PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Statements of Income (Loss)
For the periods ended September 30,

(in thousands of Canadian dollars, except per share amounts)	Notes	Three months 2022	Three months 2021 (Note 3)	Nine months 2022	Nine months 2021 (Note 3)
Revenue	5	$ 180,102	$ 192,335	$ 552,485	$ 570,715
Operating expenses	6	(55,738)	(60,011)	(179,028)	(165,423)
Depreciation		(46,269)	(50,663)	(142,064)	(153,402)
Amortization		(3,758)	(3,988)	(11,204)	(12,051)
Other operating gains (losses), net		53	(30)	—	(777)
Operating income		74,390	77,643	220,189	239,062
Interest expense	7	(56,278)	(50,691)	(154,452)	(139,153)
Gain on extinguishment of debt		—	—	106,916	—
Interest and other income		7,321	1,013	10,561	2,786
Gain (loss) on changes in fair value of financial instruments		(321)	971	4,314	(20,357)
Gain (loss) on foreign exchange		(249,155)	(68,411)	(311,842)	7,343
Income (loss) before tax		(224,043)	(39,475)	(124,314)	89,681
Tax (expense) recovery	8	(4,669)	(12,764)	(48,143)	(47,591)
Net income (loss)		$ (228,712)	$ (52,239)	$ (172,457)	$ 42,090
Net income (loss) attributable to:					
Telesat Corporation shareholders		$ (58,552)	$ (52,239)	$ (46,517)	$ 42,090
Non-controlling interest		(170,160)	—	(125,940)	—
		$ (228,712)	$ (52,239)	$ (172,457)	$ 42,090
Net income (loss) per common share attributable to Telesat Corporation shareholders					
Basic		$ (4.69)	$ (1.05)	$ (3.81)	$ 0.85
Diluted		$ (4.69)	$ (1.05)	$ (3.81)	$ 0.83
Total Weighted Average Common Shares Outstanding					
Basic	16	12,489,993	49,546,940	12,210,018	49,546,775
Diluted	16	12,489,993	49,546,940	12,210,018	50,987,898

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
For the periods ended September 30,

(in thousands of Canadian dollars)	Three months 2022	Three months 2021 (Note 3)	Nine months 2022	Nine months 2021 (Note 3)
Net income (loss)	$ (228,712)	$ (52,239)	$ (172,457)	$ 42,090
Other comprehensive income (loss)				
Items that may be reclassified into profit or loss				
Foreign currency translation adjustments	152,433	29,237	192,998	(1,834)
Other comprehensive income (loss)	152,433	29,237	192,998	(1,834)
Total comprehensive income (loss)	$ (76,279)	$ (23,002)	$ 20,541	$ 40,256
Total comprehensive income (loss) attributable to:				
Telesat Corporation shareholders	$ (20,438)	$ (23,002)	$ 1,482	$ 40,256
Non-controlling interest	(55,841)	—	19,059	—
	$ (76,279)	$ (23,002)	$ 20,541	$ 40,256

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars)	Notes	Common shares/Public shares	Preferred shares	Total share capital	Accumulated earnings	Equity-settled employee benefits reserve	Foreign currency translation reserve	Total reserves	Total Telesat Corporation/ Telesat Canada shareholders’ equity	Non-controlling Interest	Total shareholders’ equity
Telesat Canada balance as at January 1, 2021		$ 26,580	$ 129,118	$ 155,698	$ 1,266,514	$ 85,648	$ (47,924)	$ 37,724	$ 1,459,936	$ —	$ 1,459,936
Cumulative adjustments	3	—	—	—	(758)	—	—	—	(758)	—	(758)
Net income (loss)		—	—	—	42,090	—	—	—	42,090	—	42,090
Issuance of share capital on settlement of restricted share units		—	16	16	—	—	—	—	16	—	16
Other comprehensive income (loss), net of tax (expense) recovery of $nil		—	—	—	—	—	(1,834)	(1,834)	(1,834)	—	(1,834)
Share-based compensation		—	—	—	—	50,178	—	50,178	50,178	—	50,178
Telesat Canada balance as at September 30, 2021		$ 26,580	$ 129,134	$ 155,714	$ 1,307,846	$ 135,826	$ (49,758)	$ 86,068	$ 1,549,628	$ —	$ 1,549,628
Telesat Canada balance as at October 1, 2021		$ 26,580	$ 129,134	$ 155,714	$ 1,307,846	$ 135,826	$ (49,758)	$ 86,068	$ 1,549,628	$ —	$ 1,549,628
Net income (loss)		—	—	—	43,100	—	—	—	43,100	69,835	112,935
Dividends declared on Director Voting Preferred shares		—	—	—	(10)	—	—	—	(10)	—	(10)
Other comprehensive income (loss), net of tax (expense) recovery of $14,424		—	—	—	9,946	—	(10,239)	(10,239)	(293)	25,570	25,277
Share-based compensation		—	—	—	—	14,956	—	14,956	14,956	8,590	23,546
Reallocation related to transaction		16,261	(129,134)	(112,873)	(1,010,853)	(112,118)	44,137	(67,981)	(1,191,707)	1,176,624	(15,083)
Telesat Corporation balance as at December 31, 2021		$ 42,841	$ —	$ 42,841	$ 350,029	$ 38,664	$ (15,860)	$ 22,804	$ 415,674	$ 1,280,619	$ 1,696,293
Telesat Corporation balance as at January 1, 2022		$ 42,841	$ —	$ 42,841	$ 350,029	$ 38,664	$ (15,860)	$ 22,804	$ 415,674	$ 1,280,619	$ 1,696,293
Net income (loss)		—	—	—	(46,517)	—	—	—	(46,517)	(125,940)	(172,457)
Issuance of share capital on settlement of restricted share units		344	—	344	—	(739)	—	(739)	(395)	—	(395)
Exchange of Limited Partnership units for Public Shares		1,539	—	1,539	17,273	2,271	(407)	1,864	20,676	(20,676)	—
Other comprehensive income (loss), net of tax (expense) recovery of $Nil		—	—	—	—	—	47,999	47,999	47,999	144,999	192,998
Adjustment of non-controlling interest	14	—	—	—	—	—	—	—	—	(21,225)	(21,225)
Share-based compensation		—	—	—	—	14,539	—	14,539	14,539	40,915	55,454
Telesat Corporation balance as at September 30, 2022		$ 44,724	$ —	$ 44,724	$ 320,785	$ 54,735	$ 31,732	$ 86,467	$ 451,976	$ 1,298,692	$ 1,750,668

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars)	Notes	September 30, 2022	December 31, 2021 (Note 3)
Assets			
Cash and cash equivalents		$ 1,675,041	$ 1,449,593
Trade and other receivables		51,728	122,698
Other current financial assets		523	861
Current income tax recoverable		16,052	3,219
Prepaid expenses and other current assets		64,636	41,064
Total current assets		1,807,980	1,617,435
Satellites, property and other equipment	5,9	1,411,618	1,429,688
Deferred tax assets		50,950	46,187
Other long-term financial assets		12,855	16,348
Long-term income tax recoverable		15,117	12,277
Other long-term assets	5	29,754	31,254
Intangible assets	5	762,834	762,659
Goodwill		2,446,603	2,446,603
Total assets		$ 6,537,711	$ 6,362,451
Liabilities			
Trade and other payables		$ 38,512	$ 54,628
Other current financial liabilities		70,109	36,647
Income taxes payable		892	5,622
Other current liabilities		91,525	85,058
Total current liabilities		201,038	181,955
Long-term indebtedness	12	3,928,018	3,792,597
Deferred tax liabilities		282,991	296,318
Other long-term financial liabilities		21,837	23,835
Other long-term liabilities		353,159	371,453
Total liabilities		4,787,043	4,666,158
Shareholders' Equity			
Share capital	13	44,724	42,841
Accumulated earnings		320,785	350,029
Reserves		86,467	22,804
Total Telesat Corporation shareholders' equity		451,976	415,674
Non-controlling interest	14	1,298,692	1,280,619
Total shareholders' equity		1,750,668	1,696,293
Total liabilities and shareholders' equity		$ 6,537,711	$ 6,362,451

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30

(in thousands of Canadian dollars)	Notes	2022	2021 (Note 3)
Cash flows from operating activities			
Net income (loss)		$ (172,457)	$ 42,090
Adjustments to reconcile net income (loss) to cash flows from operating activities			
Depreciation		142,064	153,402
Amortization		11,204	12,051
Tax expense (recovery)		48,143	47,591
Interest expense		154,452	139,153
Interest income		(10,985)	(3,197)
(Gain) loss on foreign exchange		311,842	(7,343)
(Gain) loss on changes in fair value of financial instruments		(4,314)	20,357
Share-based compensation		55,460	50,178
(Gain) loss on disposal of assets		—	777
Gain on extinguishment of debt	12	(106,916)	—
Deferred revenue amortization		(48,232)	(49,488)
Pension expenses		5,694	6,044
Other		(792)	(1,953)
Income taxes paid, net of income taxes received	21	(81,821)	(71,644)
Interest paid, net of interest received	21	(113,492)	(87,213)
Operating assets and liabilities	21	(28,832)	(2,753)
Net cash from operating activities		161,018	248,052
Cash flows generated from (used in) investing activities			
Satellite programs		(22,820)	(97,131)
Purchase of property and other equipment		(23,462)	(25,120)
Purchase of intangible assets		(27)	—
C-band clearing proceeds		64,651	—
Net cash generated from (used in) investing activities		18,342	(122,251)
Cash flows (used in) generated from financing activities			
Proceeds from indebtedness	21	—	619,900
Payment of debt issue costs	21	—	(6,834)
Repayment of indebtedness	21	(97,234)	—
Payments of principal on lease liabilities	21	(1,804)	(1,780)
Satellite performance incentive payments	21	(5,064)	(5,092)
Proceeds from exercise of stock options		—	16
Government grant received		15,921	—
Net cash (used in) generated from financing activities		(88,181)	606,210
Effect of changes in exchange rates on cash and cash equivalents		134,269	8,249
Changes in cash and cash equivalents		225,448	740,260
Cash and cash equivalents, beginning of period		1,449,593	818,378
Cash and cash equivalents, end of period		$ 1,675,041	$ 1,558,638

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2022
(all amounts in thousands of Canadian dollars, except where otherwise noted)

1. BACKGROUND OF THE COMPANY

Telesat Corporation (the "Corporation" or "Company") was incorporated under the *Business Corporations Act* (British Columbia) in October 2020 and is headquartered in Ottawa, Canada.

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

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

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

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

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

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

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

On November 7, 2022, these financial statements were approved by the Audit Committee of the Board of Directors and authorized for issue.

2. BASIS OF PRESENTATION

Statement of Compliance

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

The financial statements should be read in conjunction with the December 31, 2021 consolidated financial statements of the Corporation. The financial statements use the same basis of presentation and significant accounting policies as outlined in Notes 3 and 4 of the consolidated financial statements for the year ended December 31, 2021, with the exception of those outlined in the changes in accounting policies in Note 3 and the significant accounting policies in Note 4 below. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the full fiscal year.

2. BASIS OF PRESENTATION (cont.)

Basis of Consolidation

Subsidiaries

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

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

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

Joint arrangements

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

In April 2021, the IFRIC published an agenda decision clarifying how arrangements in respect of a specific part of cloud technology, Software as a Service ("SaaS") should be accounted for. The IFRIC interpretation provided specific guidance and included explanatory material which provided additional insights with respect to circumstances in relation to configuration and customization costs incurred in implementing SaaS. Among other things, the interpretation clarified the nature of expenditures that met the definition of an intangible asset, the methods of differentiating between intangible assets and expenses and the pattern in which an entity benefits from expenditure that does not qualify as an intangible asset.

The Company adopted the IFRIC agenda decision retroactively.

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

(all amounts in thousands of Canadian dollars, except where otherwise noted)

3. CHANGES IN ACCOUNTING POLICIES (cont.)

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

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

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

	Three months ended September 30, 2021	Nine months ended September 30, 2021
Operating expenses	$ 784	$ 2,082
Satellites, property and other equipment	$ (782)	$ (2,100)
Foreign currency translation adjustments	$ (2)	$ 18
Net income per common share attributable to Telesat Corporation shareholders – Basic	$ (0.02)	$ (0.04)
Net income per common share attributable to Telesat Corporation shareholders – Diluted	$ (0.02)	$ (0.04)

4. SIGNIFICANT ACCOUNTING POLICIES

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

Software as a service arrangements

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Critical judgments in applying accounting policies

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

Software as a service arrangements

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

Future Changes in Accounting Policies

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

Amendments to IAS 1 and IFRS Practice Statement 2

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

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

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

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

The Company is currently evaluating the impact of the amendment.

Amendments to IAS 12

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

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

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

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

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

(all amounts in thousands of Canadian dollars, except where otherwise noted)

5. SEGMENT INFORMATION

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

The Company derives revenue from the following services:

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

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

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

Revenue derived from the above services were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Broadcast	$ 85,061	$ 97,408	$ 271,617	$ 293,229
Enterprise	92,360	91,126	272,045	267,675
Consulting and other	2,681	3,801	8,823	9,811
Revenue	$ 180,102	$ 192,335	$ 552,485	$ 570,715

Equipment sales included within the various services were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Broadcast	$ 1	$ 52	$ 2	$ 67
Enterprise	1,266	1,337	6,565	8,552
Total equipment sales	$ 1,267	$ 1,389	$ 6,567	$ 8,619

Geographic Information

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Canada	$ 83,106	$ 78,589	$ 246,637	$ 249,032
United States	61,762	77,856	205,184	217,277
Latin America & Caribbean	12,740	13,242	42,830	41,921
Europe, Middle East & Africa	10,521	14,279	25,938	32,823
Asia & Australia	11,973	8,369	31,896	29,662
Revenue	$ 180,102	$ 192,335	$ 552,485	$ 570,715

(all amounts in thousands of Canadian dollars, except where otherwise noted)

5. SEGMENT INFORMATION (cont.)

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

As at,	September 30, 2022	December 31, 2021
Canada	$ 800,972	$ 812,478
United Kingdom	550,498	541,126
Europe, Middle East & Africa	16,339	19,310
United States	41,514	54,390
All others	2,295	2,384
Satellites, property and other equipment	$ 1,411,618	$ 1,429,688

As at,	September 30, 2022	December 31, 2021
Canada	$ 702,856	$ 706,083
United States	41,511	38,039
Latin America & Caribbean	13,086	12,643
All others	5,381	5,894
Intangible assets	$ 762,834	$ 762,659

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

As at,	September 30, 2022	December 31, 2021
Canada	$ 29,754	$ 30,979
United Kingdom	—	275
Other long-term assets	$ 29,754	$ 31,254

Goodwill was not allocated to geographic regions.

Major Customers

For the three and nine months ended September 30, 2022 and 2021, there were two significant customers each representing more than 10% of consolidated revenue.

6. OPERATING EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Compensation and employee benefits[(a)]	$ 32,590	$ 38,375	$ 115,961	$ 105,905
Other operating expenses[(b)]	14,180	14,132	39,149	37,330
Cost of sales[(c)]	8,968	7,504	23,918	22,188
Operating expenses	$ 55,738	$ 60,011	$ 179,028	$ 165,423

(a) Compensation and employee benefits included salaries, bonuses, commissions, post-employment benefits and charges arising from share-based compensation.

(b) Other operating expenses included general and administrative expenses, marketing expenses, insurance expenses, professional fees and facility costs. The balance for the three and nine months ended September 30, 2022 included $Nil

(all amounts in thousands of Canadian dollars, except where otherwise noted)

6. OPERATING EXPENSES (cont.)

million and $1.4 million, respectively of leases not capitalized due to exemptions and variable lease payments not included in the measurement of the leases liabilities (three and nine months ended September 30, 2021 - $0.2 million and $1.7 million, respectively).

(c) Cost of sales included the cost of third-party satellite capacity, the cost of equipment sales and other costs directly attributable to fulfilling the Company's obligations under customer contracts.

During the fourth quarter of 2021, a third-party was engaged to perform a formal valuation of the fair value of the restricted share units ("RSUs") issued in the second quarter of 2021. The valuation resulted in an increase in compensation and employee benefits of $6.9 million and $9.5 million in the second and third quarter of 2021, respectively. The three and nine months ended September 30, 2021, have been adjusted to reflect the increase to compensation and employee benefits resulting from the formal valuation.

7. INTEREST EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Interest on indebtedness	$ 51,381	$ 41,179	$ 135,491	$ 110,356
Interest on derivative instruments	(310)	3,587	3,040	10,627
Interest on satellite performance incentive payments	439	557	1,370	1,719
Interest on significant financing component	4,249	4,669	12,986	14,348
Interest on employee benefit plans	121	323	355	971
Interest on leases	398	376	1,210	1,132
Interest expense	$ 56,278	$ 50,691	$ 154,452	$ 139,153

8. INCOME TAXES

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Current tax expense (recovery)	$ 9,637	$ 23,253	$ 62,474	$ 64,906
Deferred tax expense (recovery)	(4,968)	(10,489)	(14,331)	(17,315)
Tax expense (recovery)	$ 4,669	$ 12,764	$ 48,143	$ 47,591

(all amounts in thousands of Canadian dollars, except where otherwise noted)

8. INCOME TAXES (cont.)

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Income (loss) before tax	$ (224,043)	$ (39,475)	$ (124,314)	$ 89,681
Multiplied by the statutory income tax rates	26.46%	26.46%	26.46%	26.46%
	(59,282)	(10,445)	(32,894)	23,730
Income tax recorded at rates different from the Canadian tax rate	(1,881)	(2,087)	(5,528)	(35,904)
Permanent differences	34,344	16,881	41,142	24,856
Effect of temporary differences not recognized as deferred tax assets	37,552	10,538	53,748	40,057
Change in estimates related to prior period	465	29	(597)	(2,090)
Impact of foreign exchange	(5,921)	(1,299)	(7,120)	(2,185)
Other	(608)	(853)	(608)	(873)
Tax expense	$ 4,669	$ 12,764	$ 48,143	$ 47,591
Effective income tax rate	(2.08)%	(32.33)%	(38.73)%	53.07%

9. SATELLITES, PROPERTY AND OTHER EQUIPMENT

For the nine months ended September 30, 2022, the Company had additions of $36.8 million (September 30, 2021 — $124.0 million) primarily related to acquisitions associated with the LEO program.

10. GOODWILL AND INTANGIBLE ASSETS

Assessments for goodwill and indefinite life intangible assets are performed annually, or more frequently whenever events or changes in circumstances indicate that the carrying amounts of these assets are likely to exceed their recoverable amount.

Goodwill is tested for impairment at the entity level because it represents the lowest level at which goodwill supports the Company's operations and is monitored internally.

With the exception of trade name, which has not been allocated to any Cash Generating Unit ("CGU") and is tested for impairment at the asset level, indefinite life intangible assets are tested for impairment at the CGU level. In the case of orbital slots, the CGU is based on geography.

During 2022, we reviewed the more sensitive assumptions to determine whether or not there were any changes in the assumptions from the valuation that was performed at the end of 2021. Based upon the review performed, the only significant material difference noted was related to the discount rates utilized on the valuation of GEO, U.S. C-band clearing proceeds and orbital slots. In all cases, the discount rate increased from 7.5% to 10.0%.

With this change taken into account, there were no impairments on the goodwill or orbital slots.

Changes to the discount rate could yield different estimates of the fair value. Independent of changes to other key variables, if discount rates continue to increase, it may result in a future impairment of goodwill or orbital slots.

(all amounts in thousands of Canadian dollars, except where otherwise noted)

11. LEASE LIABILITIES

The expected undiscounted contractual cash flows of the lease liabilities as at September 30, 2022 were as follows:

Remainder 2022	2023	2024	2025	2026	Thereafter	Total
$ 907	$ 3,581	$ 3,435	$ 3,146	$ 2,922	$ 35,944	$ 49,935

The undiscounted contractual cash flows included $15.0 million of interest payments.

12. INDEBTEDNESS

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

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

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

	September 30, 2022	December 31, 2021
Senior Secured Credit Facilities		
Revolving Credit Facility	$ —	$ —
Term Loan B – U.S. Facility (September 30, 2022 and December 31, 2021 – US$1,552,815)	2,147,388	1,962,292
Senior Unsecured Notes (September 30, 2022 – US$390,000 and December 31, 2021 – US$550,000)	539,331	695,035
2026 Senior Secured Notes (US$500,000)	691,450	631,850
Senior Secured Notes (US$400,000)	553,160	505,480
	3,931,329	3,794,657
Deferred financing costs, prepayment options and loss on repayment	(3,311)	(2,060)
Long-term indebtedness	$ 3,928,018	$ 3,792,597

During the nine months ended September 30, 2022, Telesat 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). 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).

No repurchases occurred during the three months ended September 30, 2022.

13. SHARE CAPITAL

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

(all amounts in thousands of Canadian dollars, except where otherwise noted)

13. SHARE CAPITAL (cont.)

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

	September 30, 2022		December 31, 2021	
	Number of shares	Stated value	Number of shares	Stated value
Telesat Public Shares	12,482,410	$ 38,384	11,907,246	$ 36,501
Class C Shares	112,841	6,340	112,841	6,340
	12,595,251	$ 44,724	12,020,087	$ 42,841

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

Telesat Public shares	
Class A Common shares	564,865
Class B Variable Voting shares	11,917,545
Total Telesat Public shares	12,482,410

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 September 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 September 30, 2022 and December 31, 2021, 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 and one Golden Share outstanding, each with a nominal stated value as at September 30, 2022 and December 31, 2021. 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*.

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

During the nine months ended September 30, 2022, 562,351 Telesat Public Shares were issued in exchange for an equal number of Class B LP Units in the Partnership.

The number and stated value of the outstanding LP Units of the Partnership were as follows:

	September 30, 2022		December 31, 2021	
	Number of units	Stated value	Stated value	Number of units
Class A and Class B LP Units	18,866,140	$ 51,631	19,428,491	$ 53,169
Class C LP Units	18,098,362	38,457	18,098,362	59,683
	36,964,502	$ 90,088	37,526,853	$ 112,852

(all amounts in thousands of Canadian dollars, except where otherwise noted)

13. SHARE CAPITAL (cont.)

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

Class A and Class B LP Units	
Class A LP Units	12,500
Class B LP Units	18,853,640
Total Class A and Class B LP Units	18,866,140

During the nine months ended September 30, 2022, 562,351 Class B LP Units were exchanged for an equal number of Telesat Public Shares.

The stated value of Class C LP units as of September 30, 2022, was reduced by an adjustment amount of $21.2 million (US$15.3 million) (see Note 14).

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

14. NON-CONTROLLING INTEREST

Non-controlling interests represent equity interests in the Partnership that are not attributable to the Company. As of September 30, 2022, the Corporation held a general partnership interest representing approximately 25% economic interest in the Partnership (December 31, 2021 — approximately 24%). The remaining 75% economic interest represents exchangeable units held by the limited partnership unit holders (December 31, 2021 — 76%).

Net income (loss) attributable to non-controlling interests for 2022 represents the non-controlling interests' portion of the Partnership's net income (loss).

In connection with the Transaction, a final adjustment amount was required to be made. The adjustment amount is defined within the Transaction agreement and represents any portion of the inducement payment that was unpaid by Loral, combined with the calculated negative net asset value of Loral.

As at September 30, 2022, $21.2 million (US$15.3 million) was accrued against other current financial liabilities and a reduction in the value of the Class C Partnership Units in the Partnership. Upon consolidation, the reduction in value of the Class C Partnership Units is included in the non-controlling interest. The adjustment amount payment is to be made to Red Isle Private Investment Inc. ("Red Isle").

15. SHARE-BASED COMPENSATION PLANS

On November 19, 2021, Telesat Corporation adopted an omnibus long-term incentive plan ("Omnibus Plan"). The Omnibus Plan allows for a variety of equity-based awards including stock options, RSUs, performance share units ("PSUs") and deferred share units ("DSUs"). The stock options, RSUs, PSUs and DSUs are collectively referred to as "Award". Each Award will represent the right to receive Public Shares or, in the case of PSUs, RSUs or DSUs, Public Shares or cash, in accordance with the terms of the Omnibus Plan.

Telesat Holdings Inc. (the predecessor entity to Telesat Canada and Telesat Corporation) adopted a management stock incentive plan in September 2008, as amended (the "2008 Telesat Plan") and a second management stock incentive plan in April 2013, as amended (the "2013 Telesat Plan"). In the first half of 2021, Telesat Canada also adopted a restricted share unit plan (the "RSU Plan" together with the 2008 Telesat Plan and 2013 Telesat Plan, the "Historic Plan").

(all amounts in thousands of Canadian dollars, except where otherwise noted)

15. SHARE-BASED COMPENSATION PLANS (cont.)

The change in number of time vesting stock options outstanding and their weighted average exercise price under the Omnibus Plan and Historic Plan are summarized below:

	Historic plan		Omnibus Plan	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, January 1, 2022	900,789	$ 48.77	—	$ —
Granted	—	—	285,149	$ 16.64
Forfeited	(103,041)	$ 36.53	—	$ —
Outstanding September 30, 2022	797,748	$ 50.35	285,149	$ 16.64

The movement in the number of RSUs under the Historic Plan were as follows:

	RSUs with time criteria	RSUs with time and performance criteria
Outstanding, January 1, 2022	1,363,501	124,080
Settled	(27,573)	—
Outstanding, September 30, 2022	1,335,928	124,080

The movement in the number of RSUs, PSUs and DSUs under the Omnibus Plan was as follows:

	RSUs with time criteria	RSUs with time and performance criteria	PSUs with time and performance criteria	DSUs
Outstanding, January 1, 2022	—	124,080	—	—
Granted	382,888	—	140,583	28,056
Forfeited	(11,536)	—	—	—
Outstanding, September 30, 2022	371,352	124,080	140,583	28,056

16. EARNINGS PER SHARE

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

Diluted earnings per share is calculated to give effect to equity Awards.

Net income (loss) was equal to diluted net income (loss) for all the periods presented.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Basic total weighted average number of Telesat Corporation Shares outstanding	12,489,993	49,546,940	12,210,018	49,546,775
Effect of diluted securities				
Stock options	—	—	—	440,211
RSUs	—	—	—	1,000,912
Diluted total weighted average number of Telesat Corporation Shares outstanding	12,489,993	49,546,940	12,210,018	50,987,898

16. EARNINGS PER SHARE (cont.)

Effect of diluted securities represents Telesat Corporation Shares assumed to be issued for no consideration. The difference between the number of Telesat Corporation Shares assumed issued on exercise and Telesat Corporation Shares assumed repurchased are treated as an issuance of common shares for no consideration. For the nine months ended September 30, 2021, there were no DSUs or PSUs issued and outstanding.

For the three and nine months ended September 30, 2021, for the purposes of earnings per share, the Common Shares, Non-Voting Participating Preferred Shares and Voting Participating Preferred Shares of Telesat Canada have equivalent economic rights. The quantity of shares of Telesat Canada, have been converted to take into account the impact of the conversion which occurred in the Transaction.

For the three and nine months ended September 30, 2022, for the purpose of earnings per share, all of the Telesat Public Shares and Class C Shares have equivalent economic rights.

17. CAPITAL DISCLOSURES

The Senior Secured Credit Facilities, Senior Secured Notes and 2026 Senior Secured Notes are secured by substantially all of the Company's assets, excluding the assets of unrestricted subsidiaries. If the Revolving Facility is drawn, the Senior Secured Credit Facilities require the Company to comply with a first lien net leverage ratio test. As at September 30, 2022, the first lien net leverage ratio was 5.30:1.00, which was less than the maximum test ratio of 5.75:1.00.

The Company's operating results are tracked against budget on a monthly basis, and this analysis is reviewed by senior management. The Company partly manages its interest rate risk on variable interest rate debt through the use of interest rate swaps (Note 19).

18. GOVERNMENT GRANT

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

For the nine months ended September 30, 2022, the Company recorded $6.9 million relating to the agreement (nine months ended September 30, 2021 — $10.4 million).

Of the amount recorded in the nine months ended September 30, 2022, $3.4 million was recorded as a reduction to satellites, property and other equipment; $0.1 million as a reduction to prepaid expenses and other current assets and $3.4 million was recorded as a reduction to operating expenses (nine months ended September 30, 2021 — $6.9 million as a reduction to satellites, property and other equipment and $3.5 million recorded as a reduction to operating expenses).

19. FINANCIAL INSTRUMENTS

Measurement of Risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at September 30, 2022.

(all amounts in thousands of Canadian dollars, except where otherwise noted)

19. FINANCIAL INSTRUMENTS (cont.)

Credit risk

Credit risk is the risk that a counterparty to a financial asset will default, resulting in the Company incurring a financial loss. As at September 30, 2022, the maximum exposure to credit risk is equal to the carrying value of the financial assets which totaled $1,740.1 million (December 31, 2021 — $1,589.5 million).

The following table provides breakdown by maturity of financial assets as at September 30, 2022:

		Contractual cash flows					
	Carrying amount	Remaining 2022	2023	2024	2025	2026	Thereafter
Cash and cash equivalents	$ 1,675,041	$ 1,675,041	$ —	$ —	$ —	$ —	$ —
Trade and other receivables, excluding deferred receivables	46,236	46,236	—	—	—	—	—
Deferred receivables	15,649	1,624	5,047	3,149	1,462	1,367	3,000
Other financial assets	3,221	523	1,871	—	—	—	827
	$ 1,740,147	$ 1,723,424	$ 6,918	$ 3,149	$ 1,462	$ 1,367	$ 3,827

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

The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks related to trade accounts receivable. The Company's standard payment terms are 30 days with interest typically charged on balances remaining unpaid at the end of standard payment terms. The Company's historical experience with customer defaults has been minimal. As at September 30, 2022, North American and International customers made up 53% and 47% of the outstanding trade receivable balance, respectively (December 31, 2021 — 54% and 46%, respectively). Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts as at September 30, 2022 was $5.6 million (December 31, 2021 — $5.2 million).

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

Foreign exchange risk

The Company's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The Company's main currency exposures lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and indebtedness with the most significant impact being on the U.S. dollar denominated indebtedness cash and short-term investments. As at September 30, 2022 and December 31, 2021, the entire indebtedness was denominated in U.S. dollars, with the Canadian dollar equivalent of the U.S. dollar denominated indebtedness equaling $3,931.3 million and $3,794.7 million, respectively, before netting of deferred financing costs, prepayment options and loss on repayment.

As at September 30, 2022, the impact of a 5 percent increase (decrease) in the value of the Canadian dollar against the U.S. dollar on financial assets and liabilities would have decreased (increased) net income before tax by $178.3 million (December 31, 2021 — $174.0 million) and increased (decreased) other comprehensive income by $60.5 million (December 31, 2021 — $57.0 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

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

(all amounts in thousands of Canadian dollars, except where otherwise noted)

19. FINANCIAL INSTRUMENTS (cont.)

In October 2017, the Company entered into four interest rate swaps to hedge the interest rate risk associated with the variable interest rate on US$1,800.0 million of the U.S. denominated Term Loan B at fixed interest rates, excluding applicable margins, ranging from 1.72% to 2.04%. Three interest rate swaps with notional amount of US$1,350 million expired at different dates prior to 2022. The remaining interest rate swap with notional amount of US$450 million expired in September 2022.

If the interest rates on the variable rate indebtedness change by 0.25%, the result would be an increase or decrease to net income of $0.9 million and $3.0 million for the three and nine months ended September 30, 2022, respectively (three and nine months ended September 30, 2021 — $1.2 million and $3.7 million, respectively).

Liquidity risk

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

The contractual maturities of financial liabilities as at September 30, 2022 were as follows:

	Carrying amount	Contractual cash flows (undiscounted)	Remaining 2022	2023	2024	2025	2026	Thereafter
Trade and other payables	$ 38,512	$ 38,512	$ 38,512	$ —	$ —	$ —	$ —	$ —
Customer and other deposits	1,811	1,811	1,231	178	19	226	—	157
Satellite performance incentive payments	28,093	34,312	2,754	8,170	5,800	3,405	3,468	10,715
Other financial liabilities	23,924	23,924	23,924	—	—	—	—	—
Indebtedness[(1)]	3,969,447	4,971,818	82,933	229,756	230,035	228,720	3,059,344	1,141,030
	$ 4,061,787	$ 5,070,377	$ 149,354	$ 238,104	$ 235,854	$ 232,351	$ 3,062,812	$ 1,151,902

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

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

	Interest payable	Interest payments
Satellite performance incentive payments	$ 370	$ 6,589
Indebtedness	$ 38,118	$ 1,040,489

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

As at September 30, 2022	Amortized cost	Total	Fair value	Fair value hierarchy
Cash and cash equivalents	$ 1,675,041	$ 1,675,041	$ 1,675,041	Level 1
Trade and other receivables	51,728	51,728	51,728	(1)
Other current financial assets	523	523	523	Level 1
Other long-term financial assets	12,855	12,855	12,855	Level 1
Trade and other payables	(38,512)	(38,512)	(38,512)	(1)
Other current financial liabilities	(70,109)	(70,109)	(71,568)	Level 2
Other long-term financial liabilities	(21,837)	(21,837)	(21,351)	Level 2
Indebtedness[(2)]	(3,931,329)	(3,931,329)	(1,948,343)	Level 2
	$ (2,321,640)	$ (2,321,640)	$ (339,627)	

(all amounts in thousands of Canadian dollars, except where otherwise noted)

19. FINANCIAL INSTRUMENTS (cont.)

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

(1) Trade and other receivables and trade and other payables approximate fair value due to the short-term maturity of these instruments.

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

(3) As at December 31, 2021, other long-term financial assets classified as fair value through profit or loss were calculated using level 2 of the fair value hierarchy. All other balances were calculated using level 1 of the fair value hierarchy.

Assets pledged as security

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

Fair Value

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

The fair value hierarchy is as follows:

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

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

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

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

(all amounts in thousands of Canadian dollars, except where otherwise noted)

19. FINANCIAL INSTRUMENTS (cont.)

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate fair value due to the short-term maturity of these instruments. As at September 30, 2022, cash and cash equivalents included $8.3 million (December 31, 2021 — $81.0 million) of short-term investments.

The fair value of the satellite performance incentive payments, included in other current and long-term financial liabilities, was determined using a discounted cash flow methodology. The calculation is performed on a recurring basis. As at September 30, 2022 and December 31, 2021, the discount rate used was 5.6% and 4.6%, respectively.

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

	September 30, 2022	December 31, 2021
Term Loan B – U.S. Facility – Senior Secured Credit Facilities	53.50%	88.25%
Senior Unsecured Notes	37.84%	77.65%
Senior Secured Notes	47.35%	88.72%
2026 Senior Secured Notes	48.23%	94.09%

Fair value of derivative financial instruments

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

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

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

The discount rates used to discount cash flows as at September 30, 2022 ranged from 3.76% to 4.70% (December 31, 2021 — 0.08% to 1.37%).

The fair value of the derivative assets and liabilities was calculated based on level 2 of the fair value hierarchy. As at September 30, 2022, there was no balance relating to derivative assets and liabilities. The current and long-term portions of the fair value of the Company's derivative assets and liabilities, as at December 31, 2021, were as follows:

	Other long-term financial assets	Other current financial liabilities	Total
Interest rate swaps	$ —	$ (5,367)	$ (5,367)
Prepayment options	1,038	—	1,038
	$ 1,038	$ (5,367)	$ (4,329)

(all amounts in thousands of Canadian dollars, except where otherwise noted)

19. FINANCIAL INSTRUMENTS (cont.)

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

Fair value, December 31, 2021 and January 1, 2022	$	(4,329)
Unrealized gains (losses) on derivatives		
Prepayment options		(1,045)
Interest rate swaps		5,360
Impact of foreign exchange		14
Fair value, September 30, 2022	$	—

20. EMPLOYEE BENEFIT PLANS

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

	Pension Plans			Other Post-employment Benefit Plans		
Three months ended September 30, 2022	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 1,594	$ 135	$ 1,729	$ 178	$ —	$ 178
Interest expense (income)	$ (199)	$ 134	$ (65)	$ 182	$ 4	$ 186

	Pension Plans			Other Post-employment Benefit Plans		
Three months ended September 30, 2021	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 1,973	$ —	$ 1,973	$ 41	$ —	$ 41
Interest expense	$ 185	$ —	$ 185	$ 138	$ —	$ 138

	Pension Plans			Other Post-employment Benefit Plans		
Nine months ended September 30, 2022	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 4,762	$ 399	$ 5,161	$ 533	$ —	$ 533
Interest expense (income)	$ (599)	$ 394	$ (205)	$ 548	$ 12	$ 560

	Pension Plans			Other Post-employment Benefit Plans		
Nine months ended September 30, 2021	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 5,920	$ —	$ 5,920	$ 124	$ —	$ 124
Interest expense	$ 557	$ —	$ 557	$ 414	$ —	$ 414

No amounts for actuarial gains (losses), net of taxes was recorded on the statements of comprehensive income (loss) for the three and nine months ended September 30, 2022 or 2021.

(all amounts in thousands of Canadian dollars, except where otherwise noted)

20. EMPLOYEE BENEFIT PLANS (cont.)

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

	Pension Plans			Other Post-employment Benefit Plans		
As at September 30, 2022	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Included in other long-term liabilities	$ —	$ 18,553	$ 18,553	$ 23,030	$ 4,980	$ 28,010
Included in other long-term assets	$ 29,023	$ —	$ 29,023	$ —	$ —	$ —

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents were comprised of the following:

As at September 30,	**2022**	**2021**
Cash	$ 1,666,695	$ 1,473,049
Short-term investments[(1)]	8,346	85,589
Cash and cash equivalents	$ 1,675,041	$ 1,558,638

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

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

Nine months ended September 30,	**2022**	**2021**
Income taxes paid	$ (82,436)	$ (71,690)
Income taxes received	615	46
	$ (81,821)	$ (71,644)

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

Nine months ended September 30,	**2022**	**2021**
Interest paid	$ (123,627)	$ (90,367)
Interest received	10,135	3,154
	$ (113,492)	$ (87,213)

(all amounts in thousands of Canadian dollars, except where otherwise noted)

21. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

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

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2022	$ 3,792,597	$ 30,344	$ 35,678
Cash outflows	(97,234)	(5,064)	(1,804)
Amortization of deferred financing costs, prepayment options and loss on repayment	601	—	—
Gain on extinguishment of debt	(106,916)	—	—
Non-cash addition	—	—	376
Interest paid	—	—	(1,210)
Interest accrued	—	—	1,210
Impact of foreign exchange	338,970	2,442	491
Balance as at September 30, 2022	$ 3,928,018	$ 27,722	$ 34,741

	Indebtedness	Satellite performance incentive payments	Leases
Balance as at January 1, 2021	$ 3,187,152	$ 37,574	$ 29,051
Cash inflows	619,900	—	—
Cash outflows	—	(5,092)	(1,780)
Amortization of deferred financing costs, prepayment options and loss on repayment	362	—	—
Debt issue costs	(6,834)	—	—
Prepayment option at inception – 2026 Senior Secured Notes	1,896	—	—
Interest accrued	—	—	1,132
Interest paid	—	—	(1,132)
Non-cash additions	—	—	7,323
Non-cash disposals	—	—	(939)
Impact of foreign exchange	2,837	(193)	(235)
Balance as at September 30, 2021	$ 3,805,313	$ 32,289	$ 33,420

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

Nine months ended September 30,	2022	2021
Trade and other receivables	$ (767)	$ 8,035
Financial assets	3,668	2,351
Other assets	(19,744)	(14,773)
Trade and other payables	(11,535)	3,679
Financial liabilities	(1,310)	2,869
Other liabilities	856	(4,914)
	$ (28,832)	$ (2,753)

(all amounts in thousands of Canadian dollars, except where otherwise noted)

21. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

Non-cash investing activities were comprised of:

Nine months ended September 30,	2022	2021
Satellites, property and other equipment	$ 2,084	$ 656

22. COMMITMENTS AND CONTINGENT LIABILITIES

The following were the Company's off-balance sheet contractual obligations as at September 30, 2022:

	Remaining 2022	2023	2024	2025	2026	Thereafter	Total
Property leases	$ 215	$ 1,091	$ 1,077	$ 995	$ 993	$ 11,893	$ 16,264
Capital commitments	17,960	33,501	43,976	55,454	—	—	150,891
Other operating commitments	13,819	22,819	13,104	6,719	3,230	9,440	69,131
	$ 31,994	$ 57,411	$ 58,157	$ 63,168	$ 4,223	$ 21,333	$ 236,286

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

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

The Company has entered into contracts for the development of the Telesat Lightspeed constellation and other capital expenditures. The total outstanding commitments as at September 30, 2022 were included in capital commitments.

The Company has agreements with various customers for prepaid revenue on several service agreements which take effect when the satellite is placed in service. The Company is responsible for operating and controlling these satellites. As at September 30, 2022, customer prepayments of $355.0 million (December 31, 2021 — $368.1 million), a portion of which is refundable under certain circumstances, were reflected in other current and long-term liabilities.

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

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

22. COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

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

Legal Proceedings

Telesat previously received assessments from Brazilian tax authorities alleging that additional taxes are owed on revenue earned for the period 2003 to 2018. The total disputed amount for the period 2003 to 2018, including interest and penalties, is now $87 million. The disputes relate to the Brazilian tax authorities' characterization of revenue. The Company has challenged the assessments. The Company believes the likelihood of a favorable outcome in these disputes is more likely than not and, as such, no reserve has been established.

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

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

23. RELATED PARTY TRANSACTIONS

Transactions with subsidiaries

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

Compensation of executives and Board level directors

Compensation of the Company's executives consists of short-term benefits (including salaries), post-employment benefits and share-based compensation. Compensation of the Company's Board level directors consists of cash and share-based compensation (See Note 15). The transactions have been entered into with the Company in the normal course of operations.

Transactions with related parties

The Company and certain of its subsidiaries used to engage in transactions with related parties. The Company's related parties included Loral and Red Isle until November 18, 2021 at which point under the Transaction Agreement Loral became a fully consolidated subsidiary. Any transactions entered into with Loral have been entered into over the normal course of operations. Following the Transaction Agreement, related parties included Red Isle and MHR Fund Management LLC ("MHR").

Other current financial liabilities balance as of September 30, 2022, include $21.2 million (US$15.3 million) payable to Red Isle being accrual of the adjustment amount as per the terms of the Transaction Agreement (see Note 14).

During the three and nine months ended September 30, 2021, the Company and its subsidiaries had entered into the following transactions with Loral.

(all amounts in thousands of Canadian dollars, except where otherwise noted)

23. RELATED PARTY TRANSACTIONS (cont.)

Three months ended September 30, 2021	Sales of goods and services	Purchase of goods and services
Revenue	$ 31	$ —
Operating expenses	$ —	$ 1,564

Nine months ended September 30, 2021	Sales of goods and services	Purchase of goods and services
Revenue	$ 94	$ —
Operating expenses	$ —	$ 4,703

There were no other transactions or balances with Red Isle or MHR during any of the periods presented.

Other related party transactions

The Company funds certain defined benefit pension plans. Contributions made to the plans for the three and nine months ended September 30, 2022 were $2.6 million and $4.7 million, respectively (three and nine months ended September 30, 2021 — $1.2 million and $3.9 million, respectively).