Telesat Corporation
Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Income	F-5
Consolidated Statements of Comprehensive Income	F-6
Consolidated Statements of Changes in Shareholders' Equity	F-7
Consolidated Balance Sheets	F-8
Consolidated Statements of Cash Flows	F-9
Notes to the 2021 Consolidated Financial Statements	F-10

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Report of Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of Telesat Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Telesat Corporation (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill and Indefinite Life Intangible Assets (Orbital Slots) Impairment — Refer to Notes 4, 5, 17 and 18 of the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill and indefinite life intangible assets, specifically orbital slots impairment involves the comparison of the recoverable amount of each Cash Generating Unit ("CGU") to its carrying value. The recoverable amount of each CGU is based on the higher of its fair value less costs of disposal and its value in use, which is determined using both a market approach based on market multiples and an income approach based on a discounted cash flow. In determining the recoverable amount of the CGUs, management made significant estimates and assumptions related to future revenue forecasts, future expenses, capital expenditures, working capital, costs of disposal, discount rates and market multiples. In addition, the Company plans to introduce new satellites under the Low Earth Orbit constellation (known as "Telesat Lightspeed") whose forecasted revenues contribute significantly to the estimated recoverable amount of the CGUs. The recoverable amounts of the CGUs exceeded their carrying values as of December 31, 2021 and no impairment charge to goodwill or orbital slots was recorded.

While there are several estimates and assumptions that are required to determine the recoverable amounts of the CGUs, the estimates with the highest degree of subjectivity are future revenue forecasts, discounts rates and market multiples ("key assumptions"). This required significant auditor attention as the key assumptions are subject to a high degree of auditor judgment and there is limited historical data for Telesat Lightspeed which resulted in an increased extent of effort, including the involvement of fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the key assumptions used to determine the recoverable amount of the CGUs included the following, among others:

- Evaluated management's ability to accurately forecast future revenues by comparing actual results to historical forecasts.
- Evaluated the reasonableness of future revenue forecasts by comparing the forecasts to:
    - Historical revenue;
    - Contracted revenue backlog for existing service contracts;
    - Internal communications from management to the board of directors and external communications made by management to analysts and investors;
    - Industry reports containing analyses of the Company's and its competitors' revenues.
- With the assistance of fair value specialists:
    - Evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing to those selected by management.
    - Evaluated the market multiples by analyzing precedent market transactions and comparable public company multiples and developing a range of independent market multiples and comparing to those selected by management.

Transaction and Plan of Merger — Refer to Note 2 to the financial statements

Critical Audit Matter Description

On November 23, 2020, the Company and Loral Space & Communications Inc. entered into a Transaction Agreement and Plan of Merger (the "Transaction") with Telesat Canada, the Telesat Partnership LP, Telesat CanHold Corporation, Lion Combination Sub Corporation, Public Sector Pension Investment Board and Red Isle Private Investments Inc. to exchange their interests for equity in the new public holding structure of the Company. The Transaction was effected through a series of transactions and was completed on November 18, 2021.

Management was required to make judgments to determine the accounting treatment of the Transaction and as such, auditing that determination required complex analysis and consideration which resulted in an increased extent of audit effort including the need to involve technical accounting specialists.

How the Critical Audit Matter Was Addressed in the Audit

With the assistance of technical accounting specialists, our audit procedures related to management's determination of the accounting treatment of the Transaction included the following, among others:

- Assessing the information in the Transaction agreements to understand and evaluate that all components were identified.
- Evaluating management's determination of the accounting treatment of the Transaction by analyzing specific facts and circumstances against relevant accounting guidance.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 17, 2022

We have served as the Company's auditor since 1993.

Telesat Corporation
Consolidated Statements of Income

(in thousands of Canadian dollars, except per share amounts)	Notes	For the years ended December 31, 2021	2020	2019
Revenue	6	$ 758,212	$ 820,468	$ 910,893
Operating expenses	7	(234,054)	(180,874)	(165,499)
Depreciation		(203,772)	(216,885)	(242,966)
Amortization		(16,141)	(17,195)	(23,277)
Other operating gains (losses), net	8	107,615	(215)	(862)
Operating income		411,860	405,299	478,289
Interest expense	9	(187,994)	(203,760)	(258,261)
Loss on refinancing	24	—	—	(151,919)
Interest and other income		3,418	5,196	20,043
Loss on changes in fair value of financial instruments		(18,684)	(13,115)	(49,672)
Gain on foreign exchange		27,539	47,605	163,840
Income before tax		236,139	241,225	202,320
Tax (expense) recovery	10	(78,377)	4,353	(15,122)
Net income		$ 157,762	$ 245,578	$ 187,198
Net income attributable to:				
Telesat Corporation/Telesat Canada shareholders		$ 103,542	$ 245,578	$ 187,198
Non-controlling interest		54,220	—	—
		$ 157,762	$ 245,578	$ 187,198
Net income per share attributable to Telesat Corporation shareholders (Net income per common shares attributable to Telesat Canada common shareholders)				
Basic		$ 2.29	$ 4.96	$ 3.78
Diluted		$ 2.22	$ 4.93	$ 3.76
Total Weighted Average Telesat Corporation Shares (Total Weighted Average Telesat Canada Common shares) Outstanding				
Basic		45,168,650	49,537,082	49,519,663
Diluted		46,620,495	49,804,886	49,806,301

See accompanying notes to the consolidated financial statements

Telesat Corporation
Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)	Notes	For the years ended December 31, 2021	2020	2019
Net income		$ 157,762	$ 245,578	$ 187,198
Other comprehensive income (losses)				
Items that may be reclassified into profit or loss				
Foreign currency translation adjustments		(17,544)	(32,422)	(50,465)
Items that will not be reclassified into profit or loss				
Actuarial gains (losses) on employee benefit plans	32	55,422	(13,693)	1,134
Tax (expense) recovery		(14,424)	3,584	(403)
Other comprehensive income (losses)		23,454	(42,531)	(49,734)
Total comprehensive income		$ 181,216	$ 203,047	$ 137,464
Total comprehensive income attributable to:				
Telesat Corporation/Telesat Canada shareholders		$ 130,947	$ 203,047	$ 137,464
Non-controlling interest		50,269	—	—
		$ 181,216	$ 203,047	$ 137,464

See accompanying notes to the consolidated financial statements

Telesat Corporation
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
Balance as at January 1, 2019		$ 26,580	$ 127,126	$ 153,706	$ 843,601	$ 60,715	$ 34,963	$ 95,678	$ 1,092,985	$ —	$ 1,092,985
Net income		—	—	—	187,198	—	—	—	187,198	—	187,198
Dividends declared on Director Voting Preferred shares	25	—	—	—	(20)	—	—	—	(20)	—	(20)
Issuance of share capital on exercise of stock appreciation rights	25	—	385	385	(455)	(144)	—	(144)	(214)	—	(214)
Issuance of share capital on settlement of restricted share units	25	—	804	804	—	(1,729)	—	(1,729)	(925)	—	(925)
Other comprehensive income (loss), net of tax expense of $403		—	—	—	731	—	(50,465)	(50,465)	(49,734)	—	(49,734)
Share-based compensation		—	—	—	—	16,035	—	16,035	16,035	—	16,035
Balance as at December 31, 2019		$ 26,580	$ 128,315	$ 154,895	$ 1,031,055	$ 74,877	$ (15,502)	$ 59,375	$ 1,245,325	$ —	$ 1,245,325
Balance as at January 1, 2020		$ 26,580	$ 128,315	$ 154,895	$ 1,031,055	$ 74,877	$ (15,502)	$ 59,375	$ 1,245,325	$ —	$ 1,245,325
Net income		—	—	—	245,578	—	—	—	245,578	—	245,578
Dividends declared on Director Voting Preferred shares	25	—	—	—	(10)	—	—	—	(10)	—	(10)
Issuance of share capital on settlement of restricted share units	25	—	803	803	—	(1,729)	—	(1,729)	(926)	—	(926)
Other comprehensive loss, net of tax recovery of $3,584		—	—	—	(10,109)	—	(32,422)	(32,422)	(42,531)	—	(42,531)
Share-based compensation		—	—	—	—	12,500	—	12,500	12,500	—	12,500
Balance as at December 31, 2020		$ 26,580	$ 129,118	$ 155,698	$ 1,266,514	$ 85,648	$ (47,924)	$ 37,724	$ 1,459,936	$ —	$ 1,459,936
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
Net income		—	—	—	103,542	—	—	—	103,542	54,220	157,762
Dividends declared on Director Voting Preferred shares	25	—	—	—	(10)	—	—	—	(10)	—	(10)
Issuance of share capital on settlement of restricted share units	25	—	16	16	—	—	—	—	16	—	16
Other comprehensive income (loss), net of tax expense of $14,424		—	—	—	9,946	—	(12,059)	(12,059)	(2,113)	25,567	23,454
Share-based compensation		—	—	—	—	49,022	—	49,022	49,022	24,702	73,724
Reallocation related to Transaction		16,261	(129,134)	(112,873)	(1,029,116)	(96,006)	44,126	(51,880)	(1,193,869)	1,178,786	(15,083)
Balance as at December 31, 2021		$ 42,841	$ —	$ 42,841	$ 350,876	$ 38,664	$ (15,857)	$ 22,807	$ 416,524	$ 1,283,275	$ 1,699,799

See accompanying notes to the consolidated financial statements

Telesat Corporation
Consolidated Balance Sheets

(in thousands of Canadian dollars)	Notes	December 31, 2021	December 31, 2020
Assets			
Cash and cash equivalents	33	$ 1,449,593	$ 818,378
Trade and other receivables	11	122,698	51,928
Other current financial assets	12	861	448
Current income tax recoverable		3,219	3,116
Prepaid expenses and other current assets	13	41,064	19,745
Total current assets		1,617,435	893,615
Satellites, property and other equipment	6,16	1,431,775	1,318,526
Deferred tax assets	10	46,187	79,912
Other long-term financial assets	14	16,348	53,425
Long-term income tax recoverable		12,277	8,418
Other long-term assets	6,15	31,254	1,504
Intangible assets	6,17	764,078	779,190
Goodwill	18	2,446,603	2,446,603
Total assets		$ 6,365,957	$ 5,581,193
Liabilities			
Trade and other payables	19	$ 54,628	$ 30,091
Other current financial liabilities	20	36,647	35,880
Income taxes payable		5,622	7,326
Other current liabilities	21	85,058	88,829
Current indebtedness	24	—	—
Total current liabilities		181,955	162,126
Long-term indebtedness	24	3,792,597	3,187,152
Deferred tax liabilities	10	296,318	325,893
Other long-term financial liabilities	22	23,835	35,499
Other long-term liabilities	23	371,453	410,587
Total liabilities		4,666,158	4,121,257
Shareholders' equity			
Share capital	25	42,841	155,698
Accumulated earnings		350,876	1,266,514
Reserves		22,807	37,724
Total Telesat Corporation/Telesat Canada shareholders' equity		416,524	1,459,936
Non-controlling interest	26	1,283,275	—
Total shareholders' equity		1,699,799	1,459,936
Total liabilities and shareholders' equity		$ 6,365,957	$ 5,581,193

See accompanying notes to the consolidated financial statements

Telesat Corporation
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Notes	For the years ended December 31, 2021	2020	2019
Cash flows from operating activities				
Net income		$ 157,762	$ 245,578	$ 187,198
Adjustments to reconcile net income to cash flows from operating activities				
Depreciation		203,772	216,885	242,966
Amortization		16,141	17,195	23,277
Tax expense (recovery)		78,377	(4,353)	15,122
Interest expense		187,994	203,760	258,261
Interest income		(4,392)	(7,668)	(20,268)
Gain on foreign exchange		(27,539)	(47,605)	(163,840)
Loss on changes in fair value of financial instruments		18,684	13,115	49,672
Share-based compensation	31	73,723	12,500	16,035
Loss on disposal of assets	8	848	215	862
Loss on refinancing	24	—	—	151,919
Deferred revenue amortization		(64,998)	(74,091)	(106,558)
Pension expenses		8,133	7,333	6,314
C-band clearing proceeds	8	(42,860)	—	—
Other		(1,953)	7,974	166
Income taxes paid, net of income taxes received	33	(94,242)	(53,443)	(95,455)
Interest paid, net of interest received	33	(154,433)	(179,972)	(176,112)
Operating assets and liabilities	33	(58,625)	15,018	(13,942)
Net cash from operating activities		296,392	372,441	375,617
Cash flows used in investing activities				
Satellite programs		(279,941)	(75,902)	(3,668)
Purchase of property and other equipment		(34,620)	(17,060)	(8,345)
Purchase of intangible assets		(1,162)	(30)	(27,597)
C-band clearing proceeds	8	42,860	—	—
Net cash used in investing activities		(272,863)	(92,992)	(39,610)
Cash flows generated from (used in) financing activities				
Repayment of indebtedness	33	—	(453,592)	(3,743,465)
Proceeds from indebtedness	33	619,900	—	3,786,082
Payment of early redemption premium	24	—	—	(43,940)
Payment of debt issue costs	33	(6,834)	—	(28,082)
Payments of principal on lease liabilities	33	(2,178)	(1,793)	(1,252)
Satellite performance incentive payments	33	(6,914)	(9,031)	(9,644)
Proceeds from exercise of stock options		16	—	—
Government grant received		—	14,185	—
Initial costs from Transaction		1,260	—	—
Dividends paid on Director Voting Preferred shares	25	(10)	(10)	(20)
Net cash generated from (used in) financing activities		605,240	(450,241)	(40,321)
Effect of changes in exchange rates on cash and cash equivalents		2,446	(38,052)	(36,897)
Increase (decrease) in cash and cash equivalents		631,215	(208,844)	258,789
Cash and cash equivalents, beginning of year		818,378	1,027,222	768,433
Cash and cash equivalents, end of year	33	$ 1,449,593	$ 818,378	$ 1,027,222

See accompanying notes to the consolidated financial statements

1. BACKGROUND OF THE COMPANY

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

The Corporation began trading on the Nasdaq Global Select Market ("NASDAQ") 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 have exchanged their interests for equity in the new public holding structure.

Prior to the closing of the Transaction, Loral and PSP Investments held economic interests in Telesat Canada of approximately 63% and 36%, respectively, with the remaining economic interest held by various individuals.

As per the terms and conditions set forth in the Transaction Agreement, the Transaction resulted in the Loral stockholders, PSP Investments and certain individual shareholders (other than the Voting Directors) of Telesat Canada (the "Individual Telesat Shareholders") 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.

The Corporation or Telesat Canada did not issue new equity to raise additional cash financing as part of the Transaction.

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*.

Prior to the close of the Transaction, Telesat Corporation did not have any operations nor any assets or liabilities. Telesat Corporation was created to facilitate the public listing of the shares of Telesat Corporation as well as the reorganization, with Telesat Canada being the predecessor entity. As such, the financial statements prior to the close of the Transaction of Telesat Canada reflect the historical financial statements of Telesat Corporation, with the exception of the following:

- The income attributable to the operations of Loral have only been presented subsequent to the close of the Transaction;
- The net assets of Loral have been included based upon the closing balance as of the date of the close of the Transaction; and
- Non-controlling interest is calculated only subsequent to the close of the Transaction.

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

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

1. BACKGROUND OF THE COMPANY (cont.)

References herein to "Telesat" or "Company" refer to Telesat Canada and its subsidiaries prior to December 31, 2020 and Telesat Corporation and its subsidiaries subsequent.

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

On March 17, 2022, these financial statements were approved by the Audit Committee of the Board of Directors and authorized for issue.

2. TRANSACTION

On November 23, 2020, Loral and the Corporation entered into a Transaction Agreement and Plan of Merger (the "Transaction Agreement") with Telesat Canada, the Partnership, Telesat CanHold Corporation ("CanHoldCo"), Lion Combination Sub Corporation ("Merger Sub"), PSP Investments and Red Isle Private Investments Inc. ("Red Isle"), a wholly owned subsidiary of PSP Investments incorporated under the Laws of Canada.

Subject to the conditions set forth in the Transaction Agreement, the Transaction resulted in the Loral shareholders, PSP Investments (indirectly through Red Isle) and certain individual shareholders (other than the Voting Directors) of Telesat Canada owning indirectly through the Corporation and 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.

The Transaction Agreement provided that, subject to the terms and conditions therein, Merger Sub merged with and into Loral with Loral surviving the merger as a wholly owned subsidiary of Telesat Partnership.

The Transaction was effected through a series of transactions, including: (i) Red Isle contributing approximately US$5 million in value of its equity interests in Telesat Canada in exchange for Class C Shares and the balance of its equity interest in Telesat Canada in exchange for Class C Units (PSP Investments will also (a) be entitled to a payment of US$7 million, (b) be entitled to receive a post-closing economic adjustment reflecting the net asset value of Loral's non-Telesat Canada assets and liabilities, and (c) will be indemnified for certain losses incurred by Telesat Corporation following the consummation of the Transaction); (ii) consummation of the transactions contemplated by the Stockholder Contribution Agreements; (iii) consummation of the transactions contemplated by the Voting Director Contribution Agreement; (iv) the Merger, with Loral surviving the Merger as a wholly owned subsidiary of Telesat Partnership and the other Loral stockholders receiving Telesat Public Shares and/or Telesat Partnership Units; and (v) consummation of the transactions contemplated by the Optionholder Exchange Agreements.

In furtherance of the Transaction, on April 26, 2021, the Corporation and the Partnership filed a Registration Statement on Form F-4 with the SEC, which was subsequently amended on May 28, 2021 and June 24, 2021, and declared effective on June 30, 2021.

On August 6, 2021, Telesat Canada was notified that applications filed with the Federal Communications Commission (the "FCC") for the transfer of control of Telesat Canada's FCC licenses in connection with the Transaction had been approved.

The Transaction was approved by Loral's shareholders at the August 23, 2021 meeting.

The Transaction was completed as of November 18, 2021.

The voting common shares of Loral which used to be traded on the NASDAQ under the symbol "LORL", were delisted and ceased trading after market close on November 18, 2021. Following which, the Class A Common Shares and Class B Variable Voting Shares of the Corporation started trading at NASDAQ and the Toronto Stock Exchange under the ticker symbol "TSAT" on November 19, 2021.

2. TRANSACTION (cont.)

The Transaction has been accounted for as a reorganization, with Telesat Canada being the predecessor entity, as it is considered a capital transaction amongst Telesat Canada's direct and indirect shareholders, in accordance with interpretative guidance in IFRS 3, *Business Combinations* and IFRS 10, *Consolidated Financial Statements*. Following the Transaction, the voting rights and ownership interests of Telesat Canada's direct and indirect shareholders will have been materially preserved and no individual party will have acquired a majority voting or ownership interest in Telesat Corporation. Upon assessment of the voting power attributed to the various shareholders of Telesat Corporation, this Transaction represents a transfer among entities that have a high degree of common ownership as no single party to the Transaction will be considered to control Telesat Corporation, as no party will obtain a majority voting or ownership interest. As part of the Transaction, an immaterial amount of net assets held by Loral, that are unrelated to Telesat Canada, are being acquired by Telesat Corporation. Upon the consummation of the Transaction, changes to the economic interests in Telesat Canada held by Loral, Red Isle and the other shareholders of Telesat as a result of the Transaction have been reflected as changes in equity, representing the shareholders' residual rights to the acquired assets and liabilities.

3. BASIS OF PRESENTATION

Statement of Compliance

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies in Note 4 were consistently applied to all years presented.

Basis of Consolidation

Subsidiaries

These consolidated financial statements include the results of the Telesat and subsidiaries controlled by the Company. Control is achieved when the Company has power over an entity, has exposure, or rights to variable returns from its involvement with an entity, and has the ability to use the power over an entity to affect the amount of its return. The most significant subsidiaries are listed in Note 35.

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.

3. BASIS OF PRESENTATION (cont.)

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.

4. SIGNIFICANT ACCOUNTING POLICIES

Segment Reporting

The Company operates in a single operating segment, in which it provides satellite-based services to its broadcast, enterprise and consulting customers around the world. Operating segments are reported in a manner consistent with the internal reporting provided to the Company's Chief Operating Decision Maker, who is the Company's Chief Executive Officer. To be reported, a segment is usually based on quantitative thresholds but can also encompass qualitative factors management deems significant.

Foreign Currency Translation

Unless otherwise specified, all figures reported in the consolidated financial statements and associated note disclosures are presented in Canadian dollars, which is the functional and presentation currency of the Company. Each of the subsidiaries of the Company determines its own functional currency and uses that currency to measure items on their separate financial statements.

For the Company's non-foreign operations, foreign currency non-monetary assets and liabilities are translated at their historical exchange rates, foreign currency monetary assets and liabilities are translated at the year end exchange rates, and foreign denominated revenue and expenses are translated at the average exchange rates of the month in which the transactions occurred. Gains or losses on translation of these items are recognized as a component of net income.

Upon consolidation of the Company's foreign operations that have a functional currency other than the Canadian dollar, assets and liabilities are translated at the year end exchange rate, and revenue and expenses are translated at the average exchange rates of the month in which the transactions occurred. Gains or losses on the translation of foreign subsidiaries are recognized in other comprehensive income.

Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less, or which are available upon demand with no penalty for early redemption, are classified as cash and cash equivalents. Cash and cash equivalents are comprised of cash on hand, demand deposits, short-term investments and restricted cash expected to be used within the next twelve months.

Revenue Recognition

Telesat recognizes revenue from satellite services on a monthly basis as services are performed in an amount that reflects the consideration the Company expects to receive in exchange for those services. Telesat accounts 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.

Revenue from a contract to sell consulting services is recognized as follows:

- Consulting revenue for cost plus contracts is recognized as the approved time and labor is completed by Telesat.
- Fixed price consulting revenue contracts use an input method to determine the progress towards complete satisfaction of the performance obligation. The input method is measured by comparing actual costs incurred to total cost expected.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

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. Only equipment sales are subject to warranty or return and there is no general right of return. Historically, the Company has not incurred significant expenses for warranties.

When a transaction involves more than one product or service, revenue is allocated to each performance obligation based on its relative stand-alone selling price. Transactions are evaluated to determine whether the Company is the principal and if the transactions should be recorded on a gross or net basis.

Deferred Revenue

Deferred revenue represents the Company's liability for the provision of future services and is classified on the balance sheet in other current and long-term liabilities. Deferred revenue consists of remuneration received in advance of the provision of service and in the majority of cases is recognized in income on a straight-line basis over the term of the related customer contracts. In the case of certain deferred revenue for short-term services, balances are recognized into income upon the completion or using an input method to determine the progress towards complete satisfaction of the performance obligation of the related contract. Prepayments are evaluated to determine whether or not they constitute a significant financing component. The Company has elected a practical expedient whereby if the timing difference between the customer prepayment and the transfer of control of the promised goods and services is less than a year then it would not be considered as a significant financing component.

A significant financing component will only occur in the following circumstances:

- There is a timing difference between when the control of goods or services is transferred to the customer and when the customer pays for the goods;
- The timing difference between the customer prepayment and transfer of control of the promised goods and services is in excess of one year; and
- The primary reason for the prepayment is for financing purposes.

In the case of the existence of a significant financing component, the amount of the consideration is adjusted to reflect what the cash selling price of the promised service would have been if payments had occurred as control of the service was transferred to the customer. The discount rate used in determining the significant financing component is the rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception.

Inventories

Inventories are valued at the lower of cost and net realizable value and consist of finished goods and work in process. Cost for substantially all network equipment inventories are determined on a weighted average cost basis. Cost for work in process and certain one-of-a-kind finished goods are determined using the specific identification method.

Borrowing Costs

Borrowing costs are incurred on the Company's debt financing. Borrowing costs attributable to the acquisition, production or construction of a qualifying asset are added to the cost of that asset. The Company has defined a qualifying asset as an asset that takes longer than twelve months to be ready for its intended use or sale. Capitalization of borrowing costs continues until such time that the asset is substantially ready for its intended use or sale. Borrowing costs are determined based on specific financing related to the asset, or in the absence of specific financing, the borrowing costs are calculated on the basis of a capitalization rate which is equal to the Company's weighted average cost of debt. All other borrowing costs are expensed when incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether or not the contract conveys the right to control the use of the asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the end of the lease term. Each individual lease liability is initially measured at the present value of the lease payments over the respective lease term, discounted using the Company's incremental borrowing rate for that lease.

The lease term is the non-cancellable period determined for each of the leases considering the option to extend when it is reasonably certain that the Company will exercise the option or the option to terminate if it is reasonably certain that the Company will exercise the option.

After the commencement date, the right-of-use assets are measured applying the cost model and depreciated to the earlier of the end of the useful life of the asset or the end of the lease term on a straight-line basis. The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease, using the effective interest method, and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured when there is a change in future lease payments, arising from a change in index or rate, or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option. The amount of the remeasurement of the lease liability is also recognized as an adjustment to the right-of-use asset, or is recorded in the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to not recognize a right-of-use asset or lease liability for any lease that has a lease term of 12 months or less. The payments associated with these agreements would be recognized as an operating expense on a straight-line basis over the lease term.

The Company has also elected the practical expedient, for property leases, not to separate the non-lease components from the lease components, and instead account for each lease and any associated non-lease components within the contract as a single lease component.

Government Grants

Government grants are recognized where there is a reasonable assurance that the grant will be received and the attached conditions will be complied with.

When the grant relates to an expense, the grant is recorded as a deduction to the related expense incurred over the same period.

When the grant relates to an asset, the grant is deducted from the carrying amount of the related asset as the grant is receivable.

Satellites, Property and Other Equipment

Satellites, property and other equipment, which are carried at cost, less accumulated depreciation and any accumulated impairment losses, include the contractual cost of equipment, capitalized engineering costs, capitalized borrowing costs during the construction or production of qualifying assets, and with respect to satellites, the cost of launch services, and launch insurance.

Depreciation is calculated using the straight-line method over the respective estimated useful lives of the assets.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Below are the estimated useful lives in years of satellites, property and other equipment as at December 31, 2021.

	Years
Satellites	12 to 15
Right-of-use assets	2 to 27
Antennas, satellite control & communication equipment	8 to 20
Building, equipment & other	3 to 25

Construction in progress is not depreciated as depreciation only commences when the asset is ready for its intended use. For satellites, depreciation commences on the day the satellite becomes available for service.

The investment in each satellite will be removed from the accounts when the satellite is retired. When other property is retired from operations at the end of its useful life, the cost of the asset and accumulated depreciation are removed from the accounts. Earnings are credited with the amount of any net salvage value and charged with any net cost of removal. When an asset is sold prior to the end of its useful life, the gain or loss is recognized immediately in other operating gains (losses), net.

In the event of an unsuccessful launch or total in-orbit satellite failure, all unamortized costs that are not recoverable under launch or in-orbit insurance are recorded in other operating gains (losses), net.

Liabilities related to decommissioning and restoration of retiring property and other equipment are measured at fair value with a corresponding increase to the carrying amount of the related asset. The liability is accreted over the period of expected cash flows with a corresponding charge to interest expense. The liabilities recorded to date have not been significant and are reassessed at the end of each reporting period. There are no decommissioning or restoration obligations for satellites.

Satellite Performance Incentive Payments

Satellite performance incentive payments are obligations payable to satellite manufacturers over the lives of certain satellites. The present value of the payments are capitalized as part of the cost of the satellite and recognized as part of the depreciation of the satellite.

Impairment of Long-Lived Assets

Tangible fixed assets and finite life intangible assets are assessed for impairment on an annual basis or more frequently when events or changes in circumstances indicate that the carrying value of an asset exceeds the recoverable amount. Tangible fixed assets and finite life intangible assets are also assessed for indicators of impairment or impairment reversals at each reporting period.

In cases where there are indicators of impairment, the recoverable amount of the asset, which is the higher of its fair value less costs of disposal and its value in use, is determined. If it is not possible to measure the recoverable amount for a particular asset, the Company determines the recoverable amount of the cash generating unit ("CGU") with which it is associated. A CGU is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

The Company measures value in use on the basis of the estimated future cash flows to be generated by an asset or CGU. These future cash flows are based on the Company's latest business plan information and are discounted using rates that best reflect the time value of money and the specific risks associated with the underlying asset or assets in the CGU.

The fair value less costs of disposal is the price that would be received to sell an asset or CGU in an orderly transaction between market participants at the measurement date. For the impairment assessment, the fair value is calculated on a recurring basis and is calculated using level 3 of the fair value hierarchy.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

An impairment loss is the amount by which the carrying amount of an asset or CGU exceeds its recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised measure of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. Impairment losses and reversals of impairment losses are recognized in other operating gains (losses), net.

Goodwill and Intangible Assets

The Company accounts for business combinations using the acquisition method of accounting, which establishes specific criteria for the recognition of intangible assets separately from goodwill. Goodwill represents the excess between the total of the consideration transferred over the fair value of net assets acquired. After initial recognition at cost, goodwill is measured at cost less any accumulated impairment losses.

The Company distinguishes intangible assets between assets with finite and indefinite useful lives. Intangible assets with indefinite useful lives are comprised of the Company's trade name, intellectual property, and orbital slots. These assets are carried at cost less any accumulated impairment losses. Finite life intangible assets, which are carried at cost less accumulated amortization and any accumulated impairment losses, consist of revenue backlog, customer relationships, customer contracts, concession rights, transponder rights and patents. Intangible assets with finite lives are amortized over their estimated useful lives using the straight-line method of amortization, except for revenue backlog which is based on the expected period of recognition of the related revenue.

Below are the estimated useful lives in years of the finite life intangible assets as at December 31, 2021.

	Years
Revenue backlog	17
Customer relationships	20 to 21
Customer contracts	15
Concession rights	3 to 15
Transponder rights	16
Software	5
Patents	18

Impairment of Goodwill and Indefinite Life Intangible Assets

An assessment for impairment of goodwill and indefinite life intangible assets is performed annually, or more frequently whenever events or changes in circumstances indicate that the carrying amounts of these assets are likely to exceed their recoverable amount. Goodwill is tested for impairment at the entity level as this represents the lowest level within the Company at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment. With the exception of trade name, which has not been allocated to any 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.

A quantitative impairment test consists of assessing the recoverable amount of an asset, which is the higher of its fair value less costs of disposal and its value in use. For the quantitative impairment assessment, fair value is calculated on a recurring basis and is calculated using level 2 or level 3 of the fair value hierarchy depending on the valuation approach being utilized.

Orbital Slots

In performing the orbital slot impairment analysis, the Company determines, for each CGU, the recoverable amount. The recoverable amount is defined as the higher of the fair value less costs of disposal, and its value in use on an annual basis. To the extent that the recoverable amount is less than the carrying value of the asset, an impairment exists and the asset is written down to its recoverable amount.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fair value less costs of disposal is the price that would be received to sell the CGU in an orderly transaction between market participants at the measurement date. In order to determine the fair value less costs of disposal, the Company uses either a market or income approach. Under a market approach, the Company measures what an independent third party would pay to purchase the orbital slots by looking to actual market transactions for similar assets. Under an income approach, the fair value is determined to be the sum of the projected discounted cash flows over a discrete period of time.

The value in use amount is the present value of the future cash flows expected to be derived from the CGU. The determination of this amount includes projections of cash inflows from the continuing use of the asset and cash outflows that are required to generate the associated cash inflows. These cash flows are discounted at an appropriate discount rate.

Goodwill

In performing the goodwill impairment analysis, the Company assesses the recoverable amount of goodwill. The recoverable amount is the higher of the income approach as well as the market approach in the determination of the fair value of goodwill at the entity level.

Under the income approach, the sum of the projected discounted cash flows for the next five years, or a longer period if justified by the most recent financial plan approved by management, in addition to a terminal value are used to determine the fair value at the entity level.

Under the market approach, the fair value at the entity level is determined based on market multiples derived from comparable public companies.

Under both approaches, all assumptions used are based on management's best estimates. The discount rates are consistent with external sources of information.

Trade Name

For the purposes of impairment testing, the fair value of the trade name is determined using an income approach, specifically the relief from royalties method.

The relief from royalties method is comprised of two major steps:

i) a determination of the hypothetical royalty rate; and

ii) the subsequent application of the royalty rate to projected revenue.

In determining the hypothetical royalty rate in the relief from royalties method, the Company considered comparable license agreements, operating earnings benchmarks, an excess earnings analysis to determine aggregate intangible asset earnings, and other qualitative factors.

Intellectual Property

In performing the intellectual property impairment analysis, the Company determines its recoverable amount. The recoverable amount is the fair value less costs of disposal. To the extent that the recoverable amount is less than the carrying value of the asset, an impairment exists and the asset is written down to its recoverable amount.

The Company measures value in use on the basis of the estimated future cash flows to be generated by an asset. These future cash flows are based on the Company's latest business plan information approved by senior management and are discounted using rates that best reflect the time value of money and the specific risks associated with the underlying asset.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Financial Instruments

Financial assets are initially recognized at fair value. Financial assets are measured using one of three measurement approaches (fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost). A financial asset is measured at amortized cost if it is not designated as FVTPL, it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A debt investment is measured at FVTOCI if it is not designated at FVTPL, it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding. On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment by investment basis. All financial assets not classified as measured at amortized cost or FVTOCI as described above are measured at FVTPL.

The following accounting policies apply to the subsequent measurement of the Company's financial assets:

- Amortized cost: The financial assets are subsequently measured at amortized cost in accordance with the effective interest method. The amortized cost is reduced by any impairment losses; and

- FVTPL: These financial assets are subsequently measured at fair value with changes in fair value recorded in the consolidated statement of income as part of gain (loss) on changes in fair value of financial instruments.

Financial liabilities are initially measured at fair value. Financial liabilities are classified as amortized cost or FVTPL. Financial liabilities that are classified as amortized cost are measured and recorded at amortized cost in accordance with the effective interest method. Financial liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value recorded in the consolidated statement of income as part of the gain (loss) on changes in fair value of financial instruments.

The Company has used derivative financial instruments to manage its exposure to foreign exchange risk associated with debt denominated in foreign currencies, as well as to reduce its exposure to interest rate risk associated with debt. Currently, the Company does not designate any of its derivative financial instruments as hedging instruments for accounting purposes. All realized and unrealized gains and losses on these derivative financial instruments are recorded in the consolidated statement of income as part of gain (loss) on changes in fair value of financial instruments.

Derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value on the consolidated balance sheet at inception and marked to market at each reporting period thereafter. Derivatives embedded in financial liabilities and other non-financial instrument contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is measured separately according to its characteristics. The Company accounts for embedded foreign currency derivatives and the related host contract as a single instrument where the contract requires payments denominated in the currency that is commonly used in contracts to procure non-financial items in the economic environment in which the Company transacts.

Transaction costs for instruments classified as FVTPL are expensed as incurred. Transaction costs that are directly attributable to the acquisition of financial assets and liabilities (other than FVTPL) are added or deducted from the fair value of the financial asset or financial liability on initial recognition.

The Company's financial assets classified as amortized cost and contract assets are subject to impairment requirements. The Company has elected to measure loss allowances for trade receivables and other contract assets at an amount equal to lifetime expected credit loss. The lifetime expected credit losses are the expected credit losses that result from possible default events over the expected life of the instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Financing Costs

The debt issuance costs related to the Senior Secured Credit Facility, the 6.5% Senior Notes ("Senior Notes"), the 4.875% Senior Secured Notes ("Senior Secured Notes") and the 5.625% Senior Secured Notes ("2026 Senior Secured Notes") are included in current and long-term indebtedness and are amortized to interest expense using the effective interest method. All other debt issuance costs are accounted for as short-term and long-term deferred charges and are included in prepaid expenses and other current assets and other long-term assets. The deferred charges are amortized to interest expense on a straight-line basis over the term of the indebtedness to which they relate.

Employee Benefit Plans

Telesat Canada maintains one contributory and three non-contributory defined benefit pension plans which provide benefits based on length of service and rate of pay. Two of these defined-benefit plans were closed to new members in 2013.

Telesat Canada also provides other post-employment and retirement benefits, including health care and life insurance benefits on retirement and various disability plans, worker's compensation and medical benefits to former or inactive employees of Telesat Canada, their beneficiaries and covered dependents, after employment but before retirement, under certain circumstances.

In addition, Telesat Canada provides defined contribution pension plans, under certain circumstances, for employees who are not eligible for the defined benefit pension plans.

Telesat also provides health care and life insurance benefits for certain retired employees. These benefits are funded primarily on a pay-as-you-go basis, with the retiree paying a portion of the cost through contributions, deductibles and co-insurance provisions. Commencing in 2015, as a result of an amendment to one of the plans, Telesat has contributed to a health reimbursement account instead of providing the health care and life insurance benefits directly to certain retired employees.

As a result of the Transaction, the Company has become responsible for the defined benefit plan and health and life insurance benefits for retired employees of Loral. Loral maintained a defined benefit pension plan for its employees. Loral pension plan is a qualified defined benefit pension plan in which only the employees hired prior to July 1, 2006 could participate. Benefits are based primarily on members' compensation and/or years of service. In addition to pension plan, certain health care and life insurance benefits are also provided to retired employees and dependents. Healthcare benefits end when the retiree reaches age 65.

The Company is responsible for adequately funding the defined benefit pension plans. Contributions are made based on actuarial cost methods that are permitted by pension regulatory bodies and reflect assumptions about future investment returns, salary projections and future service benefits.

Costs for defined contribution pension plans are recognized as an expense during the year in which the employees have rendered service entitling them to the Company's contribution.

The Company accrues the present value of its obligations under employee benefit plans and the related costs reduced by the fair value of plan assets. Pension costs and other retirement benefits are determined using the projected unit credit method prorated on service and management's best estimate of expected investment performance, salary escalation, retirement ages of employees and expected health care costs.

Pension plan assets are valued at fair value. The discount rate is based on the market interest rate of high quality bonds. Past service costs arising from plan amendments are recognized immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the average remaining vesting period. A valuation is performed at least every three years to determine the present value of the accrued pension and other retirement benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Remeasurements arising from defined benefit pension plans comprise actuarial gains and losses and the return on plan assets (excluding interest). The Company recognizes them immediately in other comprehensive income, which is included in accumulated earnings, in the year in which they occur.

The current service costs and administration fees not related to asset management are included in operating expenses. The net interest expense (income) on the net defined benefit liability (asset) for the period is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability (asset) at the beginning of the year while taking into account any changes in the net defined benefit liability (asset) during the year as a result of contributions and benefit payments. The net interest expense (income) is included in interest expense.

Share-Based Compensation Plans

The Company offers equity-settled share-based compensation plans for certain key employees under which it receives services from employees in exchange for equity instruments of the Company. The expense is based on the fair value of the awards granted using the Black-Scholes option pricing model. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied, with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over the respective vesting period with a significant higher proportionate amount of the total expense being recognized earlier in the vesting period.

Restricted Share Units

For each restricted share unit (“RSU”), an expense is recorded over the vesting period equal to the fair value of the Non-Voting Participating Preferred shares with a corresponding increase in equity. For awards with graded vesting, the fair value of each tranche is recognized over the respective vesting period with a significant higher proportionate amount of the total expense being recognized earlier in the vesting period. Prior to the close of the Transaction, the RSU’s were expected to be settled in Non-Vesting Participating Preferred shares of Telesat Canada. Subsequent to the close of the Transaction, the RSU’s are expected to be settled in either Class A Common shares or Class B Variable Voting shares of Telesat Corporation.

Income Taxes

Income tax expense, comprised of current and deferred income tax, is recognized in income except to the extent it relates to items recognized in other comprehensive income or equity, in which case the income tax expense is recognized in other comprehensive income or equity, respectively.

Current income tax is measured at the amount expected to be paid to the taxation authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted as at the balance sheet date.

Deferred taxes are the result of temporary differences arising between the tax bases of assets and liabilities and their carrying amount. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the deferred tax assets will be realized. Unrecognized deferred tax assets are reassessed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Deferred tax assets are netted against the deferred tax liabilities when they relate to income taxes levied by the same taxation authority on either:

i) the same taxable entity; or

ii) different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax liabilities are recognized for all taxable temporary differences except when the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination. For taxable temporary differences associated with investments in subsidiaries, a deferred tax liability is recognized unless the parent can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings Per Share

For periods prior to the close of the Transaction, basic earnings per share are computed based upon the weighted average number of Common Shares, Non-Voting Participating Preferred Shares and Voting Participating Preferred Shares of Telesat Canada. The quantity of these shares have been recalculated to take into the effect the conversion of shares that have occurred during the Transaction. As there was no non-controlling interest in the period prior to the close of the Transaction, all converted amounts have been included as Class A Common Shares, Class B Variable Voting Shares, Class C Fully Voting Shares and Class C Limited Voting Shares of Telesat Corporation.

For periods subsequent to the close of the Transaction, basic earnings per share are computed based upon the weighted average number of Class A Common Shares, Class B Variable Voting Shares, Class C Fully Voting Shares and Class C Limited Voting Shares during each period. Variable Voting and Limited Voting shares are in all respects identical to and treated equally to voting common shares.

For periods prior to the close of the Transaction, diluted earnings per share are based on the weighted average number of common shares as calculated in the basic earnings per share, adjusted for the effect of unvested or unconverted RSUs and stock options that have a dilutive effect. The average market value of the Company's shares for the purpose of calculating the dilutive effect of the stock options was based on calculated share price of the shares of Telesat Canada, adjusted to take into account the impact of the Transaction.

For periods subsequent to the close of the Transaction, diluted earnings per share are based on the weighted average number of Common, Limited Voting and Variable Voting shares outstanding during each period, adjusted for the effect of unvested or unconverted RSUs and stock options which have a dilutive effect. The average market value of the Company's shares for the purposes of calculating the dilutive effect of the stock options was based on the quoted market prices for the period from November 19, 2021 through December 31, 2021.

Non-Controlling Interests

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.

The Company reports non-controlling interests as equity, separately on the consolidated statements of financial position. In addition, net income and each component of other comprehensive income is separately attributed to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if it results in the

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

non-controlling interest having a deficit balance. This is the case even without any existing obligation on the part of the non-controlling interests to make an additional investment to cover the losses. Allocation of net income and total comprehensive income is based only on existing ownership interests.

Future Changes in Accounting Policies

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

Amendments to IAS 1 and IFRS Practice Statement 2

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

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

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

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

The Company is currently evaluating the impact of the amendment.

Amendments to IAS 12

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

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

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

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

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

In April 2021, the IFRS Interpretation Committee ("IFRIC") published an agenda decision clarifying how arrangements in respect of a specific part of cloud technology, software as a service arrangement ("SaaS").

The IFRIC interpretation provides specific guidance with respect to circumstances in relation to configuration and customization costs incurred in implementing SaaS.

The Company is currently evaluating the impact of the IFRIC interpretation.

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

5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Critical judgments in applying accounting policies

The following are the critical judgments made in applying the Company's accounting policies which have the most significant effect on the amounts reported in the financial statements:

Deferred revenue

The Company's accounting policy relating to deferred revenue is described in Note 4. Certain of the Company's revenue agreements were noted to include a significant financing component. Judgment by management is required to determine the discount rate used in the significant financing component calculation.

Lease liabilities

The Company's accounting policy relating to leases is described in Note 4. Judgment by management is required in the determination of the likelihood that the lease renewal periods will be exercised as well as the determination of the incremental borrowing rate.

Uncertain income tax positions

The Company operates in numerous jurisdictions and is subject to country-specific tax laws. Management uses significant judgment when determining the worldwide provision for tax, and estimates provisions for uncertain tax positions as the amounts expected to be paid based on a qualitative assessment of all relevant factors. In the assessment, management considers risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. Management reviews the provisions as at each balance sheet date.

Critical accounting estimates and assumptions

The Company makes accounting estimates and assumptions that affect the carrying value of assets and liabilities, reported net income and disclosure of contingent assets and liabilities. Estimates and assumptions are based on historical experience, current events and other relevant factors, therefore, actual results may differ and differences could be material.

The accounting estimates and assumptions critical to the determination of the amounts reported in the financial statements were as follows:

Derivative financial instruments measured at fair value

Derivative financial assets and liabilities measured at fair value were $1.0 million and $5.4 million, respectively, as at December 31, 2021 (December 31, 2020 — $30.3 million and $18.0 million, respectively).

Quoted market values are unavailable for the Company's financial instruments and, in the absence of an active market, the Company determines fair value for financial instruments 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 determination of fair value is significantly impacted by the assumptions used for the amount and timing of estimated future cash flows and discount rates. As a result, the fair value of financial assets and liabilities and the amount of gain/loss on changes in fair value of financial instruments recorded to net income could vary.

Impairment of goodwill

Goodwill represented $2,446.6 million of total assets as at December 31, 2021 and 2020. Determining whether goodwill is impaired requires an estimation of the Company's value which requires management to estimate the future cash flows expected to arise from operations and to make assumptions regarding economic factors, tax rates and annual growth rates. Actual operating results and the related cash flows of the Company could differ from the estimates used for the impairment analysis.

5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (cont.)

Impairment of intangible assets

Intangible assets represented $764.1 million of total assets as at December 31, 2021 (December 31, 2020 — $779.2 million). Impairment of intangible assets is tested annually or more frequently if indicators of impairment or reversal of a prior impairment loss exist. The impairment analysis requires the Company to estimate the future cash flows expected to arise from operations and to make assumptions regarding economic factors, discount rates, tax rates and annual growth rates. Significant judgments are made in establishing these assumptions. Actual operating results and the related cash flows of the Company could differ from the estimates used for the impairment analysis.

Employee benefits

The cost of defined benefit pension plans and other post-employment benefits, and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, future pension increases and return on plan assets. Due to the complexity of the valuation, the underlying assumptions, and its long-term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

Share-based compensation

The expense for stock options is based on the fair value of the awards granted using the Black-Scholes option pricing model. The Black-Scholes option pricing model includes estimates of the dividend yield, expected volatility, risk-free interest rate and the expected life in years. Any changes in these estimates may have a significant impact on the amounts reported.

Determination of useful life of satellites and finite life intangible assets

The estimated useful life and depreciation method for satellites and finite life intangible assets are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis. Any change in these estimates may have a significant impact on the amounts reported.

Income taxes

Management assesses the recoverability of deferred tax assets based upon an estimation of the Company's projected taxable income using enacted or substantively enacted tax laws, and its ability to utilize future tax deductions before they expire. Actual results could differ from expectations.

6. 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.

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

6. SEGMENT INFORMATION (cont.)

Revenue derived from the above services were as follows:

For the years ended December 31,	2021	2020	2019
Broadcast	$ 390,815	$ 411,407	$ 444,478
Enterprise	354,126	389,696	444,732
Consulting and other	13,271	19,365	21,683
Revenue	$ 758,212	$ 820,468	$ 910,893

Equipment sales included within the various services were as follows:

For the years ended December 31,	2021	2020	2019
Broadcast	$ 67	$ 1,300	$ 233
Enterprise	10,023	13,693	8,323
Revenue	$ 10,090	$ 14,993	$ 8,556

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:

For the years ended December 31,	2021	2020	2019
Canada	$ 330,832	$ 362,939	$ 395,235
United States	292,474	307,433	329,634
Europe, Middle East & Africa	40,822	44,710	50,911
Latin America & Caribbean	55,818	64,024	73,120
Asia & Australia	38,266	41,362	61,993
Revenue	$ 758,212	$ 820,468	$ 910,893

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 December 31,	2021	2020
Canada	$ 814,565	$ 624,303
United Kingdom	541,126	596,625
Europe, Middle East & Africa (excluding United Kingdom)	19,310	23,334
United States	54,390	71,659
All others	2,384	2,605
Satellites, property and other equipment	$ 1,431,775	$ 1,318,526

As at December 31,	2021	2020
Canada	$ 707,502	$ 718,880
United States	38,039	38,448
Latin America & Caribbean	12,643	15,114
All others	5,894	6,748
Intangible assets	$ 764,078	$ 779,190

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

6. SEGMENT INFORMATION (cont.)

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

As at December 31	**2021**	**2020**
Canada	$ 30,979	$ 1,052
United Kingdom	275	452
Other long-term assets	$ 31,254	$ 1,504

Goodwill was not allocated to geographic regions.

Major Customers

For the years ended December 31, 2021 and 2020, there were two significant customers each representing more than 10% of consolidated revenue. For the year ended December 31, 2019, there were three significant customers each representing more than 10% of consolidated revenue.

7. OPERATING EXPENSES

For the years ended December 31,	**2021**	**2020**	**2019**
Compensation and employee benefits(a)	$ 154,975	$ 89,882	$ 87,943
Other operating expenses(b)	48,864	57,622	40,332
Cost of sales(c)	30,215	33,370	37,224
Operating expenses	$ 234,054	$ 180,874	$ 165,499

(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, in-orbit insurance expenses, professional fees and facility costs. The balance for year ended December 31, 2021 included $2.1 million of leases not capitalized due to exemptions and variable lease payments not included in the measurement of the leases liabilities (December 31, 2020 - $1.9 million).

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

The cost of equipment sales included in the cost of sales is as follows:

For the years ended December 31,	**2021**	**2020**	**2019**
Cost of equipment sale	$ 6,210	$ 10,416	$ 7,003

8. OTHER OPERATING GAINS (LOSSES), NET

For the years ended December 31,	**2021**	**2020**	**2019**
Loss on disposal of assets	$ (848)	$ (215)	$ (862)
C-band clearing proceeds	108,463	—	—
Other operating gains (losses), net	$ 107,615	$ (215)	$ (862)

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

8. OTHER OPERATING GAINS (LOSSES), NET (cont.)

C-Band Clearing Proceeds

In 2020, the United States Federal Communications Commission adopted a Report and Order in connection with the clearing of a 300 MHz band of C-Band downlink spectrum between 3,700 and 4,000 MHz by December 5, 2025 to support the deployment of terrestrial 5G services in the United States ("Report and Order").

The Report and Order included a provision for an accelerated version of the C-Band spectrum clearing deadlines as follows:

- Phase I: to clear 120 megahertz (3.7 – 3.82 Ghz) by December 5, 2021; and
- Phase II: to clear remaining 180 megahertz (3.82 – 4.0 Ghz) by December 5, 2023.

The Report and Order also provided for reimbursement of reasonable relocation costs to those who are able to meet the deadline of December 5, 2025.

In May 2020, Telesat Canada officially committed to the accelerated version of the C-Band clearing program and is expected to receive a total of US$344.4 million (US$84.8 million for Phase 1 and US$259.6 for Phase 2), as accelerated payments.

An amount of $108.5 million (US$84.8 million) was recognized during the year ended December 31, 2021, relating to Phase I accelerated clearing of the C-band spectrum. Of this balance, $42.9 million was received in 2021 with the remaining payment received in early 2022.

9. INTEREST EXPENSE

For the years ended December 31,	2021	2020	2019
Interest on indebtedness	$ 151,462	$ 164,253	$ 239,805
Interest on derivative instruments	12,503	11,625	(13,191)
Interest on satellite performance incentive payments	2,236	2,930	3,536
Interest on significant financing component	18,854	22,434	25,484
Interest on employee benefit plans (Note 32)	1,440	1,169	1,339
Interest on leases	1,499	1,349	1,288
Interest expense	$ 187,994	$ 203,760	$ 258,261

10. INCOME TAXES

For the years ended December 31,	2021	2020	2019
Current tax expense	$ 85,219	$ 77,138	$ 71,202
Deferred tax recovery	(6,842)	(81,491)	(56,080)
Tax expense (recovery)	$ 78,377	$ (4,353)	$ 15,122

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

10. 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:

For the years ended December 31,	**2021**	**2020**	**2019**
Income before tax	$ 236,139	$ 241,225	$ 202,320
Multiplied by the statutory income tax rates	26.46%	26.46%	26.56%
	62,482	63,828	53,736
Income tax recorded at rates different from the Canadian tax rate	(38,060)	(22,875)	(13,017)
Permanent differences	15,444	1,548	(6,760)
Effect on deferred tax balances due to changes in income tax rates	—	(885)	(2,829)
Effect of temporary differences not recognized as deferred tax assets	44,591	(43,941)	(16,681)
Taxes related to prior periods[1]	(4,769)	(1,467)	(311)
Other[1]	(1,311)	(561)	984
Tax expense (recovery)	$ 78,377	$ (4,353)	$ 15,122
Effective income tax rate	33.19%	$ (1.80)%	7.47%

(1) Certain comparative figures have been reclassified to conform to the current year presentation.

The tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes are presented below:

As at December 31,	**2021**	**2020**
Deferred tax assets		
Foreign tax credits	$ 7,164	$ 6,558
Financing charges	7,930	12,004
Deferred revenue	9,510	11,127
Loss carry forwards	24,777	29,715
Employee benefits	—	12,438
Reserves	1,639	1,222
Other	3,203	2,531
Total deferred tax assets	$ 54,223	$ 75,595

As at December 31,	**2021**	**2020**
Deferred tax liabilities		
Capital assets	$ (118,881)	$ (149,214)
Intangible assets	(183,914)	(158,957)
Unrealized foreign exchange gains	(421)	(13,405)
Employee benefits	(1,138)	—
Total deferred tax liabilities	$ (304,354)	$ (321,576)
Deferred tax liabilities, net	$ (250,131)	$ (245,981)

Deferred income tax assets of $46.2 million (December 31, 2020 — $79.9 million) on the balance sheet relates to Canada and Brazil tax jurisdictions.

10. INCOME TAXES (cont.)

Temporary differences, tax losses and tax credits

Foreign tax credit

The Company has Canadian foreign tax credits of $11.1 million which may only be used to offset taxes payable, of which $7.1 million has been recognized. The credits are due to expire between 2024 and 2031.

The Company has United Kingdom foreign tax credits of $6.6 million which have no expiry. No deferred tax asset has been recognized in respect of these foreign tax credits.

The Company has United States foreign tax credits of $138.5 million carried over from 2017. No deferred tax asset has been recognized in respect of these foreign tax credits.

Loss carry forwards and deductible temporary differences.

The Company has tax losses in Canada of $46.8 million which will expire starting in 2038 for which a deferred tax asset of $7.4 million has been recognized. The Company also has $21.4 million of deductible temporary differences for which no deferred tax asset has been recognized.

The Company has tax losses in the United Kingdom of $121.6 million that can be carried forward indefinitely, subject to restrictions on their utilization. The use of the losses is limited to 50% of taxable income generated in a carry forward year. Notwithstanding, the Company will be entitled to a GBP 5 million annual allowance of unrestricted taxable income not subject to the 50% limitation. A deferred tax asset of $23.1 million has been recognized in respect of the losses. The Company also has $285.7 million of unused interest deductions in the United Kingdom that can be carried forward indefinitely. No deferred tax asset has been recognized in respect of these unused interest deductions.

The Company has tax losses of $2.5 million in the United States which can be carried forward indefinitely, and subject to restrictions on their utilization of up to 80% of taxable income generated in a carry forward year. No deferred tax asset has been recognized in respect of the losses. The Company also has $27 million of deductible temporary differences for which no deferred tax asset has been recognized.

The Company has tax losses of $4.9 million in Brazil that can be carried forward indefinitely, subject to restrictions on their utilization. The use of the losses is limited to 30% of taxable income generated in a carry forward year. As of December 31, 2021, the Company has cumulative pre-tax income for the last three years and expectation of future income in Brazil, demonstrating sufficient positive evidence to conclude that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. A deferred tax asset of $1.7 million has been recognized in respect of the losses.

Investments in subsidiaries

As at December 31, 2021, the Company had temporary differences of $330.5 million associated with investments in subsidiaries for which no deferred tax liabilities have been recognized, as the Company is able to control the timing of the reversal of these temporary differences and it is not probable that these differences will reverse in the foreseeable future.

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

11. TRADE AND OTHER RECEIVABLES

As at December 31,	2021	2020
Trade receivables	$ 100,758	$ 47,368
Less: Allowance for doubtful accounts	(5,216)	(7,257)
Net trade receivables	95,542	40,111
Deferred receivables	5,554	7,347
Government grant receivable (Note 28)	17,626	2,776
Other receivables	3,976	1,694
Trade and other receivables	$ 122,698	$ 51,928

Allowance for doubtful accounts

The movement in the allowance for doubtful accounts was as follows:

Years ended December 31,	2021	2020
Allowance for doubtful accounts, beginning of year	$ 7,257	$ 1,779
(Reversals) Provisions for impaired receivables	(1,914)	6,069
Receivables written off	(13)	(146)
Impact of foreign exchange	(114)	(445)
Allowance for doubtful accounts, end of year	$ 5,216	$ 7,257

12. OTHER CURRENT FINANCIAL ASSETS

As at December 31,	2021	2020
Security deposits	$ 861	$ 448
Other current financial assets	$ 861	$ 448

13. PREPAID EXPENSES AND OTHER CURRENT ASSETS

As at December 31,	2021	2020
Prepaid expenses	$ 6,431	$ 5,942
Inventory[(a)]	16,982	5,224
Deferred charges[(b)]	264	278
Other	17,387	8,301
Prepaid expenses and other current assets	$ 41,064	$ 19,745

(a) As at December 31, 2021, inventory consisted of $15.4 million of work in progress (December 31, 2020 — $4.1 million) and $1.6 million of other inventory (December 31, 2020 — $1.2 million).
(b) Deferred charges included deferred financing charges relating to the Revolving Credit Facility.

14. OTHER LONG-TERM FINANCIAL ASSETS

As at December 31,	2021	2020
Deferred receivables	$ 12,696	$ 16,022
Other long-term receivables	1,841	1,276
Security deposits	773	5,861
Derivative assets (Note 30)	1,038	30,266
Other long-term financial assets	$ 16,348	$ 53,425

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

15. OTHER LONG-TERM ASSETS

As at December 31,	2021	2020
Prepaid expenses	$ 336	$ 452
Deferred charges (Note 13)	511	775
Pension benefits (Note 32)	30,105	—
Other	302	277
Other long-term assets	$ 31,254	$ 1,504

16. SATELLITES, PROPERTY AND OTHER EQUIPMENT

	Satellites	Antennas, satellite control & communication equipment	Building, equipment & other	Right-of-use assets[1]	Assets under construction	Total
Cost as at January 1, 2020	$ 3,553,115	$ 163,667	$ 90,571	$ 29,141	$ 11,175	$ 3,847,669
Additions	—	300	1,335	6,813	87,444	95,892
Disposals/retirements	(93,755)	(2,921)	(364)	—	—	(97,040)
Transfers from assets under construction	—	3,844	619	—	(4,463)	—
Impact of foreign exchange	(16,028)	(836)	(423)	(438)	(4,402)	(22,127)
Cost as at December 31, 2020	3,443,332	164,054	91,738	35,516	89,754	3,824,394
Additions	—	261	631	10,074	313,909	324,875
Disposals/retirements	(59,500)	(2,812)	(4,949)	(2,760)	—	(70,021)
Transfers from assets under construction	—	5,948	3,913	—	(9,861)	—
Reclassifications[2]	—	4,276	(5,047)	771	(1,493)	(1,493)
Impact of foreign exchange	(5,322)	58	(551)	(221)	318	(5,718)
Cost as at December 31, 2021	$ 3,378,510	$ 171,785	$ 85,735	$ 43,380	$ 392,627	$ 4,072,037
Accumulated depreciation and impairment as at January 1, 2020	$ (2,218,821)	$ (113,249)	$ (54,299)	$ (2,367)	$ —	$ (2,388,736)
Depreciation	(200,041)	(8,678)	(4,966)	(3,200)	—	(216,885)
Disposals/retirements	93,755	2,702	305	—	—	96,762
Impact of foreign exchange	2,178	404	301	108	—	2,991
Accumulated depreciation and impairment as at December 31, 2020	(2,322,929)	(118,821)	(58,659)	(5,459)	—	(2,505,868)
Depreciation	(182,848)	(10,121)	(7,817)	(2,986)	—	(203,772)
Disposals/retirements	59,500	2,627	4,231	1,420	—	67,778
Reclassifications	—	(3,667)	4,438	(771)	—	—
Impact of foreign exchange	910	118	118	454	—	1,600
Accumulated depreciation and impairment as at December 31, 2021	$ (2,445,367)	$ (129,864)	$ (57,689)	$ (7,342)	$ —	$ (2,640,262)
Net carrying values						
As at December 31, 2020	$ 1,120,403	$ 45,233	$ 33,079	$ 30,057	$ 89,754	$ 1,318,526
As at December 31, 2021	$ 933,143	$ 41,921	$ 28,046	$ 36,038	$ 392,627	$ 1,431,775

(1) Right-of-use assets consisted primarily of property leases.
(2) Software of $1,493 was transferred to intangible assets.

Substantially all of the Company's satellites, property and other equipment have been pledged as security as a requirement of the Company's Senior Secured Credit Facilities, Senior Secured Notes and 2026 Senior Secured Notes as at December 31, 2021 (Note 24).

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

16. SATELLITES, PROPERTY AND OTHER EQUIPMENT (cont.)

Borrowing costs

For the year ended December 31, 2021 and 2020 there were no borrowing costs capitalized.

Impairment

No impairment was recognized for the years ended December 31, 2021 and 2020.

Joint arrangements

Telesat International Limited ("TIL") and APT entered into agreements relating to the Telstar 18 VANTAGE satellite, which are accounted for as a joint operation, whereby TIL's interest is 42.5%. Telesat (IOM) Limited ("TIOM") and Viasat Inc. entered into agreements relating to the ViaSat-1 satellite, which are accounted for as a joint operation, whereby TIOM owns the Canadian payload on the ViaSat-1 satellite.

17. INTANGIBLE ASSETS

The intangible assets are split between assets with finite and indefinite lives.

The indefinite life intangible assets are summarized below.

	Orbital slots	Trade name	Intellectual property	Total indefinite life intangible assets
Cost as at January 1, 2020	$ 608,021	$ 17,000	$ 65,822	$ 690,843
Additions	—	—	5	5
Disposals/retirements	—	—	(229)	(229)
Impact of foreign exchange	(808)	—	(757)	(1,565)
Cost as at December 31, 2020 and January 1, 2021	607,213	17,000	64,841	689,054
Additions	—	—	—	—
Disposals/retirements	—	—	—	—
Impact of foreign exchange	(268)	—	(449)	(717)
Cost as at December 31, 2021	$ 606,945	$ 17,000	$ 64,392	$ 688,337
Accumulated impairment as at January 1, 2020	$ (1,100)	$ —	$ —	$ (1,100)
Impairment	—	—	—	—
Accumulated impairment as at December 31, 2020 and January 1, 2021	(1,100)	—	—	(1,100)
Impairment	—	—	—	—
Accumulated impairment as at December 31, 2021	$ (1,100)	$ —	$ —	$ (1,100)
Net carrying values				
As at December 31, 2020	$ 606,113	$ 17,000	$ 64,841	$ 687,954
As at December 31, 2021	$ 605,845	$ 17,000	$ 64,392	$ 687,237

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

17. INTANGIBLE ASSETS (cont.)

The finite life intangible assets are summarized below.

	Revenue backlog	Customer relationships	Customer contracts	Transponder rights	Concession rights	Software	Other	Total finite life intangible assets
Cost as at January 1, 2020	$ 223,664	$ 198,476	$ 12,858	$ 16,718	$ 30,148	$ —	$ 59	$ 481,923
Additions	—	—	—	—	24	—	—	24
Disposals/retirements	—	(3,943)	(240)	—	—	—	—	(4,183)
Impact of foreign exchange	—	12	—	—	(7,258)	—	—	(7,246)
Cost as at December 31, 2020 and January 1, 2021	223,664	194,545	12,618	16,718	22,914	—	59	470,518
Additions	—	—	—	—	75	2,770	—	2,845
Disposals/retirements	—	—	—	—	(411)	—	—	(411)
Impact of foreign exchange	—	(19)	—	—	(1,501)	—	—	(1,520)
Cost as at December 31, 2021	$ 223,664	$ 194,526	$ 12,618	$ 16,718	$ 21,077	$ 2,770	$ 59	$ 471,432
Accumulated amortization and impairment as at January 1, 2020	$ (202,783)	$ (137,917)	$ (6,951)	$ (12,944)	$ (8,240)	$ —	$ (40)	$ (368,875)
Amortization	(6,198)	(6,847)	(834)	(1,078)	(2,235)	—	(3)	(17,195)
Disposals/retirements	—	3,943	240	—	—	—	—	4,183
Impact of foreign exchange	—	(70)	—	—	2,675	—	—	2,605
Accumulated amortization and impairment as at December 31, 2020 and January 1, 2021	(208,981)	(140,891)	(7,545)	(14,022)	(7,800)	—	(43)	(379,282)
Amortization	(5,590)	(6,894)	(845)	(1,078)	(1,453)	(277)	(4)	(16,141)
Disposals/retirements	—	—	—	—	411	—	—	411
Impact of foreign exchange	—	13	—	—	408	—	—	421
Accumulated amortization and impairment as at December 31, 2021	$ (214,571)	$ (147,772)	$ (8,390)	$ (15,100)	$ (8,434)	$ (277)	$ (47)	$ (394,591)
Net carrying values								
As at December 31, 2020	$ 14,683	$ 53,654	$ 5,073	$ 2,696	$ 15,114	$ —	$ 16	$ 91,236
As at December 31, 2021	$ 9,093	$ 46,754	$ 4,228	$ 1,618	$ 12,643	$ 2,493	$ 12	$ 76,841

The total combined indefinite and finite life intangible assets are summarized below.

	As at December 31, 2021			As at December 31, 2020		
	Cost	Accumulated amortization and impairment	Net carrying value	Cost	Accumulated amortization and impairment	Net carrying value
Indefinite life intangibles	$ 688,337	$ (1,100)	$ 687,237	$ 689,054	$ (1,100)	$ 687,954
Finite life intangibles	471,432	(394,591)	76,841	470,518	(379,282)	91,236
Total intangibles	$ 1,159,769	$ (395,691)	$ 764,078	$ 1,159,572	$ (380,382)	$ 779,190

The orbital slots represent a right to operate satellites in a given longitudinal coordinate in space, where geostationary orbit may be achieved. They are limited in availability and represent a scarce resource. Usage of orbital slots is licensed through the International Telecommunications Union. Satellite operators can generally expect, with a relatively high level of certainty, continued occupancy of an assigned orbital slot either during the operational life of an existing orbiting satellite or upon replacement by a new satellite once the operational life of the existing orbiting satellite is over. As a result of the expectancy right to maintain the once awarded orbital slots, an indefinite life is typically associated with orbital slots.

The Company's trade name has a long and established history, a strong reputation and has been synonymous with quality and growth within the satellite industry. It has been assigned an indefinite life because of expected ongoing future use.

The Company's intellectual property relates to development relating to its planned Telesat Lightspeed constellation. It has been assigned an indefinite life because of anticipated ongoing future use.

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

17. INTANGIBLE ASSETS (cont.)

The following are the remaining useful lives of the intangible assets:

	Years
Revenue backlog	3
Customer relationships	5 to 7
Customer contracts	5
Transponder rights	1
Concession rights	1 to 15
Software	5
Patent	4

All of the Company's intangible assets, excluding the intangible assets held in an unrestricted subsidiary, have been pledged as security as a requirement of the Company's Senior Secured Credit Facilities, Senior Secured Notes and 2026 Senior Secured Notes (Note 24).

Impairment

Finite life intangible assets are assessed for impairment at the Company's CGU level. With the exception of trade name, which is tested for impairment at the asset level, the indefinite life intangible assets are tested for impairment at the individual CGU level. The annual impairment tests for these assets were performed in the fourth quarters of 2021 and 2020 in accordance with the policy described in Note 4.

Orbital slots

The orbital slots were valued using an income approach.

The income approach is most sensitive to the following assumptions:

- Movements in the underlying business plan;
- Discount rate; and
- Growth rate assumptions.

Movements in the underlying business plan

The business plans reflect the most up-to-date assumptions concerning the markets and development and trends in the business. For the provision of satellite capacity, the will take into account the following factors:

- The expected developments in sale of satellite capacity;
- Any changes in the expected capital expenditure cycle; and
- Any changes in satellite procurement, launch or cost assumptions.

Discount rates

Discount rates reflect management's estimates of the specific risks. Management uses a weighted average cost of capital as a discount rate. The discount rates used was 7.5% in 2021 and 8.0% in 2020.

Growth rate assumptions

Growth rate assumptions used to extrapolate the cash flows beyond the business planning period are based on commercial experience and the expectations for the development of the markets which they serve.

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

17. INTANGIBLE ASSETS (cont.)

Trade name

Relief from royalty method was used to calculate the fair value of the Telesat Trade name. The relief from royalty analysis requires determining a hypothetical royalty rate and subsequent application of the rate to projected revenue.

The relief from royalties method is most sensitive to the following assumptions:

- Movements in the underlying business plan;
- Royalty rate;
- Discount rate; and
- Growth rate assumptions.

Movements in the underlying business plan

The business plans reflect the most up-to-date assumptions concerning the markets and development and trends in the business. For the provision of satellite capacity, the business plan will take into account the expected developments in sale of satellite capacity.

Royalty rate

The determination of the hypothetical royalty rate used in the relief from royalty approach will consider comparable license agreements and other qualitative factors. The royalty rate used for 2021 and 2020 was 0.25% of revenue.

Discount rates

Discount rates reflect management's estimates of the specific risks. Management uses a weighted average cost of capital as a discount rate. The discount rates used was the following:

	2021	2020
Geo royalties	7.5%	8.0%
Leo royalties	17.5%	17.5%

Growth rate assumptions

Growth rate assumptions used to extrapolate the cash flows beyond the business planning period are based on commercial experience and the expectations for the development of the markets which they serve. The long-term growth rate was the following:

	2021	2020
Geo	—%	—%
Leo	3.0%	3.0%

No impairment loss was recognized in the years ended December 31, 2021 and 2020.

Some of the more sensitive assumptions used in the quantitative analysis, including the forecasted cash flows and the discount rate, could have yielded different estimates of the recoverable amount. Actual operating results and the related cash flows of the Company could differ from the estimated operating results and related cash flows used in the impairment analysis, and had different estimates been used, it could have resulted in a different fair value.

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

18. GOODWILL

The Company carries goodwill at its cost of $2,446.6 million with no accumulated impairment losses since acquisition.

Impairment

Goodwill is tested for impairment at the entity level because that represents the lowest level at which goodwill supports the Company's operations and is monitored internally. The annual impairment test on goodwill was performed in the fourth quarters of 2021 and 2020 in accordance with the policy described in Note 4.

In 2021 and 2020, a quantitative assessment of goodwill was performed. The Company's recoverable amount exceeded the carrying value therefore, no impairment was recognized.

The quantitative calculation is most sensitive to the following assumptions:

- Movements in the underlying business plan;
- Discount rate; and
- Growth rate assumptions.

Movements in the underlying business plan

The business plans reflect the most up-to-date assumptions concerning the markets and development and trends in the business. For the provision of satellite capacity, the business plan will take into account the following factors:

- The expected developments in sale of satellite capacity and the development of the Telesat Lightspeed market;
- Any changes in the expected capital expenditure cycle, including estimated costs on the development of the Telesat Lightspeed constellation; and
- Any changes in satellite procurement, launch or cost assumptions.

Discount rates

Discount rates reflect management's estimates of the specific risks. Management uses a weighted average cost of capital as a discount rate. The discount rates used in the calculation are presented below:

	2021	2020
Geo	7.5%	8.0%
Leo	17.5%	17.5%
U.S. C-band clearing proceeds	7.5%	8.0%

Growth rate assumptions

Growth rate assumptions used to extrapolate the cash flows beyond the business planning period are based on commercial experience and the expectations for the development of the markets which they serve. Growth rate assumptions were built into the GEO and LEO calculations.

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

18. GOODWILL (cont.)

Some of the more sensitive assumptions used in the quantitative analysis, including the forecasted cash flows, discount rate and market multiples, could have yielded different estimates of the recoverable amount. Actual operating results and the related cash flows of the Company could differ from the estimated operating results and related cash flows used in the impairment analysis, and had different estimates been used, it could have resulted in a different fair value. If the discount rate for GEO were to increase by 0.5% and the discount rate for LEO were to increase by 2.5%, there would be no impairment on the goodwill.

19. TRADE AND OTHER PAYABLES

As at December 31,	2021	2020
Trade payables	$ 3,456	$ 5,393
Other payables and accrued liabilities[(a)]	51,172	24,698
Trade and other payables	$ 54,628	$ 30,091

(a) Other payables and accrued liabilities included payables that are not trade in nature as well as various operating and capital accruals.

20. OTHER CURRENT FINANCIAL LIABILITIES

As at December 31,	2021	2020
Derivative liabilities (Note 30)	$ 5,367	$ 12,581
Security deposits	875	1,141
Satellite performance incentive payments	7,485	7,996
Interest payable[(a)]	19,814	12,046
Other	3,106	2,116
Other current financial liabilities	$ 36,647	$ 35,880

(a) Interest payable included interest payable on indebtedness and satellite performance incentive payments.

21. OTHER CURRENT LIABILITIES

As at December 31,	2021	2020
Deferred revenue (Note 23)	$ 78,157	$ 81,759
Decommissioning liabilities (Note 23)	991	790
Uncertain tax positions	1,315	1,315
Lease liabilities	1,949	2,131
Other	2,646	2,834
Other current liabilities	$ 85,058	$ 88,829

22. OTHER LONG-TERM FINANCIAL LIABILITIES

As at December 31,	2021	2020
Derivative liabilities (Note 30)	$ —	$ 5,448
Security deposits	976	473
Satellite performance incentive payments	22,859	29,578
Other long-term financial liabilities	$ 23,835	$ 35,499

23. OTHER LONG-TERM LIABILITIES

As at December 31,	2021	2020
Deferred revenue[b]	$ 289,926	$ 332,363
Accrued benefit liabilities (Note 32)	45,221	47,984
Uncertain tax positions	175	175
Decommissioning liabilities[a]	2,402	3,145
Lease liabilities[c]	33,729	26,920
Other long-term liabilities	$ 371,453	$ 410,587

(a) The current and long-term decommissioning liabilities on property and equipment were $3.4 million (December 31, 2020 — $3.9 million). The decommissioning liabilities are for the restoration of leased buildings and teleports. During the year ended December 31, 2021, $0.1 million was recorded as interest expense (December 31, 2020 — $0.1 million) with $0.6 million decommissioning liabilities derecognized (December 31, 2020 — $Nil). It is expected that the decommissioning liabilities will mature between 2022 and 2062.

(b) Remaining performance obligations, which the Company also refers to as contract revenue backlog ("backlog") represents the expected future revenue under existing customer contracts, includes both cancellable and non-cancellable contracts, and any deferred revenue that will be recognized in the future in respect to cash already received. The Company does not include revenue beyond the stated expiration of the contract regardless of potential for renewal.

The Company expects the backlog as at December 31, 2021 to be recognized as follows (in millions of Canadian dollars):

2022	2023	2024	2025	2026	Thereafter	Total
$ 582	$ 461	$ 313	$ 219	$ 185	$ 372	$ 2,132

(c) The expected undiscounted contractual cash flows of the lease liabilities as at December 31, 2021 were as follows:

2022	2023	2024	2025	2026	Thereafter	Total
$ 3,504	$ 3,580	$ 3,446	$ 3,180	$ 2,960	$ 34,990	$ 51,660

The undiscounted contractual cash flows included $15.7 million of interest payments

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

24. INDEBTEDNESS

As at December 31	2021	2020
Senior Secured Credit Facilities		
Revolving Credit Facility	$ —	$ —
Term Loan B – U.S. Facility (US$1,552,815)	1,962,292	1,975,957
Senior Notes (US$550,000)	695,035	699,875
2026 Senior Secured Notes (US$500,000)	631,850	—
Senior Secured Notes (US$400,000)	505,480	509,000
	3,794,657	3,184,832
Deferred financing costs, prepayment options and loss on repayment	(2,060)	2,320
	3,792,597	3,187,152
Less: current indebtedness	—	—
Long-term indebtedness	$ 3,792,597	$ 3,187,152

On October 11, 2019, Telesat Canada issued, through a private placement, US$550 million of Senior Notes at an interest rate of 6.5%, which mature in October 2027. Debt issue costs of $7.4 million were incurred in connection with the issuance of the Senior Notes. The Senior Notes are structurally subordinated to Telesat Canada's existing and future secured indebtedness, including obligations under its Senior Secured Credit Facilities and Senior Secured Notes. The Senior Notes are governed by the Senior Notes Indenture. With the proceeds from the Senior Notes offering, along with available cash on hand, all outstanding amounts, including redemption premium and discounted interest to November 15, 2019, were repaid on October 11, 2019, on the US$500 million 8.875% Senior Notes. Any unamortized deferred financing costs and prepayment options were written off upon repayment of the 8.875% Senior Notes.

On December 6, 2019, Telesat Canada entered into a new amended and restated Credit Agreement with a syndicate of banks which provides for the extension of credit under the Senior Secured Credit Facilities of US$1,908.5 million and revolving credit borrowings up to US$200.0 million (or Canadian dollar equivalent). The term loan facility matures in December 2026 while the revolving credit facility matures in December 2024. Debt issue costs of $16.0 million were incurred in connection with this amendment, inclusive of $1.3 million relating to the revolving credit facility. All obligations under the Credit Agreement are guaranteed by the Company and certain of Telesat Canada's existing subsidiaries ("Guarantors"). The obligations under the Credit Agreement and the guarantees of those obligations are secured, subject to certain exceptions, by first priority liens and security interest in the assets of Telesat Canada and the Guarantors. If the Revolving Credit Facility is drawn by more than 35% of the Credit Facility amount, the Credit Agreement requires Telesat Canada 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. The Credit Agreement contains total leverage ratio covenants that restrict, with certain exceptions, the ability of Telesat Canada 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. As at December 31, 2021, the leverage ratio was 5.70:1.00, which is more than the maximum test ratio of 4.50:1.00 (December 31, 2020 — 4.44:1.00, which was less than the maximum test ratio of 4.50:1.00).

On December 6, 2019, Telesat Canada issued, through private placement, US$400 million of Senior Secured Notes, at an interest rate of 4.875%, which mature in June 2027. Debt issue costs of $6.6 million were incurred in connection with the issuance of the Senior Secured Notes. The Senior Secured Notes are guaranteed by the Company and certain Guarantors. The Senior Secured Notes are governed by the Senior Secured Notes Indenture. The obligations under the Senior Secured Notes Indenture are secured, subject to certain exceptions, by first priority liens and security interest in the assets of Telesat Canada and the Guarantors. The Senior Secured Notes include covenants or terms that restricts the Company's ability to, among other things: (i) incur or guarantee additional indebtedness, or issue disqualified stock or preferred shares, (ii) incur liens, (iii) pay dividends, or make certain restricted payments or

24. INDEBTEDNESS (cont.)

investments, (iv) enter into certain transactions with affiliates, (v) modify or cancel satellite insurance, (vi) consolidate, merge, sell or otherwise dispose of substantially all assets, (vii) create restrictions on the ability to pay dividends, make loans, and sell assets, and (viii) designate subsidiaries as unrestricted subsidiaries.

On April 27, 2021, Telesat Canada, as issuer, and Telesat LLC, as co-issuer, issued US$500 million in aggregate principal amount of 2026 Senior Secured Notes maturing on December 6, 2026. Debt issue costs of $6.8 million were incurred in connection with the issuance of the 2026 Senior Secured Notes. The 2026 Senior Secured Notes are guaranteed by the Company and certain Guarantors. The 2026 Senior Secured Notes are governed by the 2026 Senior Secured Notes Indenture. The obligations under the 2026 Senior Secured Notes Indenture are secured, subject to certain exceptions, by first priority liens and security interest in the assets of Telesat Canada and the Guarantors. The 2026 Senior Secured Notes include covenants or terms that restricts the Company's ability to, among other things: (i) incur or guarantee additional indebtedness, or issue disqualified stock or preferred shares, (ii) incur liens, (iii) pay dividends, or make certain restricted payments or investments, (iv) enter into certain transactions with affiliates, (v) modify or cancel satellite insurance, (vi) consolidate, merge, sell or otherwise dispose of substantially all assets, (vii) create restrictions on the ability to pay dividends, make loans, and sell assets, and (viii) designate subsidiaries as unrestricted subsidiaries.

The 2026 Senior Secured Notes bear interest from the issue date, payable on June 1 and December 1 of each year, which commenced on December 1, 2021, to holders of record on the immediately preceding May 15 or November 15, as the case may be.

The prepayment options associated with the 2026 Senior Secured Notes were fair valued at the time of debt issuance. The initial fair value impact, as at April 27, 2021, of the prepayment option related to the 2026 Senior Secured Notes was a $1.9 million increase to the indebtedness. This liability is subsequently amortized using the effective interest method.

The former senior secured credit facilities were fully repaid on December 6, 2019 from the new amended and restated Credit Agreement in the amount of US$1,908.5 million and the US$400 million Senior Secured Notes. Any unamortized deferred financing costs, interest rate floors, and net gain on repricing/repayment were written off upon repayment of the former senior secured credit facilities.

In December 2020, the Company made a US$341.4 million prepayment on the Term Loan B — U.S. Facility. The prepayment was applied to all mandatory future quarterly principal repayments, with the remaining balance of the prepayment being applied towards the principal amount outstanding on maturity. The prepayment resulted in the recognition of a loss of $2.3 million, which was recorded against interest and other income and indebtedness. The loss recorded against the indebtedness is subsequently amortized to interest expense using the effective interest method.

(a) The Senior Secured Credit Facilities, which were entered into on December 6, 2019, are secured by substantially all of Telesat Canada's assets. The Credit Agreement requires Telesat Canada and the Guarantors to comply with a First Lien Net Leverage Ratio if the Revolving Credit Facility is drawn by more than 35% of the Credit Facility amount. As at December 31, 2021 and 2020, Telesat Canada was in compliance with this covenant.

    The Senior Secured Credit Facilities, have two tranches which are described below:

    (i) A Revolving Credit Facility ("Revolving Facility") of up to $200.0 million U.S. dollars (or Canadian dollar equivalent) is available to Telesat Canada maturing in December 2024. This Revolving Facility is available to be drawn at any time in U.S. funds or Canadian dollar equivalent funds. 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 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. The

24. INDEBTEDNESS (cont.)

Revolving Facility has an unused commitment fee that ranges from 25.0 to 37.5 basis points per annum, depending upon the result of the total leverage ratio. As at December 31, 2021, other than $0.2 million (December 31, 2020 — $0.2 million) in drawings related to letters of credit, there were no borrowings under this facility.

(ii) The U.S. TLB Facility is a US$1,908.5 million facility maturing in December 2026. The borrowings under the U.S. TLB Facility bear interest at a floating rate of either: (i) LIBOR as periodically determined for interest rate periods selected by Telesat Canada 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 repayment is equal to 0.25% of the original aggregate principal amount, payable on the last day of each quarter, commencing on March 31, 2020. As a result of the prepayment made in December 2020, mandatory quarterly principal repayments are no longer be required. The weighted average effective interest rate for the year ended December 31, 2021 was 2.96% (December 31, 2020 — 3.63%).

(b) The Senior Notes bear interest at an annual rate of 6.5% with interest payments payable in April and October, annually, which commenced in April 2020. The Senior Notes are due in October 2027 and were entered into on October 11, 2019. The total balance of the Senior Notes is US$550.0 million. The Senior Notes include covenants or terms that restrict the Company's ability to, among other things: (i) incur or guarantee additional indebtedness, or issue disqualified stock or preferred shares, (ii) incur liens, (iii) pay dividends, or make certain restricted payments or investments, (iv) enter into certain transactions with affiliates, (v) modify or cancel satellite insurance, (vi) consolidate, merge, sell or otherwise dispose of substantially all assets, (vii) create restrictions on the ability to pay dividends, make loans, and sell assets, and (viii) designate subsidiaries as unrestricted subsidiaries. The weighted average effective interest rate for the year ended December 31, 2021 and 2020 was 6.27%.

(c) The Senior Secured Notes bear interest at an annual rate of 4.875% with interest payable on June 1 and December 1, annually, which commenced in June 2020. The Senior Secured Notes are due in June 2027 and were entered into on December 6, 2019. The total balance of the Senior Secured Notes is US$400.0 million. The Senior Secured Notes are secured, subject to certain exceptions, by the assets of Telesat Canada and the Guarantors. The Senior Secured Notes include covenants or terms that restrict the Company's ability to, among other things: (i) incur or guarantee additional indebtedness, or issue disqualified stock or preferred shares, (ii) incur liens, (iii) pay dividends, or make certain restricted payments or investments, (iv) enter into certain transactions with affiliates, (v) modify or cancel satellite insurance, (vi) consolidate, merge, sell or otherwise dispose of substantially all assets, (vii) create restrictions on the ability to pay dividends, make loans, and sell assets, and (viii) designate subsidiaries as unrestricted subsidiaries. The weighted average effective interest rate for the year ended December 31, 2021 and 2020 was 4.76%.

(d) The 2026 Senior Secured Notes bear interest at an annual rate of 5.625% with interest payable on June 1 and December 1, which commenced in December 2021. The 2026 Senior Secured Notes are due in December 2026 and were entered into on April 27, 2021. The total balance of the 2026 Senior Secured Notes is US$500.0 million. The 2026 Senior Secured Notes are secured, subject to certain exceptions, by the assets of Telesat Canada and the Guarantors. The indenture governing the 2026 Senior Secured Notes includes covenants and terms that restrict Telesat Canada's 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,

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

24. INDEBTEDNESS (cont.)

effect mergers with another entity, and redeem the 2026 Senior Secured Notes, without penalty, before December 6, 2022, in each case subject to exceptions provided in such indenture. The weighted average effective interest rate for the 249-day period ended December 31, 2021 was 5.79%.

(e) The Senior Secured Credit Facilities, Senior Notes, Senior Secured Notes and 2026 Senior Secured Notes included the following deferred financing costs and prepayment options:

(i) The U.S. TLB Facility, Senior Notes, Senior Secured Notes and 2026 Senior Secured Notes were presented on the balance sheet net of related deferred financing costs of $27.4 million as at December 31, 2021 (December 31, 2020 — $24.9 million). The deferred financing costs are amortized using the effective interest method.

(ii) The U.S. TLB Facility was presented on the balance sheet net of the loss on repayment of $1.9 million as at December 31, 2021 (December 31, 2020 — $2.3 million).

(iii) The indenture agreement for the Senior Notes contained provisions for certain prepayment options which were fair valued at the time of debt issuance. The initial fair value impact, as at October 11, 2019, of the prepayment option related to the Senior Notes was a $17.8 million increase to the indebtedness. This liability is subsequently amortized using the effective interest method and had a carrying amount of $13.7 million as at December 31, 2021 (December 31, 2020 — $15.7 million).

(iv) The indenture agreement for the Senior Secured Notes contained provisions for certain prepayment options which were fair valued at the time of debt issuance. The initial fair value impact, as at December 6, 2019, of the prepayment option related to the Senior Secured Notes was a $10.6 million increase to the indebtedness. This liability is subsequently amortized using the effective interest method and had a carrying amount of $8.0 million as at December 31, 2021 (December 31, 2020 — $9.3 million).

(v) The indenture agreement for the 2026 Senior Secured Notes contained provisions for certain prepayment options which were fair valued at the time of debt issuance. The initial fair value impact, as at April 27, 2021, of the prepayment option related to the 2026 Senior Secured Notes was a $1.9 million increase to the indebtedness. This liability is subsequently amortized using the effective interest method and had a carrying amount of $1.7 million as at December 31, 2021.

The short-term and long-term portions of deferred financing costs, prepayment options and loss on repayment were as follows:

As at December 31,	**2021**	**2020**
Short-term deferred financing costs	$ —	$ —
Long-term deferred financing costs	27,431	24,888
	$ 27,431	$ 24,888
Short-term prepayment options	$ —	$ —
Long-term prepayment options	(23,448)	(24,925)
	$ (23,448)	$ (24,925)
Short-term loss on repayment	$ —	$ —
Long-term loss on repayment	(1,923)	(2,283)
	$ (1,923)	$ (2,283)
Deferred financing costs, prepayment options and loss on repayment	$ 2,060	$ (2,320)

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

25. SHARE CAPITAL

Telesat Corporation

The authorized capital of the Corporation consists of the following:

- An unlimited number of Class A Common shares,
- An unlimited number of Class B Variable Voting shares,
- An unlimited number of Class C Fully Voting shares,
- An unlimited number of Class C Limited Voting shares,
- Class A Special Voting shares,
- Class B Special Voting shares,
- Class C Special Voting shares,
- Golden Share, and
- An unlimited number of Class A Preferred shares.

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

The number of shares and stated value of the outstanding shares as at December 31, 2021, were as follows:

	Number of shares	Stated value
Telesat Public Shares	11,907,246	$ 36,501
Class C Shares	112,841	6,340
	12,020,087	$ 42,841

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

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

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

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

All of the Corporation Shares have equivalent economic rights. The Special Voting Shares and the Golden Share have no material economic rights.

25. SHARE CAPITAL (cont.)

No additional shares or units of Telesat Corporation and Telesat Partnership, respectively, have been issued during 2021 other than as a part of the Transaction.

The holders of Class A Common Shares, Class B Variable Voting Shares, Class C Shares, Special Voting Shares and the Golden Share are generally entitled to receive notice of and attend meetings of Telesat Corporation's shareholders and receive copies of all proxy materials, information statements and other written communications, including from third parties, given in respect of Telesat Public Shares. Holders of Telesat Corporation Shares shall have one vote for each Telesat Corporation Share held at all meetings of the shareholders of Telesat Corporation, except meetings at which only holders of another class or of a particular series shall have the right to vote, provided that holders of Class C Limited Voting Shares will not be entitled to vote on the election of directors of Telesat Corporation. The Telesat Corporation Articles provide that the holders of the Telesat Corporation Shares will vote together as a single class with the Telesat Partnership Units (via the Special Voting Shares), and the Golden Share, with a simple majority of votes required to pass the majority of matters (other than the election of directors of Telesat Corporation, which shall be decided by a plurality of votes cast). Until the occurrence of an Unwind Transaction, a simple majority of votes cast by the holders of Telesat Corporation Shares and Special Voting Shares, voting together as a single class, will be required to approve a Second Tabulation Matter, as defined and described below.

The following table summarizes the voting power of the different classes of Telesat Corporation Shares.

<table>
<tr><th>Class</th><th>Voting for Directors</th><th>All Other Votes</th><th>Second Tabulation Votes</th></tr>
<tr><td>Class A Common Shares</td><td>One vote per share</td><td>One vote per share</td><td>One vote per share</td></tr>
<tr><td>Class B Variable Voting Shares</td><td colspan="2">One vote per share, provided that any voting power of a single holder in excess of one-third of the outstanding voting power of Telesat Corporation Shares and Telesat Partnership Units (via the Special Voting Shares) and the Golden Share Canadian Votes will effectively be transferred to the Golden Share</td><td>One vote per share</td></tr>
<tr><td>Class C Fully Voting Shares</td><td>One vote per share</td><td>One vote per share</td><td>One vote per share</td></tr>
<tr><td>Class C Limited Voting Shares</td><td>No votes</td><td>One vote per share</td><td>One vote per share</td></tr>
<tr><td>Class A Units (voted via the Class A Special Voting Share)</td><td>One vote per unit</td><td>One vote per unit</td><td>One vote per unit</td></tr>
<tr><td>Class B Units (voted via the Class B Special Voting Share)</td><td colspan="2">One vote per unit; provided that any voting power of a single holder in excess of one-third of the outstanding voting power of the Telesat Corporation Shares and Telesat Partnership Units (via the Special Voting Shares) and the Golden Share Canadian Votes will effectively be transferred to the Golden Share</td><td>One vote per unit</td></tr>
<tr><td>Class C Units (voted via the Class C Special Voting Share)</td><td colspan="2">Limited votes to ensure compliance with restrictions applicable to PSP Investments pursuant to the constating legislation</td><td>One vote per unit</td></tr>
<tr><td>Golden Share</td><td colspan="2">A number of votes equal to the sum of: A number of votes such that the votes cast by the holders of Class A Common Shares and Class A Units, Class C shares and Class C Units, and the Golden Share represent a simple majority of votes cast; and the number of votes transferred from the Class B Variable Voting Shares and Class B Units, if applicable</td><td>No votes</td></tr>
</table>

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

25. SHARE CAPITAL (cont.)

Second tabulation matters means a resolution to effect:

- An increase or decrease of the maximum number of authorized shares of Telesat Corporation shares, or an increase in the maximum number of authorized shares of another class or type with special rights or restrictions equal to superior to the Telesat Corporation shares;
- An exchange, reclassification or cancellation of all or part of Telesat Corporation Shares;
- An addition, change or removal of the special rights or restrictions attached to the Telesat Corporation Shares;
- An increase in the rights or privileges of any class of shares in the capital of Telesat Corporation that has rights or privileges equal or superior to the Telesat Corporation Shares;
- The creation of a new class of Telesat Corporation Shares equal or superior to the Telesat Corporation Shares;
- The making of any class of shares in the capital of Telesat Corporation with rights or privileges inferior to the Telesat Corporation Shares equal or superior to the Telesat Corporation Shares;
- An exchange or creation of a right of exchange of all or part of another class of shares in the capital of Telesat Corporation into Telesat Corporation Shares;
- A constraining of the issuance, transfer or ownership of the Telesat Corporation Shares or a change or removal of such constraint;
- A change to the Telesat Corporation Articles;
- The taking of any step to wind up, dissolve, reorganize or terminate Telesat Corporation;
- A sale, lease, exchange, transfer or other disposition of all or substantially all of Telesat Corporation's assets;
- The removal of a director of Telesat Corporation from office; or
- The taking of action to effect an amalgamation, merger or other combination of Telesat Corporation with another person or to consolidate, recapitalize or reorganize Telesat Corporation or to continue Telesat Corporation under the laws of another jurisdiction.

Telesat Canada

The information below summarizes the share capital of Telesat Canada that existed in 2020 and to the completion of the Transaction.

The number of shares and stated value of the outstanding shares of Telesat Canada as at December 31, 2020 were as follows:

	Number of shares	Stated value
Common Shares	74,252,460	$ 26,580
Voting Participating Preferred Shares	7,034,444	48,246
Non-Voting Participating Preferred Shares	38,508,117	80,862
Director Voting Preferred Shares	1,000	10
Share capital		$ 155,698

25. SHARE CAPITAL (cont.)

In November 2021, November 2020, December 2019 and February 2019 dividends were declared and paid on the Director Voting Preferred Shares.

In January 2019, 40,269 stock appreciation rights ("SARS") were exercised for 14,846 Non-Voting Participating Preferred Shares, on a net settlement basis.

In December 2019, 66,667 RSUs were settled in exchange for 30,980 Non-Voting Participating Preferred Shares, on a net settlement basis.

In December 2020, 66,667 RSUs were settled in exchange for 30,980 Non-Voting Participating Preferred Shares, on a net settlement basis.

In September 2021, 600 stock options were exercised in exchange for 600 Non-Voting Participating Preferred shares.

Prior to the completion of the Transaction, the authorized share capital of the Company is comprised of: (i) an unlimited number of Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, (ii) 1,000 Director Voting Preferred Shares, and (iii) 325,000 Senior Preferred Shares. None of the Redeemable Common Shares, Redeemable Non-Voting Participating Preferred Shares or Senior Preferred Shares have been issued as at December 31, 2020.

Common Shares

The holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one vote in respect of each common share held on all matters at all such meetings, except in respect of a class vote applicable only to the shares of any other class, in respect of which the common shareholders shall have no right to vote. The holders of the Common Shares are entitled to receive dividends as may be declared by the Board of Directors of the Company, and are entitled to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in order of priority. The Common Shares are convertible at the holders' option, at any time, into Voting Participating Preferred Shares or Non-Voting Participating Preferred Shares, on a one-for-one basis. The Common Shares have no par value.

Voting Participating Preferred Shares

The rights, privileges and conditions of the Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Voting Participating Preferred Shares are not entitled to vote at meetings of the shareholders of the Company on resolutions electing directors.
- For all other meetings of the shareholders of the Company, the holders of Voting Participating Preferred Shares are entitled to a variable number of votes per Voting Participating Preferred Share based on the number of Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares and Redeemable Non-Voting Participating Preferred Shares outstanding on the record date of the given meeting of the shareholders of the Company.
- The Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Non-Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

The Voting Participating Preferred Shares have no par value.

25. SHARE CAPITAL (cont.)

Non-Voting Participating Preferred Shares

The rights, privileges and conditions of the Non-Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Non-Voting Participating Preferred Shares are not entitled to vote on any matter at meetings of the shareholders of the Company, except in respect of a class vote applicable only to the Non-Voting Participating Preferred Shares.
- The Non-Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

The Non-Voting Participating Preferred Shares have no par value.

Director Voting Preferred Shares

The rights, privileges and conditions of the Director Voting Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Director Voting Preferred Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company at which directors of the Company are to be elected. The holders of the Director Voting Preferred Shares are not entitled to attend meetings of the shareholders of the Company and have no right to vote on any matter other than the election of directors of the Company.
- The holders of Director Voting Preferred Shares are entitled to receive annual non-cumulative dividends of $10 per share if declared by the Board of Directors of the Company, in priority to the payment of dividends on the Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, but after payment of any accrued dividends on the Senior Preferred Shares.

  The Director Voting Preferred Shares are redeemable at the option of the Company, at any time, at a redemption price of $10 per share.

The Director Voting Preferred Shares have a nominal stated value.

26. NON-CONTROLLING INTEREST

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

Pursuant to the terms of the partnership agreement, Partnership exchangeable units are entitled to distributions from Partnership in an amount equal to any dividends or distributions that are declared and paid with respect to the Telesat Public Shares and Class C Shares of the Company. Additionally, each holder of a Partnership exchangeable unit is entitled to vote in respect of matters on which holders of the Company's common shares are entitled to vote through a special voting share of the Company. Any time after the one year anniversary of the Transaction's effective date, the holder of a Partnership exchangeable unit will have the right to require the Partnership to exchange all or any portion of such holder's Partnership exchangeable units for the Company's common shares at a ratio of one common share for each Partnership exchangeable unit, subject to the Company's right as the general partner of the Partnership, in its sole discretion, to deliver a cash payment in lieu of its common shares. If it elects to make a cash payment in lieu

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

26. NON-CONTROLLING INTEREST (cont.)

of issuing common shares, the amount of the payment will be the weighted average trading price of the Telesat Public Shares on the New York Stock Exchange for the 20 consecutive trading days ending on the last business day prior to the exchange date.

Net income attributable to non-controlling interests for 2021 represents the non-controlling interests' portion of the Partnership's net income from November 19, 2021 to December 31, 2021.

27. 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 year.

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

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

	2021	2020	2019
Basic total weighted average number of Telesat Public Shares and Class C Shares (Telesat Canada Common Shares) outstanding	45,168,650	49,537,082	49,519,663
Effect of diluted securities			
Stock options	422,326	219,551	210,812
RSUs	1,029,519	48,253	75,826
Diluted total weighted average number of Telesat Public Shares and Class C Shares (Telesat Canada Common Shares) outstanding	46,620,495	49,804,886	49,806,301

Effect of diluted securities represents Telesat Public Shares and Class C Shares (Telesat Canada Common Shares) assumed to be issued for no consideration. The difference between the number of Telesat Public Shares and Class C Shares (Telesat Canada Common Shares) assumed issued on exercise and the number of Telesat Public Shares and Class C Shares (Telesat Canada Common Shares) assumed repurchased are treated as an issue of common shares for no consideration.

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

For the periods prior to the close of the Transaction, 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 periods after the close of the Transaction, for the purpose of earnings per share, all of the Telesat Public Shares and Class C Shares have equivalent economic rights.

28. GOVERNMENT GRANT

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

For the year ended December 31, 2021, the Company recorded $14.8 million relating to the agreement (December 31, 2020 - $12.0 million).

Of the amount recorded during 2021, $10.0 million was recorded as a reduction to satellites, property and other equipment and $4.8 million was recorded as a reduction to operating expenses (2020 - $8.0 million was recorded as a reduction in satellites, property and other equipment and $4.0 million as a reduction to operating expenses).

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

29. CAPITAL DISCLOSURES

The Company's financial strategy is designed to maintain compliance with the financial covenant under its Senior Secured Credit Facilities (Note 24), and to maximize returns to its shareholders and other stakeholders. The Company meets these objectives through regular monitoring of the financial covenant and operating results on a quarterly basis. The Company's overall financial strategy remains unchanged from 2020.

Prior to the close of the Transaction, the Company defined its capital as shareholders' equity (comprising issued share capital, accumulated earnings and excluding reserves) and debt financing (comprising indebtedness and excluding deferred financing costs, prepayment options and loss on repayment as defined in Note 24). Subsequent to the close of the Transaction, the Company defines its capital as Telesat Corporation's shareholders' equity (comprising issued share capital, accumulated earnings and excluding reserves), non-controlling interest and debt financing (comprising indebtedness and excluding deferred financing costs, prepayment options and loss on repayment as defined in Note 24).

The Company's capital at the end of the year was as follows:

As at December 31,	2021	2020
Shareholders' equity (excluding reserves)	$ 393,717	$ 1,422,212
Non-controlling interest	$ 1,283,275	$ N/A
Debt financing (excluding deferred financing costs, prepayment options and loss on repayment)	$ 3,794,657	$ 3,184,832

If the Revolving Facility is drawn by more than 35% of the credit facility amount, the Senior Secured Credit Facilities require Telesat Canada to comply with a first lien net leverage ratio test. As at December 31, 2021, the first lien net leverage ratio was 4.63:1.00 (December 31, 2020 – 3.43:1.00), which was less than the maximum test ratio of 5.75:1.00.

The Company's operating results are tracked against budget on a regular basis, and this analysis is reviewed by senior management. The Company partly manages its interest rate risk due to variable interest rate debt through the use of interest rate swaps (Note 30).

30. 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 December 31, 2021.

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 December 31, 2021, the maximum exposure to credit risk is equal to the carrying value of the financial assets which totaled $1,589.5 million (December 31, 2020 — $924.2 million).

The following table provides breakdown by maturity of financial assets as at December 31, 2021:

	Carrying amount	Contractual cash flows					
		2022	2023	2024	2025	2026	Thereafter
Cash and cash equivalents	$ 1,449,593	$ 1,449,593	$ —	$ —	$ —	$ —	$ —
Trade and other receivables, excluding deferred receivables	117,144	117,144	—	—	—	—	—
Deferred receivables	18,250	5,554	4,173	2,936	1,420	1,333	2,834
Other financial assets	3,475	861	1,841	—	—	—	773
	$ 1,588,462	$ 1,573,152	$ 6,014	$ 2,936	$ 1,420	$ 1,333	$ 3,607

30. FINANCIAL INSTRUMENTS (cont.)

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 December 31, 2021, North American and International customers made up 54% and 46% of the outstanding trade receivable balance, respectively (December 31, 2020 — 50% and 50%, respectively). Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts as at December 31, 2021 was $5.2 million (December 31, 2020 — $7.3 million).

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

Foreign exchange risk

The Company's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The Company's main currency exposures lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and indebtedness with the most significant impact being on the U.S. dollar denominated indebtedness. As at December 31, 2021 and 2020, the entire indebtedness was denominated in U.S. dollars, with the Canadian dollar equivalent of the U.S. dollar denominated indebtedness equaling $3,794.7 million and $3,184.8 million, respectively, before netting of deferred financing costs, prepayment options and loss on repayment.

As at December 31, 2021, the impact of a 5 percent increase (decrease) in the value of the Canadian dollar against the U.S. dollar on financial assets and liabilities would have decreased (increased) net income by $174.0 million (December 31, 2020 — $158.5 million) and increased (decreased) other comprehensive income by $57.0 million (December 31, 2020 — $35.6 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

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

In October 2017, the Company entered into four interest rate swaps to hedge the interest rate risk associated with the variable interest rate on US$1,800.0 million of the U.S. denominated Term Loan B at fixed interest rates, excluding applicable margins, ranging from 1.72% to 2.04%. As at December 31, 2021, one interest rate swap of US$450 million, with expiration term of September 2022, was outstanding to hedge the interest rate risk associated with the variable interest rate on the U.S. denominated Term Loan B at fixed interest rate, excluding applicable margins, of 2.04%.

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 $4.9 million for the year ended December 31, 2021 (December 31, 2020 — $4.1 million).

Liquidity risk

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

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

30. FINANCIAL INSTRUMENTS (cont.)

The contractual maturities of financial liabilities as at December 31, 2021 were as follows:

	Carrying amount	Contractual cash flows (undiscounted)	2022	2023	2024	2025	2026	Thereafter
Trade and other payables	$ 54,628	$ 54,628	$ 54,628	$ —	$ —	$ —	$ —	$ —
Customer and other deposits	1,851	1,851	1,376	109	17	206	—	143
Satellite performance incentive payments	30,705	37,740	8,903	7,466	5,300	3,111	3,169	9,791
Other financial liabilities	3,106	3,106	3,106	—	—	—	—	—
Interest rate swaps	5,367	5,582	5,582	—	—	—	—	—
Indebtedness(1)	3,814,110	4,671,821	168,905	164,005	164,098	163,058	2,753,742	1,258,013
	$ 3,909,767	$ 4,774,728	$ 242,500	$ 171,580	$ 169,415	$ 166,375	$ 2,756,911	$ 1,267,947

(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	$ 361	$ 7,304
Indebtedness	$ 19,453	$ 877,164

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 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	(3)
Other current financial assets	—	861	861	861	Level 1
Other long-term financial assets(1)	1,038	15,310	16,348	16,348	Level 1, Level 2
Trade and other payables	—	(54,628)	(54,628)	(54,628)	(3)
Other current financial liabilities	(5,367)	(31,280)	(36,647)	(38,250)	Level 2
Other long-term financial liabilities	—	(23,835)	(23,835)	(24,240)	Level 2
Indebtedness(2)	—	(3,794,657)	(3,794,657)	(3,314,387)	Level 2
	$ (4,329)	$ (2,315,938)	$ (2,320,267)	$ (1,842,005)	

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

30. FINANCIAL INSTRUMENTS (cont.)

As at December 31, 2020	FVTPL	Amortized cost	Total	Fair value	Fair value hierarchy
Cash and cash equivalents	$ —	$ 818,378	$ 818,378	$ 818,378	Level 1
Trade and other receivables	—	51,928	51,928	51,928	(3)
Other current financial assets	—	448	448	448	Level 1
Other long-term financial assets(1)	30,266	23,159	53,425	53,425	Level 1, Level 2
Trade and other payables	—	(30,091)	(30,091)	(30,091)	(3)
Other current financial liabilities	(12,581)	(23,299)	(35,880)	(37,921)	Level 2
Other long-term financial liabilities	(5,448)	(30,051)	(35,499)	(36,357)	Level 2
Indebtedness(2)	—	(3,184,832)	(3,184,832)	(3,214,543)	Level 2
	$ 12,237	$ (2,374,360)	$ (2,362,123)	$ (2,394,733)	

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

Assets pledged as security

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

Fair Value

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

The fair value hierarchy is as follows:

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

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

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

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)

30. 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 December 31, 2021, cash and cash equivalents included $81.0 million (December 31, 2020 — $130.4 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 December 31, 2021 and 2020, the discount rate used was 4.6% and 4.4%, 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:

As at December 31	2021	2020
Term Loan B – U.S. Facility – Senior Secured Credit Facilities	88.25%	98.88%
Senior Notes	77.65%	104.76%
Senior Secured Notes	88.72%	103.64%
2026 Senior Secured Notes	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 December 31, 2021 ranged from 0.08% to 1.37% (December 31, 2020 — 0.08% to 0.54%).

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

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

As at December 31, 2020	Other long-term financial assets	Other current Financial liabilities	Other long-term financial liabilities	Total
Interest rate swaps	$ —	$ (12,581)	$ (5,448)	$ (18,029)
Prepayment options	30,266	—	—	30,266
	$ 30,266	$ (12,581)	$ (5,448)	$ 12,237

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

30. FINANCIAL INSTRUMENTS (cont.)

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

Fair value, December 31, 2019 and January 1, 2020	$	24,905
Unrealized losses on derivatives		
Prepayment options		(2,308)
Interest rate swaps		(10,807)
Impact of foreign exchange		447
Fair value, December 31, 2020		12,237
Derivatives recognized at inception		
Prepayment option – 2026 Senior Secured Notes		1,896
Unrealized gains (losses) on derivatives		
Prepayment options		(31,196)
Interest rate swaps		12,512
Impact of foreign exchange		222
Fair value, December 31, 2021	$	(4,329)

31. SHARE-BASED COMPENSATION PLANS

The share-based compensation expense included in the consolidated statements of income was as follows:

For the years ended December 31,	2021	2020	2019
Operating expenses	$ 73,723	$ 12,500	$ 16,035

Telesat Canada Stock Incentive Plans

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").

The purpose of the Historic Plans were to promote the interests of Telesat and its shareholders by providing certain key employees of Telesat and its affiliates with an appropriate incentive to encourage them to continue in the employ of, or engagement with, Telesat or an affiliate and to improve Telesat's growth and profitability.

The 2008 Telesat Plan reserved a total of 8,824,646 Telesat Canada Non-Voting Participating Preferred Shares for issuance upon due exercise of Telesat Canada Options. In connection with the completion of the Transaction, no further Telesat Canada Options will be granted under the 2008 Telesat Plan. Prior to the close of the Transaction, 738,667 Telesat Canada stock options were issued and outstanding. Upon the completion of the Transaction the 738,667 Telesat Canada stock options were converted into 305,499 Telesat Corporation stock options.

The 2013 Telesat Plan reserved a total of 8,680,399 Telesat Canada Non-Voting Participating Preferred Shares for issuance upon due exercise of Telesat Canada Options. In connection with the completion of the Transaction, no further Telesat Canada Options will be granted under the 2013 Telesat Plan. Prior to the close of the Transaction, 1,446,797 Telesat Canada stock options were issued and outstanding. Upon the completion of the Transaction the 1,446,797 Telesat Canada stock options were converted into 595,290 Telesat Corporation stock options.

In each case, the Telesat Options were convertible at the option of the holder into Telesat Public Shares (provided that the holder complied with the constrained share provisions in the Telesat Corporation Articles).

31. SHARE-BASED COMPENSATION PLANS (cont.)

In addition, in 2018, Telesat Canada authorized the issuance of 200,000 RSUs expected to be settled in Non-Voting Participating Preferred Shares. The RSUs vest over a three-year period with a vesting period commencing on January 1, 2018.

Under the stock incentive plans, two different types of stock options could be granted: time-vesting options and performance-vesting options. The time-vesting options generally become vested and exercisable over a five-year period by 20% annual increments. The performance-vesting options become vested and exercisable over a five-year period, provided that the Company has achieved or exceeded an annual or cumulative target consolidated EBITDA established by the Board of Directors. The exercise period of the stock options expires 10 years from the grant date. The exercise price of each share underlying the options will be the higher of a fixed price, established by the Board of Directors on the grant date, and the fair market value of a Non-Voting Participating Preferred Share on the grant date. Both plans authorized the Board of Directors to grant tandem SARs, at their discretion.

The Company expenses the fair value of stock options that are expected to vest over the vesting period using the Black-Scholes option pricing model. The share-based compensation expense is included in operating expenses.

In April 2021, 6,197,776 issued and outstanding, vested and unvested stock options were cancelled. This resulted in a non-cash operating expense recorded in the year ended December 31, 2021 of $8.5 million.

In April 2021, a total of 3,660,000 Non-Voting Participating Preferred Shares are reserved for issuance upon vesting of the RSUs awarded under the RSU Plan, provided that the aggregate number of Non-Voting Participating Preferred Shares issuable under the RSU Plan (and under all other share compensation arrangements) does not exceed 10% of the total number of Non-Voting Participating Preferred Shares outstanding from time to time (on a non-diluted basis). A total of 3,530,000 Telesat Canada RSUs were issued in connection with the plan. Upon completion of the Transaction the 3,530,000 Telesat Canada RSUs were converted into 1,460,008 Telesat Corporation RSUs.

Telesat Corporation Stock Incentive Plans

In connection with the Transaction, the holders of Telesat Canada Tandem SARs, Telesat Canada Options and Telesat Canada RSUs were offered the opportunity to enter into exchange agreements with Telesat Corporation in respect of their Telesat Canada Tandem SARs, Telesat Canada Options and Telesat Canada RSUs, pursuant to which, upon the Closing, they exchanged such instruments for corresponding instruments in Telesat Corporation. The stock options, share appreciation rights and RSUs will have similar vesting terms, however, the quantity and exercise prices have been adjusted.

On November 19, 2021, Telesat Corporation entered into an omnibus long-term incentive plan (“Omnibus Plan”). The Omnibus Plan allows for a variety of equity based awards including stock options, performance share units, restricted share units and deferred share units. The stock options, performance share units, restricted share units and deferred share units are collectively referred to as “Award”. Each Award will represent the right to receive Public Shares or, in the case of performance share units, restricted share units or deferred share units, Public Shares or cash, in accordance with the terms of the Omnibus Plan. The maximum number of Public Shares reserved for issuance under the Omnibus Plan is 2,972,816. As of December 31, 2021, there were no Awards issued and outstanding under the Omnibus Plan.

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

31. SHARE-BASED COMPENSATION PLANS (cont.)

The change in number of stock options outstanding and their weighted average exercise price were summarized below:

	Telesat Canada time vesting options		Telesat Canada performance vesting options		Telesat Corporation time vesting options	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at December 31, 2019 and January 1, 2020	7,544,617	$ 25.63	409,953	$ 11.07	—	$ —
Granted	650,000		—		—	
Forfeited	(246,049)		(3,691)		—	
Exercised (Note 25)	—		—		—	
Expired	—		—		—	
Outstanding at December 31, 2020	7,948,568	$ 25.83	406,262	$ 11.07	—	$ —
Cancelled	(6,197,775)		—		—	
Granted	77,500		—		—	
Forfeited	(46,761)		(9,229)		—	
Exercised (Note 25)	(600)		—		—	
Exchanged upon close of Transaction	(1,780,932)		(397,033)		900,789	
Expired	—		—		—	
Outstanding at December 31, 2021	—	$ —	—	$ —	900,789	$ 48.77

The quantity of stock options that are exercisable and the weighted average remaining life were as follows:

	As at December 31, 2021	As at December 31, 2020
Telesat Canada time vesting options	—	5,779,565
Telesat Canada performance vesting options	—	406,266
Telesat Corporation time vesting options	875,880	—
Weighted average remaining life	2 years	6 years

The weighted average assumptions used to determine the share-based compensation expense for stock options using the Black-Scholes option pricing model were as follows:

	2021	2020	2019
Dividend yield	—%	—%	—%
Expected volatility	35.0%	32.7%	32.4%
Risk-free interest rate	1.85%	2.79%	2.93%
Expected life (years)	10	10	10

The expected volatility is based on the historical volatility of comparable publicly listed entities.

The weighted average fair value of the stock options granted during 2021 was $25.94 (2020 — $25.94).

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

31. SHARE-BASED COMPENSATION PLANS (cont.)

The movement in the number of restricted share units outstanding was as follows:

As at December 31,	Telesat Canada RSUs with time criteria	Telesat Canada RSUs with time and performance criteria	Telesat Corporation RSUs with time criteria	Telesat Corporation RSUs with time and performance criteria
Outstanding, December 31, 2019 and January 1, 2020	133,333	—	—	—
Settled	(66,666)	—	—	—
Outstanding, December 31, 2020 and January 1, 2021	66,667	—	—	—
Granted	3,230,000	300,000	—	—
Exchange upon close of Transaction	(3,296,667)	(300,000)	1,363,501	124,080
Outstanding, December 31, 2021	—	—	1,363,501	124,080

32. EMPLOYEE BENEFIT PLANS

The Company maintains defined benefit pension plans for Telesat Canada employees ("Canadian Pension Plans"). In October 2013, the Company ceased to allow new employees to join certain defined benefit plans, except under certain circumstances, and commenced a defined contribution pension plan for new employees.

On completion of the Transaction, the Company also took over the defined benefit pension plans for certain former employees of Loral ("US Pension Plans"). Under the US Pension Plans, certain former Loral employees hired prior to July 1, 2006 contributed until November 18, 2021 in order to receive enhanced pension benefits.

In addition to the pension plans, the Company provides certain health care and life insurance benefits for some of Telesat Canada's retired employees and their dependents ("Canadian Other Post-employment Benefit Plans"). Participants are eligible for these benefits generally when they retire from active service and meet the eligibility requirements for the pension plan. These benefits are funded primarily on a pay-as-you-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

The Company also provides medical coverage for certain of its retired employees and dependents including certain retired Loral employees ("US Other Post-employment Benefit Plans"). Under the US Other Post-employment Benefit Plans, an annual subsidy is provided to cover for medical benefits to the retired employees and their dependents. For the Loral retired employees, the coverage ends when the retiree reaches age 65.

The Company's funding policy is to make contributions to its defined benefit pension funds based on actuarial cost methods as permitted and required by pension regulatory bodies. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by equity securities, fixed income instruments and short-term investments.

The defined benefit plans typically expose the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. Investment risk is managed by specifying allowable investment types, setting diversification strategies and determining target asset allocations. The investment objectives of the fund are to optimize the return on investments, taking into account the risks associated with the securities for the protection of the pension benefits of the members of the plan.

As part of the risk management process, for Canadian Plans, the Investment Committee establishes a Statement of Investment Policies and Procedures which includes a diversification strategy and processes to manage foreign currency, credit and other risks. Given the long-term nature of plan liabilities, it is considered appropriate to invest a

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

32. EMPLOYEE BENEFIT PLANS (cont.)

reasonable portion of the plan assets in equity securities and thus ensure higher return. The Statement of Investment Policies and Procedures is reviewed on an annual basis by the Management Level Pension Fund Investment Committee with approval of the policy being provided by the Audit Committee.

As regards the US Pension Plans, the funding policy is to fund the qualified pension plan in accordance with the Internal Revenue Code and regulations thereon. Plan assets are generally invested in equity, fixed income and other investments. The expected long-term rate of return on pension plan assets is selected by taking into account the expected duration of the plan's projected benefit obligation, asset mix and the fact that its assets are actively managed to mitigate risk.

A decrease in interest rate will increase the plan liability. However, it will be partially offset by an increase in the return on fixed income instruments. The present value of the plan liabilities is calculated by reference to the best estimates of the mortality and the future salaries of plan participants. Accordingly, an increase in life expectancy or salary will increase the plan liability.

Assets-liability matching strategies are geared towards maintaining an appropriate asset mix to ensure that liquid assets are available to discharge the liabilities as and when they become due. Any potential liquidity issue arising from mismatching of plan assets and benefit obligations is compensated by a broadly diversified investment portfolio, including cash and short-term investments, and cash flows from dividends and interest.

For Canadian Pension Plans, the pension expense for 2021 was determined based on membership data as at December 31, 2019. The accrued benefit obligation as at December 31, 2021 was determined based on the membership data as at December 31, 2020, and extrapolated one year based on December 31, 2021 assumptions. For US Pension Plans, the pension expense for 2021 was determined based on membership data as at December 31, 2020. The accrued benefit obligation as at December 31, 2021 was determined based on the membership data as at December 31, 2020, and extrapolated one year based on December 31, 2021 assumptions.

For Canadian Post-employment Benefit Plans, the expense for 2021 was based on membership and eligibility data as at September 30, 2018 and the accrued benefit obligations as at December 31, 2021 was based on membership data as at September 30, 2021. The accrued benefit obligation for US Post-employment Benefit Plans as at December 31, 2021, related to certain retired Loral employees, was determined based on membership data as at December 31, 2020 and adjusted to exclude from the valuation those members reported active as of December 31, 2020 if, as of the November 18, 2021, they were not eligible to retire from the plan. For other US Post-employment Benefit Plans, the accrued benefit obligation as at December 31, 2021 was determined based on membership data as at January 1, 2021 and extrapolated, based on December 31, 2021 assumptions.

The most recent valuation of the pension plans for funding purposes was as of December 31, 2020. Valuations will be performed for the pension plans as of December 31, 2021.

The expenses included on the consolidated statements of income and the consolidated statements of comprehensive income were as follows:

	Pension Plans			Other Post-employment Benefit Plans		
For the year ended December 31, 2021	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income						
Operating expenses	$ 7,893	$ 74	$ 7,967	$ 166	$ —	$ 166
Interest expense	$ 743	$ 53	$ 796	$ 552	$ 92	$ 644
Consolidated statements of comprehensive income						
Actuarial (gains) losses on employee benefit plans	$ (55,582)	$ (798)	$ (56,380)	$ 987	$ (29)	$ 958

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

32. EMPLOYEE BENEFIT PLANS (cont.)

For the year ended December 31, 2020	Canadian Pension Plans	Other Post-employment Benefit Plans: Canadian	US	Total
Consolidated statements of income				
Operating expenses	$ 7,188	$ 145	$ —	$ 145
Interest expense	$ 423	$ 618	$ 128	$ 746
Consolidated statements of comprehensive income				
Actuarial losses on employee benefit plans	$ 11,390	$ 1,686	$ 617	$ 2,303

For the year ended December 31, 2019	Canadian Pension Plans	Other Post-employment Benefit Plans: Canadian	US	Total
Consolidated statements of income				
Operating expenses	$ 6,198	$ 116	$ —	$ 116
Interest expense	$ 524	$ 665	$ 150	$ 815
Consolidated statements of comprehensive income				
Actuarial (gains) losses on employee benefit plans	$ (3,325)	$ 1,533	$ 658	$ 2,191

The Company made contributions of $2.4 million for various defined contribution arrangements during 2021 (December 31, 2020 — $1.9 million).

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

As at December 31,	2021	2020
Included in other long-term liabilities		
Pension benefits	$ 17,927	$ 22,070
Other post-employment benefits	27,294	25,914
Accrued benefit liabilities (Note 23)	$ 45,221	$ 47,984
Included in other long-term assets		
Pension benefits (Note 15)	$ 30,105	$ —

The amounts recognized in the balance sheets and the funded statuses of the benefit plans were as follows:

As at December 31, 2021	Pension Plans: Canadian	US	Total	Other Post-employment Benefit Plans: Canadian	US	Total
Present value of funded obligations	$ 348,526	$ 72,906	$ 421,432	$ —	$ —	$ —
Fair value of plan assets	(379,740)	(54,979)	(434,719)	—	—	—
	(31,214)	17,927	(13,287)	—	—	—
Present value of unfunded obligations	1,109	—	1,109	22,429	4,865	27,294
(Pension benefits) accrued benefit liabilities	$ (30,105)	$ 17,927	$ (12,178)	$ 22,429	$ 4,865	$ 27,294

As at December 31, 2020	Pension Plans: Canadian	US	Total	Other Post-employment Benefit Plans: Canadian	US	Total
Present value of funded obligations	$ 375,222	$ —	$ 375,222	$ —	$ —	$ —
Fair value of plan assets	(354,385)	—	(354,385)	—	—	—
	20,837	—	20,837	—	—	—
Present value of unfunded obligations	1,233	—	1,233	21,403	4,511	25,914
Accrued benefit liabilities	$ 22,070	$ —	$ 22,070	$ 21,403	$ 4,511	$ 25,914

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

32. EMPLOYEE BENEFIT PLANS (cont.)

The changes in the benefit obligations and in the fair value of plan assets were as follows:

	Pension Plans			Other Post-employment Benefit Plans		
As at December 31, 2021	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Change in benefits obligations						
Benefit obligation, January 1, 2021	$ 376,455	$ —	$ 376,455	$ 21,403	$ 4,511	$ 25,914
Initial balance from transaction	—	74,113	74,113	—	646	646
Current service cost	7,462	74	7,536	166	—	166
Interest expense	9,872	235	10,107	552	92	644
Remeasurements						
Actuarial gains arising from plan experience	(556)	(70)	(626)	4,895	246	5,141
Actuarial gains from change in demographic assumptions	—	—	—	—	(1)	(1)
Actuarial gains from changes in financial assumptions	(33,099)	(942)	(34,041)	(3,908)	(274)	(4,182)
Benefits paid	(11,067)	(488)	(11,555)	(590)	(388)	(978)
Contributions by plan participants	1,001	1	1,002	—	—	—
Foreign exchange & other	(433)	(17)	(450)	(89)	33	(56)
Benefit obligation, December 31, 2021	349,635	72,906	422,541	22,429	4,865	27,294
Change in fair value of plan assets						
Fair value of plan assets, January 1, 2021	(354,385)	—	(354,385)	—	—	—
Initial balance from Transaction	—	(55,511)	(55,511)	—	—	—
Contributions by plan participants	(1,001)	(1)	(1,002)	—	—	—
Contributions by employer	(4,796)	—	(4,796)	590	388	978
Interest income	(9,129)	(182)	(9,311)	—	—	—
Benefits paid	11,067	488	11,555	(590)	(388)	(978)
Remeasurements						
Return on plan assets, excluding interest income	(21,927)	214	(21,713)	—	—	—
Administrative costs	431	—	431	—	—	—
Foreign exchange & other	—	13	13	—	—	—
Fair value of plan assets, December 31, 2021	(379,740)	(54,979)	(434,719)	—	—	—
(Pension benefits) accrued benefit liabilities, December 31, 2021	$ (30,105)	$ 17,927	$ (12,178)	$ 22,429	$ 4,865	$ 27,294

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

32. EMPLOYEE BENEFIT PLANS (cont.)

As at December 31, 2020	Canadian Pension Plans	Other Post-employment Benefit Plans		
		Canadian	US	Total
Change in benefits obligations				
Benefit obligation, January 1, 2020	$ 332,823	$ 19,399	$ 4,109	$ 23,508
Current service cost	6,695	145	—	145
Interest expense	10,723	618	128	746
Remeasurements				
Actuarial gains arising from plan experience	2,212	—	184	184
Actuarial gains from change in demographic assumptions	—	—	11	11
Actuarial gains from changes in financial assumptions	33,278	1,735	373	2,108
Benefits paid	(10,294)	(494)	(232)	(726)
Contributions by plan participants	1,018	—	—	—
Foreign exchange	—	—	(62)	(62)
Benefit obligation, December 31, 2020	376,455	21,403	4,511	25,914
Change in fair value of plan assets				
Fair value of plan assets, January 1, 2020	(324,257)	—	—	—
Contributions by plan participants	(1,018)	—	—	—
Contributions by employer	(5,497)	(494)	(232)	(726)
Interest income	(10,300)	—	—	—
Benefits paid	10,294	494	232	726
Remeasurements				
Return on plan assets, excluding interest income	(24,100)	—	—	—
Administrative costs	493	—	—	—
Fair value of plan assets, December 31, 2020	(354,385)	—	—	—
Accrued benefit liabilities, December 31, 2020	$ 22,070	$ 21,403	$ 4,511	$ 25,914

For the Canadian Pension Plans, the weighted average duration of the defined benefit obligation and weighted average duration of the current service cost as at December 31, 2021 are 15 years and 22 years, respectively. For the Canadian Other Post-employment Benefit Plans, the weighted average duration of the defined benefit obligation and weighted average duration of the current service cost as at December 31, 2021 are 14 years and 27 years, respectively. For the US Pension Plans, the weighted average duration of the defined benefit obligation as at December 31, 2021 is 13 years.

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

32. EMPLOYEE BENEFIT PLANS (cont.)

The estimated future benefit payments for the defined benefit pension plans and other post-employment benefit plans until 2031 are as follows:

	Pension Plans	Other Post-employment Benefit Plans
2022	$ 15,169	$ 1,056
2023	$ 15,361	$ 1,072
2024	$ 16,416	$ 1,222
2025	$ 17,244	$ 1,263
2026	$ 18,232	$ 1,298
2027 to 2031	$ 101,879	$ 7,121

Benefit payments include obligations to 2031 only as obligations beyond this date are not quantifiable.

The fair value of the plan assets were allocated as follows between the various types of investments:

Canadian Pension Plans

As at December 31,	2021	2020
Equity securities		
Canada	22.8%	22.9%
United States	19.3%	19.7%
International (other than United States)	13.5%	14.3%
Fixed income instruments		
Canada	42.3%	41.0%
Cash and cash equivalents	2.1%	2.1%

US Pension Plans

As at December 31,	2021
Equity securities	
United States	33.4%
International	22.8%
Fixed income instruments	
United States	29.9%
Canada	0.4%
International	4.8%
Other investments	
United States	4.4%
International	4.3%

Plan assets are valued at the measurement date of December 31 each year.

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

32. EMPLOYEE BENEFIT PLANS (cont.)

The following are the significant assumptions adopted in measuring the Company's pension and other benefit obligations:

Pension plans

As at December 31,	Canadian 2021	US 2021	Canadian 2020
Actuarial benefit obligation			
Discount rate	3.20%	2.85%	2.60%
Benefit costs for the year ended			
Discount rate	2.80%	2.75%	3.20%
Future salary growth	2.50%	N/A	2.50%

Other Post-employment Benefit Plans

	Canadian		US	
As at December 31,	**2021**	**2020**	**2021**	**2020**
Benefit costs for the year ended				
Discount rate	3.20%	3.20%	2.50% to 2.85%	2.95%
Health care cost trend rate	3.49% to 5.49%	3.49% to 5.49%	N/A	N/A
Other medical trend rates	4.00% to 4.56%	4.00% to 4.56%	N/A	N/A

For certain Canadian Post-retirement Plans the above trend rates are applicable for 2021 to 2029 which will decrease linearly to 4.75% in 2029 and grading down to an ultimate rate of 3.57 % per annum in 2040 and thereafter.

Sensitivity of assumptions

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation as at December 31, 2021 and 2020 would have increased or decreased as a result of the change in the respective assumptions by one percent.

Pension plans

	Canadian		US	
As at December 31, 2021	**1% increase**	**1% decrease**	**1% increase**	**1% decrease**
Discount rate	$ (45,732)	$ 58,488	$ (8,418)	$ 10,317
Future salary growth	$ 8,606	$ (6,839)	N/A	N/A

	Canadian	
As at December 31, 2020	**1% increase**	**1% decrease**
Discount rate	$ (53,058)	$ 67,549
Future salary growth	$ 10,423	$ (9,165)

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

32. EMPLOYEE BENEFIT PLANS (cont.)

Other Post-employment Benefit Plans

	Canadian		US	
As at December 31, 2021	**1% increase**	**1% decrease**	**1% increase**	**1% decrease**
Discount rate	$ (2,961)	$ 3,734	$ (408)	$ 474
Medical and dental trend rates	$ 2,216	$ (1,826)	N/A	N/A

	Canadian		US	
As at December 31, 2020	**1% increase**	**1% decrease**	**1% increase**	**1% decrease**
Discount rate	$ (3,067)	$ 3,860	$ (419)	$ 491
Medical and dental trend rates	$ 2,222	$ (1,839)	N/A	N/A

The above sensitivities are hypothetical and should be used with caution. Changes in amounts based on a one percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. The sensitivities have been calculated independently of changes in other key variables. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

The Company expects to make contributions of $4.2 million to the Canadian defined benefit plans and $0.9 million to the defined contribution plan during the next fiscal year.

33. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents were comprised of the following:

As at,	**December 31, 2021**	**December 31, 2020**	**December 31, 2019**
Cash	$ 1,368,559	$ 687,967	$ 542,537
Short-term investments[(1)]	81,034	130,411	484,685
Cash and cash equivalents	$ 1,449,593	$ 818,378	$ 1,027,222

(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:

For the years ended December 31,	**2021**	**2020**	**2019**
Income taxes paid	$ (94,290)	$ (53,842)	$ (101,952)
Income taxes received	48	399	6,497
	$ (94,242)	$ (53,443)	$ (95,455)

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

For the years ended December 31,	**2021**	**2020**	**2019**
Interest paid	$ (158,806)	$ (188,969)	$ (195,671)
Interest received	4,373	8,997	19,559
	$ (154,433)	$ (179,972)	$ (176,112)

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

33. 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, 2021	$ 3,187,152	$ 37,574	$ 29,051
Cash outflows	—	(6,914)	(2,178)
Cash inflows	619,900	—	—
Debt issue costs	(6,834)	—	—
Prepayment option at inception – 2026 Senior Secured Notes	1,896	—	—
Amortization of deferred financing costs, prepayment options and loss on repayment	558	—	—
Non-cash additions	—	—	10,074
Interest paid	—	—	(1,499)
Interest accrued	—	—	1,499
Non-cash disposals	—	—	(939)
Impact of foreign exchange	(10,075)	(316)	(330)
Balance as at December 31, 2021	$ 3,792,597	$ 30,344	$ 35,678

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2020	$ 3,712,799	$ 46,951	$ 28,582
Cash outflows	(453,592)	(9,031)	(1,793)
Loss on repayment (Note 24)	2,284	—	—
Amortization of deferred financing costs, prepayment options and loss on repayment	428	—	—
Non-cash additions	—	—	2,788
Interest paid	—	—	(1,649)
Interest accrued	—	—	1,349
Other	—	182	(91)
Impact of foreign exchange	(74,767)	(528)	(135)
Balance as at December 31, 2020	$ 3,187,152	$ 37,574	$ 29,051

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

33. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2019	$ 3,724,228	$ 58,913	$ 369
Cash outflows	(3,743,465)	(9,644)	(1,252)
Cash inflows	3,786,082	—	—
Write-off of deferred financing costs, interest rate floor, prepayment option and net gain on repricing/repayment (Note 24)	107,065	—	—
Amortization of deferred financing costs, interest rate floor, prepayment options and net gain on repricing/repayment	22,461	—	—
Debt issue costs	(28,082)	—	—
Debt issue costs accrued	(573)	—	—
Prepayment option at inception – Senior Notes	17,829	—	—
Prepayment option at inception – Senior Secured Notes	10,562	—	—
Cumulative effect adjustment[1]	—	—	26,851
Non-cash additions	—	—	2,775
Interest paid	—	—	(984)
Interest accrued	—	—	1,288
Other	—	296	(236)
Impact of foreign exchange	(183,308)	(2,614)	(229)
Balance as at December 31, 2019	$ 3,712,799	$ 46,951	$ 28,582

(1) Relates to the impact of the implementation of *IFRS 16, Leases*

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

For the years ended December 31,	2021	2020	2019
Trade and other receivables	$ (55,426)	$ (4,173)	$ (16,113)
Financial assets	3,206	161	(3,897)
Other assets	(21,017)	(7,286)	(13,183)
Trade and other payables	14,071	1,860	1,685
Financial liabilities	4,210	(651)	(2,125)
Other liabilities	(3,669)	25,107	19,691
	$ (58,625)	$ 15,018	$ (13,942)

Non-cash investing activities were comprised of:

For the years ended December 31,	2021	2020	2019
Satellite, property and other equipment	$ 10,406	$ 2,963	$ 29,234
Intangible assets	$ —	$ —	$ (3,263)
C-band clearing proceeds	$ (64,289)	$ —	$ —

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

34. COMMITMENTS AND CONTINGENT LIABILITIES

The following were the Company's off-balance sheet contractual obligations as at December 31, 2021:

	2022	2023	2024	2025	2026	Thereafter	Total
Property leases	$ 945	$ 1,097	$ 1,083	$ 1,002	$ 1,000	$ 11,894	$ 17,021
Capital commitments	22,945	21,362	40,185	50,675	—	—	135,167
Other operating commitments	23,108	5,833	4,799	4,172	1,998	9,530	49,440
	$ 46,998	$ 28,292	$ 46,067	$ 55,849	$ 2,998	$ 21,424	$ 201,628

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 December 31, 2021 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 December 31, 2021, customer prepayments of $368.1 million (December 31, 2020 — $414.1 million), a portion of which is refundable under certain circumstances, were reflected in other current and long-term liabilities.

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

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

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

Legal Proceedings

The Company participates from time to time in legal proceedings arising in the normal course of its business.

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

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

34. COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

and penalties, is now $73 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 previously assessed the Company for $13 million relating to transfer pricing issues for the years 2009 to 2014. All disputes relate to the Canadian tax authorities' repricing of certain transactions between the Company and its subsidiaries. The Company has paid 50% of the outstanding amounts in order to formally object to 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.

In May 2021, the Company was reassessed by the Canada Revenue Agency for $6.9 million, including interest, for its Scientific Research and Experimental Development claim for the taxation year ended December 31, 2016. The Company has challenged the reassessment. In January 2022, the Company was reassessed by the Canada Revenue Agency for $4.7 million, including interest, for its Scientific Research and Experimental Development claim for the taxation year ended December 31, 2017. The Company will challenge the reassessment. 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, 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.

35. SUBSIDIARIES

The list of significant companies included in the scope of consolidation as at December 31, 2021 was as follows:

Company	Country	Method of Consolidation	% voting rights
Infosat Communications LP	Canada	Fully consolidated	100
Telesat Spectrum General Partnership	Canada	Fully consolidated	100
Telesat LEO Holdings Inc.	Canada	Fully consolidated	100
Telesat Technology Corporation	Canada	Fully consolidated	100
Telesat Spectrum Corporation.	Canada	Fully consolidated	100
Telesat Spectrum Holdings Corporation	Canada	Fully consolidated	100
Skynet Satellite Corporation	United States	Fully consolidated	100
Telesat Network Services, Inc.	United States	Fully consolidated	100
The SpaceConnection Inc.	United States	Fully consolidated	100
Telesat Satellite LP	United States	Fully consolidated	100
Telesat LEO Inc.	United States	Fully consolidated	100
Telesat U.S. Services, LLC	United States	Fully consolidated	100
Infosat Able Holdings, Inc.	United States	Fully consolidated	100
Telesat Brasil Capacidade de Satélites Ltda.	Brazil	Fully consolidated	100
Telesat (IOM) Limited	Isle of Man	Fully consolidated	100
Telesat International Limited	United Kingdom	Fully consolidated	100
Loral Skynet Corporation	United States	Fully consolidated	100
Loral Space & Communications Inc.	United States	Fully consolidated	100
Telesat Can ULC	Canada	Fully consolidated	100
Telesat CanHold Corporation	Canada	Fully consolidated	100
Telesat Canada	Canada	Fully consolidated	100
Telesat Partnership LP	Canada	Fully consolidated	100

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

35. SUBSIDIARIES (cont.)

The list of significant companies included in the scope of consolidation as at December 31, 2020 was as follows:

Company	Country	Method of Consolidation	% voting rights
Infosat Communications LP	Canada	Fully consolidated	100
Telesat Spectrum General Partnership	Canada	Fully consolidated	100
Telesat LEO Holdings Inc.	Canada	Fully consolidated	100
Telesat Technology Corporation	Canada	Fully consolidated	100
Telesat Spectrum Corporation.	Canada	Fully consolidated	100
Telesat Spectrum Holdings Corporation	Canada	Fully consolidated	100
Skynet Satellite Corporation	United States	Fully consolidated	100
Telesat Network Services, Inc.	United States	Fully consolidated	100
The SpaceConnection Inc.	United States	Fully consolidated	100
Telesat Satellite LP	United States	Fully consolidated	100
Telesat LEO Inc.	United States	Fully consolidated	100
Telesat U.S. Services, LLC	United States	Fully consolidated	100
Infosat Able Holdings, Inc.	United States	Fully consolidated	100
Telesat Brasil Capacidade de Satélites Ltda.	Brazil	Fully consolidated	100
Telesat (IOM) Limited	Isle of Man	Fully consolidated	100
Telesat International Limited	United Kingdom	Fully consolidated	100

36. 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

For the years ended December 31,	2021	2020	2019
Short-term benefits (including salaries)	$ 15,465	$ 13,058	$ 11,051
Special payments[(1)]	597	710	948
Post-employment benefits	2,514	2,180	2,773
Share-based payments	73,090	12,373	15,649
	$ 91,666	$ 28,321	$ 30,421

(1) Balance relates to the special cash distribution effective January 25, 2017.

Key management personnel — stock options

In January 2019, 40,269 share appreciation rights were exercised by a member of key management personnel for 14,846 Non-Voting Participating Preferred Shares, on a net settlement basis.

In December 2019, 66,667 RSUs were settled in exchange for 30,980 Non-Voting Participating Preferred Shares, on a net settlement basis.

In December 2020, 66,667 RSUs were settled in exchange for 30,980 Non-Voting Participating Preferred Shares, on a net settlement basis.

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

36. RELATED PARTY TRANSACTIONS (cont.)

In December 2020, Telesat issued 650,000 time-vesting options to certain key management personnel, which vest over a five-year period.

In April 2021, 6,197,776 issued and outstanding, vested and unvested stock options were cancelled. This resulted in a non-cash operating expense recorded in the year ended December 31, 2021 of $8.5 million.

In April 2021, the Company approved the adoption of an RSU plan. A total of 3,660,000 Non-Voting Participating Preferred Shares are reserved for issuance upon vesting of the RSUs awarded under the RSU Plan, provided that the aggregate number of Non-Voting Participating Preferred Shares issuable under the RSU Plan (and under all other share compensation arrangements) does not exceed 10% of the total number of Non-Voting Participating Preferred Shares outstanding from time to time (on a non-diluted basis). A total of 3,530,000 RSUs were issued in connection with the plan.

Transactions with related parties

The Company and certain of its subsidiaries regularly 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 (Note 35). Any transactions entered into with Loral have been entered into over the normal course of operations. Following the Transaction Agreement related parties included Red Isle and MHR. There were no transactions or balances with Red Isle or MHR during any of the years presented.

During the years presented below, and prior to the close of the Transaction, the Company and its subsidiaries entered into the following transactions with Loral.

Sale of goods and services

For the years ended December 31,	2021	2020	2019
Revenue	$ 105	$ 133	$ 133

Purchase of goods and services

For the years ended December 31,	2021	2020	2019
Operating expenses	$ 5,230	$ 6,712	$ 6,645

As at December 31, 2020, there was an amount payable to Loral in the amount of $0.1 million.

The amounts outstanding were unsecured and were settled in cash.

Other related party transactions

The Company funds certain defined benefit pension plans. Contributions made to the plans for the year ended December 31, 2021 were $5.1 million (December 31, 2020 — $5.5 million).