-term investments, cash flows generated from operating activities, cash flows from customer prepayments or through borrowings on the Revolving Credit Facility under the Senior Secured Credit Facilities; vendor financing; equity investments, including through the issuance of public equity; export credit agency financing; additional secured or unsecured debt financing; proceeds received from repurposing U.S. C-band spectrum; and from government sources. Given the increase in costs of the Telesat Lightspeed program, we expect to need to secure some additional financing in addition to the sources of equity previously announced (Telesat cash and short-term investments, Government of Canada and Government of Quebec investments) and the Export Credit Agency (ECA) borrowings we are seeking to finalize. We are currently in discussions with potential financing sources regarding investments into our Lightspeed Unrestricted Subsidiaries. There can be no assurance that these discussions will result in any investment or, if consummated, the final terms of any investment.

In addition, Telesat may sell certain satellite assets and, in accordance with the terms and conditions of the Senior Secured Credit Facilities, reinvest the proceeds in replacement satellites or pay down indebtedness under the Senior Secured Credit Facilities. However, our ability to access these sources of funding is not guaranteed, and therefore, Telesat may not be able to fully fund additional replacement or new satellite programs.

We are developing our planned Telesat Lightspeed constellation in Unrestricted Subsidiaries (as defined in the credit agreement governing our Senior Secured Credit Facilities (the “Credit Agreement”) and indentures governing the Senior Unsecured Notes, Senior Secured Notes and 2026 Senior Secured Notes (together, the “Indentures”), and we expect to complete the development of, fund, and operate our Telesat Lightspeed constellation through current or future Unrestricted Subsidiaries.

DEBT

Senior Secured Credit Facilities

The obligations under the Credit Agreement and the guarantees of those obligations are secured, subject to certain exceptions, by a first priority security interest in the assets of Telesat and certain of our subsidiaries (“Guarantors”). The Credit Agreement contains covenants that restrict the ability of Telesat and the Guarantors to take specified actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends, entering into sale-leaseback transactions, creating subsidiaries, repaying subordinated debt or amending organizational documents. The Credit Agreement also requires Telesat and the Guarantors to comply with a maximum first lien leverage ratio and contains customary events of default and affirmative covenants, including an excess cash sweep, that may require us to repay a portion of the outstanding principal under our Senior Secured Credit Facilities prior to the stated maturity.

Our Senior Secured Credit Facilities are comprised of the following facilities:

i — Revolving Credit Facility

Our Revolving Credit Facility (“Revolving Facility”) is a \$200.0 million loan facility available in either U.S. dollar or Canadian dollar equivalent, maturing in December 2024. Loans under the Revolving Facility bear interest at a floating interest rate. For Canadian Prime Rate and Alternative Base Rate (“ABR”) loans, an applicable margin ranging from 0.75% to 1.25% is applied to the Prime Rate and ABR as these interest rates are defined in the Senior Secured Credit Facilities. For Bankers Acceptance (“BA”) Loans and Eurodollar Loans, an applicable margin ranging from 1.75% to 2.25% is applied to either the BA interest rate or LIBOR. The rates on the Revolving Facility vary depending upon the

results of the first lien leverage ratio. Our Revolving Facility currently has an unused commitment fee that ranges from 25 to 37.5 basis points per annum, depending upon the result of the total leverage ratio. As at June 30, 2022, other than approximately \$0.2 million in drawings related to letters of credit, there were no borrowings under this facility.

ii — Term Loan B — U.S. Facility

Our Term Loan B — U.S. Facility (“U.S. TLB Facility”) is a US\$1,908.5 million facility maturing in December 2026.

As at June 30, 2022, US\$1,552.8 million of this facility was outstanding, which represents the full amount available. The borrowings under our U.S. TLB Facility bear interest at a floating rate of either: (i) LIBOR as periodically determined for interest rate periods selected by Telesat in accordance with the terms of the Senior Secured Credit Facilities plus an applicable margin of 2.75%; or (ii) Alternative Base Rate as determined in accordance with the terms of the Senior Secured Credit Facilities plus an applicable margin of 1.75%.

The mandatory principal repayments on our U.S. TLB Facility are one quarter of 1.00% of the value of the loan, which must be paid on the last day of each quarter. There are no mandatory quarterly principal repayments required.

Senior Secured Notes

Our Senior Secured Notes, in the amount of US\$400.0 million, bear interest at an annual rate of 4.875% and are due in June 2027. The indenture governing the Senior Secured Notes includes covenants or terms that restrict our ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, investments or acquisitions, enter into certain transactions with affiliates, modify or cancel our satellite insurance, effect mergers with another entity, and redeem our Senior Secured Notes, without penalty, before December 1, 2024, in each case subject to exceptions provided in the Senior Secured Notes indenture.

2026 Senior Secured Notes

In April 2021, we issued US\$500.0 million in aggregate principal amount of 2026 Senior Secured Notes which bear interest at an annual rate of 5.625% and are due in December 2026. The indenture governing the 2026 Senior Secured Notes includes covenants and terms that restrict our ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, investments or acquisitions, enter into certain transactions with affiliates, modify or cancel its satellite insurance, effect mergers with another entity, and redeem the 2026 Senior Secured Notes, without penalty, before December 6, 2023, in each case subject to exceptions provided in such indenture.

Senior Unsecured Notes

Our Senior Unsecured Notes, in the original principal amount of US\$550.0 million, bear interest at an annual rate of 6.5% and are due in October 2027. The indenture governing the Senior Unsecured Notes includes covenants or terms that restrict our ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, investments or acquisitions, enter into certain transactions with affiliates, modify or cancel our satellite insurance, effect mergers with another entity, and redeem our Senior Unsecured Notes, without penalty, before October 15, 2024, in each case subject to exceptions provided in the Senior Unsecured Notes indenture.

During the three months ended June 30, 2022, we repurchased for retirement Senior Unsecured Notes with a principal amount of \$162.1 million (US\$128.0 million) by way of open market purchases in exchange of \$77.8 million (US\$61.4 million). The repurchase resulted in a write-off of the related debt issue costs and prepayment options in the amount of \$1.5 million (US\$1.2 million) and a gain on extinguishment of debt of \$85.9 million (US\$67.7 million).

During the six months ended June 30, 2022, we repurchased for retirement Senior Unsecured Notes with a principal amount of \$202.1 million (US\$160.0 million) by way of open market purchases in exchange of \$97.2 million (US\$77.0 million). The repurchase resulted in a write-off of the related debt issue costs and prepayment options in the amount of \$1.9 million (US\$1.5 million) and a gain on extinguishment of debt of \$106.9 million (US\$84.5 million).

As at June 30, 2022, US\$390.0 million Senior Unsecured Notes were outstanding.

As at June 30, 2022, we were in compliance with the financial covenants of our Senior Secured Credit Facilities, the indenture governing our Senior Unsecured Notes, the indenture governing our Senior Secured Notes and the indenture governing our 2026 Senior Secured Notes.

Debt Service Cost

An estimate of the interest expense is based upon assumptions of foreign exchange rates, LIBOR, BA rates and the applicable margins of our Senior Secured Credit Facilities. Our interest expense for the year ending December 31, 2022 is expected to be approximately \$179.1 million. The interest expense excludes the amortization of our deferred financing costs, prepayment options and loss on repayment.

Derivatives

We use, from time to time, interest rate and currency derivatives to manage our exposure to changes in interest rates and foreign exchange rates.

As at June 30, 2022, we had one outstanding interest rate swap, which hedges the interest rate risk on US\$450.0 million of U.S. denominated Term Loan B borrowings. As at June 30, 2022, the fair value of the interest rate swaps was an asset of \$0.3 million. The contract, which matures in September 2022, is at a fixed interest rate of 2.04%, excluding applicable margin.

We also have embedded derivatives that are accounted for separately at fair value. These embedded derivatives are related to the prepayment option on our Senior Unsecured Notes, the prepayment option on our Senior Secured Notes and the prepayment option on our 2026 Senior Secured Notes. As at June 30, 2022, the fair value of the embedded derivative related to the prepayment option on our Senior Unsecured Notes, Senior Secured Notes and 2026 Senior Secured Notes was nil.

The changes in the fair value of these embedded derivatives are recorded on our consolidated statements of income as a gain or loss on changes in fair value of financial instruments and are non-cash.

All derivative instruments are measured at 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, we determine 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.

These estimates 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 our derivative instruments are not reflected in the fair values. The fair values also include an adjustment related to the counterparty credit risk. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

MARKET RISK

Credit Risk Related to Financial Instruments

Financial instruments that potentially subject us to a concentration of credit risk consist of cash and short-term investments, accounts receivable, derivative assets and other assets. Cash and short-term investments are invested with high quality financial institutions and are governed by our corporate investment policy, which aims to reduce credit risk by restricting investments to high-grade, mainly U.S. dollar and Canadian dollar denominated investments. Credit checks are performed to minimize exposure to any one customer. We are exposed to credit risk if counterparties to our derivative instruments are unable to meet their obligations. It is expected that these counterparties will be able to meet their obligations as they are institutions with strong credit ratings, but we continue to periodically monitor their credit risk and credit exposure.

Foreign Exchange Risk

Our 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 most significant impact of variations in the exchange rate is on our U.S. dollar denominated indebtedness and cash and short-term investments. In addition, a portion of our revenue and expenses, as well as the majority of our capital expenditures are denominated in U.S. dollars. As a result, the volatility of the U.S. currency exposes us to foreign exchange risks.

For the three month period ended June 30, 2022, we recorded a mainly non-cash foreign exchange loss of approximately \$98.8 million due to a stronger U.S. to Canadian dollar spot rate (\$1.2873) compared to March 31, 2022 (\$1.2505). For the three month period ended June 30, 2021, we recorded a mainly non-cash foreign exchange gain of approximately \$40.6 million due to a weaker U.S. to Canadian dollar spot rate (\$1.2398) compared to March 31, 2021 (\$1.2562).

For the six month period ended June 30, 2022, we recorded a mainly non-cash foreign exchange loss of approximately \$62.7 million due to a stronger U.S. to Canadian dollar spot rate (\$1.2873) compared to December 31, 2021 (\$1.2637). For the six month period ended June 30, 2021, we recorded a mainly non-cash foreign exchange gain of \$75.8 million due to a weaker U.S. to Canadian dollar spot rate (\$1.2398) compared to December 31, 2020 (\$1.2725).

The approximate amount of our revenue and certain expenses denominated in U.S. dollars, as a percentage of their overall balance, is summarized in the table below:

	Three months ended June 30, 2022	Six months ended June 30, 2022
Revenue.	51.1%	52.3%
Operating expenses.	23.4%	26.4%
Interest on our indebtedness.	100.0%	100.0%

We use, from time to time, the following instruments to manage our exposure to foreign exchange risk:

- forward currency contracts to hedge foreign exchange risk on anticipated cash flows, mainly related to the construction of satellites and interest payments; and
- currency derivative instruments to hedge the foreign exchange risk on our U.S. dollar denominated indebtedness.

Our policy is that we do not use derivative instruments for speculative purposes. As at June 30, 2022, we had no forward currency contracts nor any currency derivative instruments.

A five percent increase (decrease) in the value of the U.S. dollar against the Canadian dollar would have increased (decreased) our indebtedness and (decreased) increased our net income (loss) as at June 30, 2022 by \$183.0 million.

A five percent increase (decrease) in the value of the U.S. dollar against the Canadian dollar would have increased (decreased) our cash and cash equivalents by \$70.5 million, increased (decreased) our net income (loss) by \$15.7 million and increased (decreased) our other comprehensive income (loss) by \$54.8 million as at and for the six months ended June 30, 2022.

A five percent increase (decrease) in the value of the U.S. dollar against the Canadian dollar would have increased (decreased) our revenue and certain expenses for the three and six months ended June 30, 2022, as summarized in the table below:

(\$ millions)	Three months ended June 30, 2022	Six months ended June 30, 2022
Revenue.	\$ 4.8	\$ 9.7
Operating expenses.	\$ 0.7	\$ 1.6
Interest on our indebtedness.	\$ 2.1	\$ 4.2

The sensitivity analyses above assume that all other variables remain constant.

Through our U.S. dollar denominated indebtedness, we are exposed to foreign exchange fluctuations. The following table contains our existing U.S. dollar denominated indebtedness balances at the beginning of each respective period or year, which are net of our scheduled debt repayments, and based on the foreign exchange rate as at June 30, 2022.

(\$ millions)	Q3 2022	2023	2024	2025	2026	Thereafter
U.S. TLB Facility	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ —
Senior Unsecured Notes	502.0	502.0	502.0	502.0	502.0	502.0
Senior Secured Notes	514.9	514.9	514.9	514.9	514.9	514.9
2026 Senior Secured Notes	643.7	643.7	643.7	643.7	643.7	—
U.S. dollar denominated indebtedness balances	\$ 3,659.6	\$ 3,659.6	\$ 3,659.6	\$ 3,659.6	\$ 3,659.6	\$ 1,017.0

Interest Rate Risk

We are exposed to interest rate risk on our cash and short-term investments and on our indebtedness, a portion of the indebtedness which includes a variable interest rate. Changes in the interest rates could impact the amount of interest that we receive or are required to pay.

We use, from time to time, interest rate swaps to hedge the interest rate risk related to our indebtedness.

Our policy is that we do not use derivative instruments for speculative purposes. In October 2017, we entered into four interest rate swaps which hedge the interest rate risk on US\$1,800.0 million of borrowings under our U.S. TLB Facility. These contracts, which mature on various dates through September 2022, are at fixed interest rates ranging from 1.72% to 2.04%, excluding applicable margin. As at June 30, 2022, one of the interest rate swaps was outstanding to hedge the interest rate risk on US\$450.0 million of borrowings under our U.S. TLB Facility. The outstanding contract, which matures in September 2022, is at a fixed interest rate of 2.04%, excluding applicable margin.

If the interest rates on our variable rate debt increased (decreased) by 0.25%, the result would be a decrease (increase) of \$0.9 million and \$2.1 million to our net income (loss) for three and six months ended June 30, 2022, respectively.

As at June 30, 2022, through our U.S. TLB Facility we are exposed to interest rate fluctuations. The following table contains the balance of the U.S. TLB facility at the beginning of each respective period or year, net of our scheduled repayments, and based on the foreign exchange rate as at June 30, 2022.

(\$ millions)	Q3 2022	2023	2024	2025	2026	Thereafter
U.S. TLB Facility ⁽¹⁾	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ —
Interest rate derivative variable to fixed ⁽²⁾	(579.3)	—	—	—	—	—
Debt exposed to variable interest rate after interest rate derivatives	\$ 1,419.7	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ 1,998.9	\$ —

(1) U.S. TLB Facility is U.S. dollar denominated and bears interest at LIBOR plus a spread.

(2) US\$450.0 million notional outstanding, variable rate is LIBOR. The weighted average fixed rate (before spread) is 2.04%.

NON-IFRS MEASURES

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure. The common definition of EBITDA is “Earnings Before Interest, Taxes, Depreciation and Amortization.” In evaluating financial performance, we use revenue and deduct certain operating expenses (including share-based compensation expense and unusual and non-recurring items, including restructuring related expenses) to obtain operating income before interest expense, taxes, depreciation and amortization (“Adjusted EBITDA”) and the Adjusted EBITDA margin (defined as the ratio of Adjusted EBITDA to revenue) as measures of our operating performance.

Adjusted EBITDA allows investors and us to compare our operating results with that of competitors exclusive of depreciation and amortization, interest and investment income, interest expense, taxes and certain other expenses. Financial results of competitors in the satellite services industry have significant variations that can result from timing of capital expenditures, the amount of intangible assets recorded, the differences in assets' lives, the timing and amount of investments, the effects of other income (expense), and unusual and non-recurring items. The use of Adjusted EBITDA assists investors and us to compare operating results exclusive of these items. Competitors in the satellite services industry have significantly different capital structures. We believe the use of Adjusted EBITDA improves comparability of performance by excluding interest expense.

We believe the use of Adjusted EBITDA and the Adjusted EBITDA margin along with IFRS financial measures enhances the understanding of our operating results and is useful to investors and us in comparing performance with competitors, estimating enterprise value and making investment decisions. Adjusted EBITDA as used here may not be the same as similarly titled measures reported by competitors. Adjusted EBITDA should be used in conjunction with IFRS financial measures and is not presented as a substitute for cash flows from operations as a measure of our liquidity or as a substitute for net income as an indicator of our operating performance and the following is a reconciliation of net income to Adjusted EBITDA.

(\$ millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income (loss)	\$ (4.4)	\$ 53.0	\$ 56.3	\$ 94.3
Tax expense (recovery)	24.0	13.1	43.5	34.8
(Gain) loss on changes in fair value of financial instruments . .	(2.3)	(3.8)	(4.6)	21.3
(Gain) loss on foreign exchange	98.8	(40.6)	62.7	(75.8)
Interest and other income	(2.6)	(1.7)	(3.2)	(1.8)
Interest expense	49.7	46.5	98.2	88.5
Gain on extinguishment of debt	(85.9)	—	(106.9)	—
Depreciation	46.5	52.4	95.8	102.7
Amortization	3.7	3.9	7.4	8.1
Other operating (gains) losses, net	—	0.1	0.1	0.7
Non-recurring compensation expenses ⁽¹⁾	—	0.2	—	0.3
Non-cash expense related to share-based compensation	18.7	24.9	42.9	26.6
Adjusted EBITDA	<u>\$ 146.4</u>	<u>\$ 147.9</u>	<u>\$ 292.0</u>	<u>\$ 299.9</u>
Revenue	\$ 186.6	\$ 187.9	\$ 372.4	\$ 378.4
Adjusted EBITDA Margin	78.4%	78.7%	78.4%	79.3%

(1) Includes severance payments, special compensation and benefits for executives and employees.

Adjusted EBITDA for Telesat Corporation decreased by \$1.5 million for the three month period ended June 30, 2022, when compared to the same period in the prior year. The decrease was primarily due to a decrease in revenues, as discussed above, partially offset by a favorable foreign exchange impact and a decrease in operating expenses.

Adjusted EBITDA for Telesat Corporation decreased by \$7.9 million for the six month period ended June 30, 2022, when compared to the same period in the prior year. The decrease was primarily due to a decrease in revenues, and higher operating expense, as discussed above, partially offset by a favorable foreign exchange impact.

Consolidated EBITDA for Covenant Purposes

Under the terms of the Credit Agreement for our Senior Secured Credit Facilities, we are required to comply with a senior secured leverage ratio maintenance covenant as well as with other financial ratio covenants that impact, among other items, our ability to incur debt and make dividend payments.

If our Revolving Credit Facility is drawn by more than 35% of the Credit Facility amount, our Credit Agreement requires us to comply with a first lien net leverage ratio of 5.75:1.00, tested quarterly, and failure to comply will result in an event of default. We refer to this first lien net leverage ratio as the Consolidated Total Secured Debt to Consolidated EBITDA for Covenant Purposes ratio.

Our Credit Agreement limits, among other items, our ability to incur debt and make dividend payments if the total leverage ratio is above 4.50:1.00, with certain exceptions. We refer to this total leverage ratio as the Consolidated Total Debt for Covenant Purposes to Consolidated EBITDA for the purposes of our Senior Secured Credit Facilities.

Our Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization for Covenant Purposes is defined as net income (loss) for Telesat and Restricted Subsidiaries plus interest expense, net of cash interest income earned on cash and cash equivalents, depreciation expense, amortization expense, extraordinary losses and unusual and non-recurring charges, non-cash charges, any expenses or charges incurred in connection with any issuance of debt, any impairment charges or asset write off, foreign withholding taxes paid or accrued, non-cash charges related to share-based compensation expense and consulting fees payable to Loral. Additional sums which may be added include projected cost savings from an acquisition and lost revenue which may have been earned by satellites that have been subject to an insured loss. Deductions which are made in calculating Consolidated EBITDA for Covenant Purposes include extraordinary, non-recurring gains and losses and non-cash gains and losses.

Further adjustments are made to account for income from Unrestricted Subsidiaries, and currency gains and losses (including non-cash gains or losses on derivative contracts). Unrestricted Subsidiaries are (a) any Subsidiary of Telesat that is formed or acquired after the closing date of the Credit Agreement, provided that such Subsidiary is designated as an Unrestricted Subsidiary, and (b) any Restricted Subsidiary subsequently re-designated as an Unrestricted Subsidiary.

Consolidated EBITDA for Covenant Purposes is not a presentation made in accordance with IFRS, is not a measure of financial condition or profitability, and should not be considered as an alternative to (1) net income (loss) determined in accordance with IFRS or (2) cash flows from operating activities determined in accordance with IFRS. Additionally, Consolidated EBITDA for Covenant Purposes is not intended to be a measure of free cash flow for management's discretionary use as it does not include certain cash requirements for such items as interest payments, tax payments and debt service requirements. We believe that the inclusion of Consolidated EBITDA for Covenant Purposes herein is appropriate to provide additional information concerning the calculation of the financial ratio maintenance covenant and other covenants on our Senior Secured Credit Facilities. Consolidated EBITDA for Covenant Purposes is a material component of these covenants. Non-compliance with the financial ratio maintenance covenant contained in our Senior Secured Credit Facilities could result in the requirement to immediately repay all amounts outstanding. This presentation of Consolidated EBITDA for Covenant Purposes is not comparable to other similarly titled measures of other companies because not all companies use identical calculations of EBITDA. We believe the disclosure of the calculation of Consolidated EBITDA for Covenant Purposes provides information that is useful to an investor's understanding of our liquidity and financial flexibility.

The following is a reconciliation of net income, which is an IFRS measure of our operating results, to Consolidated EBITDA for Covenant Purposes, as defined in the Credit Agreement and the calculation of the ratio of Consolidated Total Secured Debt to Consolidated EBITDA for Covenant Purposes as defined in the Credit Agreement. The terms and related calculations are defined in the Credit Agreement, a copy of which is publicly available at <http://www.sec.gov> and <http://www.sedar.com>.

(in \$ millions)	Twelve months ended June 30, 2022
Net income	\$ 117.0
Impact of unrestricted subsidiaries	924.6
Consolidated income for Covenant Purposes	1,041.6
<i>Plus:</i>	
Income taxes (Note 1, Note 2)	486.7
Interest expense (Note 1)	174.3
Depreciation and amortization expense (Note 1)	211.3
Non-cash share-based compensation and pension expense	97.9
Other	
Impairment of intangible asset in unrestricted subsidiaries (Note 2)	(1,286.5)
Other	29.4
<i>Decreased by:</i>	
Non-cash losses on changes in fair value of financial instruments and swap obligations and cash losses on the value of swap obligations	(7.3)
Gains on disposal of assets	(108.5)
Gains on extinguishment of debt	(106.9)
Non-cash gains resulting from changes in foreign exchange rates	109.9
Consolidated EBITDA for Covenant Purposes	\$ 641.7

Note 1: Tax, interest, depreciation and amortization expense for covenant purposes excludes certain specific expenses as defined in the Credit Agreement. As a result, these items in the covenant calculation do not reconcile to the financial statement line items.

Note 2: In order to facilitate the financing of Telesat LEO Inc., certain LEO-related assets previously owned by Telesat Canada and Telesat LEO Holdings Inc. were transferred at the end of 2020 to Telesat LEO Inc., an Unrestricted Subsidiary. In addition, C-band spectrum assets were transferred to Telesat Spectrum Corporation, another Unrestricted Subsidiary. At the time of the transfer and in accordance with Telesat's debt covenants, a third party valuation of the C-band assets was obtained. The value attributed to the Canadian C-band spectrum was C\$1.3 billion, net of tax of C\$0.4 billion. In 2021, the Government of Canada decided that it would not adopt Telesat's proposal to auction C-band spectrum for the roll-out of 5G wireless in Canada, and as a result, Telesat would not receive proceeds arising from the spectrum repurposing. Telesat has therefore written down (or reversed) the values assigned to the Canadian C-band spectrum assets in Telesat Spectrum Corporation. There are no impacts on the consolidated net income or total assets of Telesat as result of the write-down (or reversal) of the Canadian C-band spectrum in Telesat Spectrum Corporation as it eliminates upon consolidation.

Consolidated Total Secured Debt and Consolidated Debt for Covenant Purposes

Consolidated Total Debt for Covenant Purposes and Consolidated Total Secured Debt for Covenant Purposes are non-IFRS measures. We believe that the inclusion of Consolidated Total Debt for Covenant Purposes and Consolidated Total Secured Debt for Covenant Purposes herein are appropriate to provide additional information concerning the calculation of the financial ratio maintenance and other covenants under our Senior Secured Credit Facilities and provides information that is useful to an investor's understanding of our compliance with these financial covenants.

The following is a reconciliation of our Consolidated Total Debt for Covenant Purposes and Consolidated Total Secured Debt for Covenant Purposes to Indebtedness:

(in \$ millions)	As at June 30, 2022
U.S. dollar denominated debt	
Term Loan B U.S. Facility (US\$)	\$ 1,552.8
Senior Unsecured Notes (US\$)	390.0
Senior Secured Notes (US\$)	400.0
2026 Senior Secured Notes (US\$)	500.0
	2,842.8
Foreign exchange adjustment	816.7
Subtotal	3,659.5
Deferred financing costs and prepayment options	(3.6)
Indebtedness	\$ 3,656.0
 (in \$ millions)	
Indebtedness	\$ 3,656.0
Adjustments for covenant purposes:	
Deferred financing costs and prepayment options	3.6
Add: lease liabilities	35.4
Consolidated Total Debt	3,694.9
Less: Cash and cash equivalents (max. US\$100 million)	(128.7)
Consolidated Total Debt for Covenant Purposes	\$ 3,566.2
 Consolidated Total Debt	\$ 3,694.9
Less: Unsecured debt (Senior Unsecured Notes)	(502.0)
Consolidated Total Secured Debt	3,192.9
Less: Cash and cash equivalents (max. US\$100 million)	(128.7)
Consolidated Total Secured Debt for Covenant Purposes	\$ 3,064.1

As at June 30, 2022, the Consolidated Total Debt for Covenant Purposes to Consolidated EBITDA ratio, for the purposes of our Senior Secured Credit Facilities was 5.56:1.00. The Consolidated Total Secured Debt to Consolidated EBITDA for Covenant Purposes ratio, for the purposes of our Senior Secured Credit Facilities, was 4.78:1.00.

The consolidated EBITDA for covenant purposes for the Senior Secured Credit Facilities for the twelve months ended June 30, 2021 was \$664.9 million. Detailed information of the calculation is included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in the Telesat Canada Quarterly Report for the three month period ended June 30, 2021 on Form 6-K furnished with the SEC on August 13, 2021, which can be obtained on the SEC website at <http://www.sec.gov>.

As of the date hereof, we are in compliance with our debt covenants.

Unaudited Interim Condensed Consolidating Financial Information

The unaudited interim condensed consolidating financial information reflects the investments, using the equity method of accounting, of Telesat in the Issuers, of the Issuers in their respective Guarantor and Non-Guarantor subsidiaries, and of the Guarantors in their Non-Guarantor subsidiaries.

Balances of Telesat Partnership are inclusive of balances associated with Telesat Partnership LP, Telesat CanHoldco Corporation, Telesat Can ULC, Loral Space & Communications Inc. and Loral Skynet Corporation.

Unaudited Interim Condensed Consolidating Statements of Income (Loss)
For the three months ended June 30, 2022

	<u>Telesat Corporation</u>	<u>Telesat Partnership</u>	<u>Telesat LLC</u>	<u>Telesat Canada</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Revenue	\$ —	\$ —	\$ —	\$ 163,701	\$ 101,155	\$ 3,320	\$ (81,562)	\$ 186,614
Operating expenses	(942)	(229)	—	(101,404)	(23,015)	(14,896)	81,562	(58,924)
Depreciation	—	—	—	(8,463)	(35,121)	(220)	(2,683)	(46,487)
Amortization	—	—	—	(329)	(649)	(77)	(2,693)	(3,748)
Other operating gains (losses), net	—	—	—	(23)	2	—	(2)	(23)
Operating income (loss)	(942)	(229)	—	53,482	42,372	(11,873)	(5,378)	77,432
Income (loss) from equity investments	20,136	20,499	—	25,456	790	—	(66,881)	—
Interest expense	—	(134)	—	(46,091)	(3,441)	(2)	(3)	(49,671)
Gain on extinguishment of debt . .	—	—	—	85,886	—	—	—	85,886
Interest and other income (expense)	—	—	—	18,764	247	1,757	(18,188)	2,580
Gain (loss) on change in fair value of financial instruments	—	—	—	2,277	—	—	—	2,277
Gain (loss) on foreign exchange . .	—	—	—	(98,096)	84	(822)	—	(98,834)
Income (loss) before tax	19,194	20,136	—	41,678	40,052	(10,940)	(90,450)	19,670
Tax (expense) recovery	—	—	—	(21,179)	(2,454)	(412)	—	(24,045)
Net income (loss)	<u>\$ 19,194</u>	<u>\$ 20,136</u>	<u>\$ —</u>	<u>\$ 20,499</u>	<u>\$ 37,598</u>	<u>\$ (11,352)</u>	<u>\$ (90,450)</u>	<u>\$ (4,375)</u>

Unaudited Interim Condensed Consolidating Statements of Comprehensive Income (Loss)
For the three months ended June 30, 2022

	<u>Telesat Corporation</u>	<u>Telesat Partnership</u>	<u>Telesat LLC</u>	<u>Telesat Canada</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Net income (loss)	\$ 19,194	\$ 20,136	\$ —	\$ 20,499	\$ 37,598	\$ (11,352)	\$ (90,450)	\$ (4,375)
Other comprehensive income (loss)								
Items that may be reclassified into profit or loss								
Foreign currency translation adjustments	(266)	(462)	—	3,344	14,660	72,472	(31,639)	58,109
Other comprehensive income (loss) from equity investments	90,014	90,476	—	87,132	18,399	—	(286,021)	—
Other comprehensive income (loss)	89,748	90,014	—	90,476	33,059	72,472	(317,660)	58,109
Total comprehensive income (loss)	<u>\$ 108,942</u>	<u>\$ 110,150</u>	<u>\$ —</u>	<u>\$ 110,975</u>	<u>\$ 70,657</u>	<u>\$ 61,120</u>	<u>\$ (408,110)</u>	<u>\$ 53,734</u>

Unaudited Interim Condensed Consolidating Statements of Income (Loss)
For the six months ended June 30, 2022

	Telesat Corporation	Telesat Partnership	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Revenue	\$ —	\$ —	\$ —	\$ 329,972	\$ 203,349	\$ 6,520	\$ (167,458)	\$ 372,383
Operating expenses	(1,952)	(503)	—	(219,229)	(46,072)	(22,992)	167,458	(123,290)
Depreciation	—	—	—	(16,974)	(73,069)	(492)	(5,260)	(95,795)
Amortization	—	—	—	(659)	(1,264)	(152)	(5,371)	(7,446)
Other operating gains (losses), net.	—	—	—	(32)	(26)	—	5	(53)
Operating income (loss)	(1,952)	(503)	—	93,078	82,918	(17,116)	(10,626)	145,799
Income (loss) from equity investments.	86,994	87,810	—	56,399	1,586	—	(232,789)	—
Interest expense.	—	(268)	—	(90,899)	(6,983)	(8)	(16)	(98,174)
Gain on extinguishment of debt . . .	—	—	—	106,916	—	—	—	106,916
Interest and other income (expense)	—	(45)	—	18,999	230	2,253	(18,197)	3,240
Gain (loss) on change in fair value of financial instruments.	—	—	—	4,635	—	—	—	4,635
Gain (loss) on foreign exchange . . .	52	—	—	(62,161)	104	(682)	—	(62,687)
Income (loss) before tax	85,094	86,994	—	126,967	77,855	(15,553)	(261,628)	99,729
Tax (expense) recovery	—	—	—	(39,157)	(3,314)	(1,003)	—	(43,474)
Net income (loss)	<u>\$ 85,094</u>	<u>\$ 86,994</u>	<u>\$ —</u>	<u>\$ 87,810</u>	<u>\$ 74,541</u>	<u>\$ (16,556)</u>	<u>\$ (261,628)</u>	<u>\$ 56,255</u>

Unaudited Interim Condensed Consolidating Statements of Comprehensive Income (Loss)
For the six months ended June 30, 2022

	Telesat Corporation	Telesat Partnership	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Net income (loss)	<u>\$ 85,094</u>	<u>\$ 86,994</u>	<u>\$ —</u>	<u>\$ 87,810</u>	<u>\$ 74,541</u>	<u>\$ (16,556)</u>	<u>\$ (261,628)</u>	<u>\$ 56,255</u>
Other comprehensive income (loss)								
Items that may be reclassified into profit or loss								
Foreign currency translation adjustments	(159)	(290)	—	3,188	8,758	37,075	(8,006)	40,566
Other comprehensive income (loss) from equity investments.	48,731	49,021	—	45,833	12,049	—	(155,634)	—
Other comprehensive income (loss)	48,572	48,731	—	49,021	20,807	37,075	(163,640)	40,566
Total comprehensive income (loss)	<u>\$ 133,666</u>	<u>\$ 135,725</u>	<u>\$ —</u>	<u>\$ 136,831</u>	<u>\$ 95,348</u>	<u>\$ 20,519</u>	<u>\$ (425,268)</u>	<u>\$ 96,821</u>

Unaudited Interim Condensed Consolidating Statements of Income (Loss)
For the three months ended June 30, 2021

	Telesat Canada	Telesat LLC	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Revenue	\$ 159,996	\$ —	\$ 108,005	\$ 2,274	\$ (82,387)	\$ 187,888
Operating expenses	(124,028)	—	(23,484)	78	82,387	(65,047)
Depreciation	(12,005)	—	(50,984)	(539)	11,156	(52,372)
Amortization	(260)	—	(603)	(146)	(2,939)	(3,948)
Other operating gains (losses), net . . .	(63)	—	(6)	—	(5)	(74)
Operating income (loss)	23,640	—	32,928	1,667	8,212	66,447
Income (loss) from equity investments	(10,981)	—	(40,894)	—	51,875	—
Interest expense	(42,970)	—	(3,473)	(11)	(13)	(46,467)
Interest and other income (expense)	35,924	—	630	444	(35,346)	1,652
Gain (loss) on change in fair value of financial instruments	3,796	—	—	—	—	3,796
Gain (loss) on foreign exchange	40,770	—	131	(509)	15	40,641
Income (loss) before tax	50,179	—	(10,678)	1,591	24,977	66,069
Tax (expense) recovery	4,700	—	1,245	(44,033)	25,026	(13,062)
Net income (loss)	<u>\$ 54,879</u>	<u>\$ —</u>	<u>\$ (9,433)</u>	<u>\$ (42,442)</u>	<u>\$ 50,003</u>	<u>\$ 53,007</u>

Unaudited Interim Condensed Consolidating Statements of Comprehensive Income (Loss)
For the three months ended June 30, 2021

	Telesat Canada	Telesat LLC	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Net income (loss)	\$ 54,879	\$ —	\$ (9,433)	\$ (42,442)	\$ 50,003	\$ 53,007
Other comprehensive income (loss)						
Items that may be reclassified into profit or loss						
Foreign currency translation adjustments	(2,862)	—	(3,036)	(29,130)	18,059	(16,969)
Other comprehensive income (loss) from equity investments	(32,166)	—	(19,524)	—	51,690	—
Other comprehensive income (loss)	(35,028)	—	(22,560)	(29,130)	69,749	(16,969)
Total comprehensive income (loss)	<u>\$ 19,851</u>	<u>\$ —</u>	<u>\$ (31,993)</u>	<u>\$ (71,572)</u>	<u>\$ 119,752</u>	<u>\$ 36,038</u>

Unaudited Interim Condensed Consolidating Statements of Income (Loss)
For the six months ended June 30, 2021

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Revenue	\$ 321,741	\$ —	\$ 213,320	\$ 2,633	\$ (159,314)	\$ 378,380
Operating expenses	(213,824)	—	(42,609)	(8,293)	159,314	(105,412)
Depreciation	(21,115)	—	(91,015)	(636)	10,027	(102,739)
Amortization	(530)	—	(1,215)	(146)	(6,172)	(8,063)
Other operating gains (losses), net . . .	(779)	—	37	—	(5)	(747)
Operating income (loss)	85,493	—	78,518	(6,442)	3,850	161,419
Income (loss) from equity investments	45,677	—	(49,127)	—	3,450	—
Interest expense	(81,282)	—	(7,104)	(20)	(56)	(88,462)
Interest and other income (expense) . .	36,029	—	652	551	(35,459)	1,773
Gain (loss) on change in fair value of financial instruments	(21,328)	—	—	—	—	(21,328)
Gain (loss) on foreign exchange	57,452	—	26,702	(7,355)	(1,045)	75,754
Income (loss) before tax	122,041	—	49,641	(13,266)	(29,260)	129,156
Tax (expense) recovery	(19,343)	—	1,400	(41,225)	24,341	(34,827)
Net income (loss)	<u>\$ 102,698</u>	<u>\$ —</u>	<u>\$ 51,041</u>	<u>\$ (54,491)</u>	<u>\$ (4,919)</u>	<u>\$ 94,329</u>

Unaudited Interim Condensed Consolidating Statements of Comprehensive Income (Loss)
For the six months ended June 30, 2021

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Net income (loss)	\$ 102,698	\$ —	\$ 51,041	\$ (54,491)	\$ (4,919)	\$ 94,329
Other comprehensive income (loss)						
Items that may be reclassified into profit or loss						
Foreign currency translation adjustments	18,563	—	(34,908)	(49,902)	35,176	(31,071)
Other comprehensive income (loss) from equity investments	(84,810)	—	(30,162)	—	114,972	—
Other comprehensive income (loss) . .	(66,247)	—	(65,070)	(49,902)	150,148	(31,071)
Total comprehensive income (loss) . .	<u>\$ 36,451</u>	<u>\$ —</u>	<u>\$ (14,029)</u>	<u>\$ (104,393)</u>	<u>\$ 145,229</u>	<u>\$ 63,258</u>

Unaudited Interim Condensed Consolidating Balance Sheets
As at June 30, 2022

	Telesat Corporation	Telesat Partnership	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Assets								
Cash and cash equivalent	\$ 6	\$ 1,324	\$ —	\$ 338,687	\$ 129,487	\$ 1,012,746	\$ —	\$ 1,482,250
Trade and other receivables	—	—	—	35,883	17,300	16,852	—	70,035
Other current financial assets	—	—	—	298	87	396	—	781
Intercompany receivables	6,319	—	—	234,433	28,305	1,112	(270,169)	—
Current income tax recoverable	—	1,672	—	—	3,534	260	(46)	5,420
Prepaid expenses and other current assets	6,041	74	—	13,132	14,858	34,748	(11,823)	57,030
Total current assets	12,366	3,070	—	622,433	193,571	1,066,114	(282,038)	1,615,516
Satellites, property and other equipment	—	—	—	117,936	800,118	408,257	45,158	1,371,469
Deferred tax assets	—	—	—	—	2,114	—	44,516	46,630
Other long-term financial assets	—	728	—	3,673	9,103	—	—	13,504
Long-term income tax recoverable	—	—	—	15,202	—	—	—	15,202
Other long-term assets	—	—	—	30,009	483	—	—	30,492
Intangible assets	—	—	—	2,677	1,078,593	500,832	(823,905)	758,197
Investment in affiliates	455,098	583,124	—	3,581,361	107,219	—	(4,726,802)	—
Goodwill	—	—	—	549,162	—	—	1,897,441	2,446,603
Total assets	\$ 467,464	\$ 586,922	\$ —	\$ 4,922,453	\$ 2,191,201	\$ 1,975,203	\$ (3,845,630)	\$ 6,297,613
Liabilities								
Trade and other payables	\$ 1,279	\$ 223	\$ —	\$ 10,183	\$ 6,110	\$ 6,592	\$ —	\$ 24,387
Other current financial liabilities	—	—	—	20,003	2,673	—	(10)	22,666
Intercompany payables	14,074	21	—	76,674	167,610	11,790	(270,169)	—
Income taxes payable	—	—	—	13,261	672	9	—	13,942
Other current liabilities	—	—	—	59,913	21,442	15,626	(11,821)	85,160
Current indebtedness	—	—	—	—	—	—	—	—
Total current liabilities	15,353	244	—	180,034	198,507	34,017	(282,000)	146,155
Long-term indebtedness	—	—	—	3,655,993	—	—	—	3,655,993
Deferred tax liabilities	—	—	—	376,974	1,051	24,828	(116,496)	286,357
Other long-term financial liabilities	—	187	—	3,850	17,250	—	21	21,308
Other long-term liabilities	—	19,440	—	122,478	209,468	849	—	352,235
Total liabilities	15,353	19,871	—	4,339,329	426,276	59,694	(398,475)	4,462,048
Shareholders' equity	452,111	567,051	—	583,124	1,764,925	1,915,509	(3,447,155)	1,835,565
Total liabilities and shareholders' equity	\$ 467,464	\$ 586,922	\$ —	\$ 4,922,453	\$ 2,191,201	\$ 1,975,203	\$ (3,845,630)	\$ 6,297,613

Unaudited Interim Condensed Consolidating Balance Sheets
As at December 31, 2021

	Telesat Corporation	Telesat Partnership	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Assets								
Cash and cash equivalent	\$ 4	\$ 904	\$ —	\$ 368,778	\$ 101,335	\$ 978,572	\$ —	\$ 1,449,593
Trade and other receivables	—	431	—	22,526	15,345	84,396	—	122,698
Other current financial assets	—	385	—	—	87	389	—	861
Intercompany receivables	—	—	—	199,717	14,510	1,100	(215,327)	—
Current income tax recoverable	—	1,642	—	—	1,053	567	(43)	3,219
Prepaid expenses and other current assets	3,291	73	—	6,977	2,355	28,386	(18)	41,064
Total current assets	3,295	3,435	—	597,998	134,685	1,093,410	(215,388)	1,617,435
Satellites, property and other equipment	—	—	—	134,177	863,600	382,256	49,655	1,429,688
Deferred tax assets	—	—	—	—	2,768	—	43,419	46,187
Other long-term financial assets	—	715	—	5,115	10,518	—	—	16,348
Long-term income tax recoverable	—	—	—	12,277	—	—	—	12,277
Other long-term assets	—	—	—	30,688	566	—	—	31,254
Intangible assets	—	—	—	3,336	1,078,076	491,801	(810,554)	762,659
Investment in affiliates	296,358	424,178	—	3,597,850	98,786	—	(4,417,172)	—
Goodwill	—	—	—	549,162	—	—	1,897,441	2,446,603
Total assets	\$ 299,653	\$ 428,328	\$ —	\$ 4,930,603	\$ 2,188,999	\$ 1,967,467	\$ (3,452,599)	\$ 6,362,451
Liabilities								
Trade and other payables	\$ 868	\$ 315	\$ —	\$ 30,626	\$ 8,658	\$ 14,161	\$ —	\$ 54,628
Other current financial liabilities	—	—	—	33,543	3,161	—	(57)	36,647
Intercompany payables	3,648	64	—	53,035	143,289	15,291	(215,327)	—
Income taxes payable	—	—	—	4,549	71	1,002	—	5,622
Other current liabilities	—	—	—	62,703	6,665	15,715	(25)	85,058
Total current liabilities	4,516	379	—	184,456	161,844	46,169	(215,409)	181,955
Long-term indebtedness	—	—	—	3,792,597	—	—	—	3,792,597
Deferred tax liabilities	—	—	—	388,339	—	24,372	(116,393)	296,318
Other long-term financial liabilities	—	183	—	5,797	17,833	—	22	23,835
Other long-term liabilities	—	18,555	—	135,236	217,066	596	—	371,453
Total liabilities	4,516	19,117	—	4,506,425	396,743	71,137	(331,780)	4,666,158
Shareholders' equity	295,137	409,211	—	424,178	1,792,256	1,896,330	(3,120,819)	1,696,293
Total liabilities and shareholders' equity	\$ 299,653	\$ 428,328	\$ —	\$ 4,930,603	\$ 2,188,999	\$ 1,967,467	\$ (3,452,599)	\$ 6,362,451

Unaudited Interim Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2022

	<u>Telesat Corporation</u>	<u>Telesat Partnership</u>	<u>Telesat LLC</u>	<u>Telesat Canada</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Cash flows from (used in) operating activities								
Net income (loss)	\$ 85,094	\$ 86,994	\$ —	\$ 87,810	\$ 74,541	\$ (16,556)	\$ (261,628)	\$ 56,255
Adjustment to reconcile net income (loss) to cash flows from operating activities								
Depreciation	—	—	—	16,974	73,069	492	5,260	95,795
Amortization	—	—	—	659	1,264	152	5,371	7,446
Tax expense (recovery)	—	—	—	39,157	3,314	1,003	—	43,474
Interest expense	—	268	—	90,899	6,983	8	16	98,174
Interest income	—	—	—	(837)	(339)	(2,348)	(2)	(3,526)
(Gain) loss on foreign exchange	(52)	—	—	62,161	(104)	682	—	62,687
(Gain) loss on change in fair value of financial instruments	—	—	—	(4,635)	—	—	—	(4,635)
Share-based compensation	292	—	—	39,367	2,757	447	—	42,863
(Income) loss from equity investments	(86,994)	(87,810)	—	(56,399)	(1,586)	—	232,789	—
Loss (gains) on disposal of assets	—	—	—	32	26	—	(5)	53
Gain on extinguishment of debt	—	—	—	(106,916)	—	—	—	(106,916)
Deferred revenue amortization	—	—	—	(17,730)	(13,432)	—	—	(31,162)
Pension expense	—	264	—	3,523	—	—	—	3,787
Other	—	—	—	(1,577)	143	—	—	(1,434)
Income taxes paid, net of income taxes received	—	—	—	(43,809)	(3,051)	(1,729)	—	(48,589)
Interest paid, net of interest received	—	—	—	(94,537)	(469)	2,296	—	(92,710)
Operating assets and liabilities	1,662	687	—	(49,264)	3,453	(8,969)	48	(52,383)
Net cash from (used in) operating activities	<u>2</u>	<u>403</u>	<u>—</u>	<u>(35,122)</u>	<u>146,569</u>	<u>(24,522)</u>	<u>(18,151)</u>	<u>69,179</u>
Cash flows (used in) generated from investing activities								
Satellite programs	—	—	—	—	—	(15,875)	—	(15,875)
Purchase of other property and equipment	—	—	—	(922)	(108)	(16,345)	—	(17,375)
Purchase of intangible assets	—	—	—	—	(27)	—	—	(27)
Return of capital to shareholder	—	—	—	101,865	—	—	(101,865)	—
C-band clearing proceeds	—	—	—	—	—	64,651	—	64,651
Net cash (used in) generated from investing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>100,943</u>	<u>(135)</u>	<u>32,431</u>	<u>(101,865)</u>	<u>31,374</u>
Cash flows (used in) generated from financing activities								
Repayment of indebtedness	—	—	—	(97,234)	—	—	—	(97,234)
Payment of principal on lease liabilities	—	—	—	(587)	(169)	(116)	—	(872)
Satellite performance incentive payments	—	—	—	(2,809)	(833)	—	—	(3,642)
Government grant received	—	—	—	—	—	8,015	—	8,015
Return of capital to shareholder	—	—	—	—	(101,865)	—	101,865	—
Dividends paid	—	—	—	—	(18,151)	—	18,151	—
Net cash (used in) generated from financing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>(100,630)</u>	<u>(121,018)</u>	<u>7,899</u>	<u>120,016</u>	<u>(93,733)</u>
Effect of changes in exchange rate on cash and cash equivalent	—	17	—	4,718	2,736	18,366	—	25,837
Changes in cash and cash equivalents	2	420	—	(30,091)	28,152	34,174	—	32,657
Cash and cash equivalents, beginning of period	4	904	—	368,778	101,335	978,572	—	1,449,593
Cash and cash equivalents, end of period	<u>\$ 6</u>	<u>\$ 1,324</u>	<u>\$ —</u>	<u>\$ 338,687</u>	<u>\$ 129,487</u>	<u>\$ 1,012,746</u>	<u>\$ —</u>	<u>\$ 1,482,250</u>

Unaudited Interim Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2021

	Telesat Canada	Telesat LLC	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Cash flows from operating activities						
Net income (loss)	\$ 102,698	\$ —	\$ 51,041	\$ (54,491)	\$ (4,919)	\$ 94,329
Adjustment to reconcile net income (loss) to cash flows from operating activities						
Depreciation	21,115	—	91,015	636	(10,027)	102,739
Amortization	530	—	1,215	146	6,172	8,063
Tax expense (recovery)	19,343	—	(1,400)	41,225	(24,341)	34,827
Interest expense	81,282	—	7,104	20	56	88,462
Interest income	(965)	—	(675)	(682)	—	(2,322)
(Gain) loss on foreign exchange	(57,452)	—	(26,702)	7,355	1,045	(75,754)
(Gain) loss on change in fair value of financial instruments	21,328	—	—	—	—	21,328
Share-based compensation	26,547	—	40	—	—	26,587
Loss from equity investments	(45,677)	—	49,127	—	(3,450)	—
(Loss) gain on disposal of assets	779	—	(37)	—	5	747
Deferred revenue amortization	(20,769)	—	(12,519)	(324)	—	(33,612)
Pension expenses	4,030	—	—	—	—	4,030
Other	(3,485)	—	(396)	—	—	(3,881)
Income taxes paid, net of income taxes received	(51,033)	—	(1,791)	(344)	—	(53,168)
Interest paid, net of interest received . . .	(69,632)	—	(143)	696	—	(69,079)
Operating assets and liabilities	23,149	—	(13,996)	(468)	510	9,195
Net cash from operating activities	51,788	—	141,883	(6,231)	(34,949)	152,491
Cash flows (used in) generated from investing activities						
Satellite programs, including capitalized interest	(258)	—	—	(78,184)	—	(78,442)
Purchase of other property and equipment	(4,403)	—	(166)	(6,961)	—	(11,530)
Return of capital to shareholder	110,459	—	—	—	(110,459)	—
Net cash (used in) generated from investing activities	105,798	—	(166)	(85,145)	(110,459)	(89,972)
Cash flows (used in) generated from financing activities						
Proceeds from indebtedness	619,900	—	—	—	—	619,900
Payment of debt issue costs	(6,834)	—	—	—	—	(6,834)
Satellite performance incentive payments	(2,634)	—	(716)	—	—	(3,350)
Return of capital to shareholder	—	—	(110,459)	—	110,459	—
Payments of principal on lease liabilities	(963)	—	(256)	(136)	—	(1,355)
Dividends paid	—	—	(34,949)	—	34,949	—
Net cash (used in) generated from financing activities	609,469	—	(146,380)	(136)	145,408	608,361
Effect of changes in exchange rate on cash and cash equivalent	(3,095)	—	(2,449)	(17,615)	—	(23,159)
Changes in cash and cash equivalents . .	763,960	—	(7,112)	(109,127)	—	647,721
Cash and cash equivalents, beginning of period	69,159	—	73,588	675,631	—	818,378
Cash and cash equivalents, end of period	<u>\$ 833,119</u>	<u>\$ —</u>	<u>\$ 66,476</u>	<u>\$ 566,504</u>	<u>\$ —</u>	<u>1,466,099</u>

CURRENT SHARE INFORMATION

The number of shares and stated value of the outstanding Class A common shares and Class B variable voting shares (“Telesat Public shares”), and Class C fully voting shares and Class C limited voting shares (together, the “Class C shares”) as at June 30, 2022, were as follows:

<i>(in thousands of Canadian dollars, except number of shares)</i>	Number of shares	Stated value
Telesat Public shares	12,248,652	\$ 37,744
Class C shares	112,841	6,340
	<u>12,361,493</u>	<u>\$ 44,084</u>

The breakdown of the number of shares of Telesat Public Shares, as at June 30, 2022, was as follows:

Telesat Public shares	
Class A Common shares	448,135
Class B Variable voting shares	<u>11,800,517</u>
Total Telesat Public shares	<u>12,248,652</u>

The number of Class A Common shares and Class B Variable Voting shares in the table above is based on information available to the Company as at June 30, 2022 and while the Company believes the information to be accurate and reliable, it is not able to independently verify the information. The conversion, exercise and exchange mechanics of Telesat Public shares, the Class C shares and the Class A and Class B Limited Partnership Units (“LP Units”) are described in the Company’s Annual Report filed on Form 20-F for the year ended December 31, 2021 that can be obtained on the SEC’s website at <http://www.sec.gov> and on SEDAR at <http://www.sedar.com>. As at June 30, 2022, the only Class C shares which were issued were Class C fully voting shares.

In addition, the Company has one Class A Special Voting Share, one Class B Special Voting Share, one Class C Special Voting Share (collectively the “Special Voting Shares”) and one Golden Share outstanding, each with a nominal stated value as at June 30, 2022. The voting rights of the Special Voting Shares and the Golden Share are more fully described in the Company’s Annual Report filed on Form 20-F for the year ended December 31, 2021 that can be obtained on the SEC’s website at <http://www.sec.gov> and on SEDAR at <http://www.sedar.com>.

The number of securities of the outstanding stock options, RSUs, PSUs and DSUs issued under the Company’s Omnibus Plan and Historic Plan as at June 30, 2022, were as follows:

	Number of securities
Stock Options	1,185,938
RSUs with time criteria	1,718,816
RSUs with time and performance criteria	124,080
DSUs	14,144
PSUs with time and performance criteria	<u>140,583</u>
	<u>3,183,561</u>

Each of the foregoing securities can be settled or exercised, as applicable, for Telesat Public Shares.

During the six months ended June 30, 2022, 27,573 RSUs were settled for 12,813 Telesat Public Shares, on a net settlement basis.

During the six months ended June 30, 2022, 328,593 Telesat Public Shares were issued in exchange for an equal number of Class B LP Units in Telesat Partnership LP.

The number and stated value of the outstanding LP Units issued by Telesat Partnership LP as at June 30, 2022, were as follows:

<i>(in thousands of Canadian dollars, except number of units)</i>	Number of units	Stated value
Class A and Class B LP Units.	19,099,898	\$ 52,270
Class C LP Units.	18,098,362	59,683
	<u>37,198,260</u>	<u>\$ 111,953</u>

The breakdown of the number of Class A and Class B LP Units, as at June 30, 2022, was as follows:

Class A and Class B LP Units	
Class A LP Units.	12,500
Class B LP Units.	19,087,398
Total Class A and Class B LP Units	<u>19,099,898</u>

During the six months ended June 30, 2022, 328,593 Class B LP Units were exchanged for equal number of Telesat Public Shares.

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the amounts of revenue and expenses reported for the year. Actual results could differ from these estimates under different assumptions and conditions. For more details on these estimates, refer to Note 5 of our audited consolidated financial statements for the year ended December 31, 2021.

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

Software as a service arrangements

Our accounting policy relating to Software as a Service (“SaaS”) is described in Note 4 of the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2022. Judgment by management is required to determine whether configuration or customization of a software results in an intangible asset for Telesat.

ACCOUNTING STANDARDS

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 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.

We 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 \$0.8 million.

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

(in thousands of Canadian dollars)

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

The impact on the financial statements for the three and six months ended June 30, 2021 was as follows:

<i>(in thousands of Canadian dollars, except per share amounts)</i>	Three months ended June 30, 2021	Six months ended June 30, 2021
Operating expenses	\$ 887	\$ 1,298
Satellites, property and other equipment	\$ (907)	\$ (1,318)
Foreign currency translation adjustments	\$ 20	\$ 20
Net income per common share attributable to Telesat Corporation shareholders – Basic	\$ (0.02)	\$ (0.03)
Net income per common share attributable to Telesat Corporation shareholders – Diluted	\$ (0.02)	\$ (0.03)

Future Changes in Accounting Policies

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 our financial statements.

We are 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 our consolidated financial statements as a result of the amendments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item. 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, and the section "Market Risk".