PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands of Canadian dollars, except per share amounts)	Notes	Three months 2022	Three months 2021 (Note 3)	Six months 2022	Six months 2021 (Note 3)
Revenue	5	$ 186,614	$ 187,888	$ 372,383	$ 378,380
Operating expenses	6	(58,924)	(65,047)	(123,290)	(105,412)
Depreciation		(46,487)	(52,372)	(95,795)	(102,739)
Amortization		(3,748)	(3,948)	(7,446)	(8,063)
Other operating gains (losses), net		(23)	(74)	(53)	(747)
Operating income		77,432	66,447	145,799	161,419
Interest expense	7	(49,671)	(46,467)	(98,174)	(88,462)
Gain on extinguishment of debt	12	85,886	—	106,916	—
Interest and other income		2,580	1,652	3,240	1,773
Gain (loss) on changes in fair value of financial instruments		2,277	3,796	4,635	(21,328)
Gain (loss) on foreign exchange		(98,834)	40,641	(62,687)	75,754
Income (loss) before tax		19,670	66,069	99,729	129,156
Tax (expense) recovery	8	(24,045)	(13,062)	(43,474)	(34,827)
Net income (loss)		$ (4,375)	$ 53,007	$ 56,255	$ 94,329
Net income (loss) attributable to:					
Telesat Corporation shareholders		$ (1,948)	$ 53,007	$ 12,035	$ 94,329
Non-controlling interest		(2,427)	—	44,220	—
		$ (4,375)	$ 53,007	$ 56,255	$ 94,329
Net income (loss) per common share attributable to Telesat Corporation shareholders					
Basic		$ (0.16)	$ 1.07	$ 1.00	$ 1.90
Diluted		$ (0.16)	$ 1.03	$ 0.96	$ 1.86
Total Weighted Average Common Shares Outstanding					
Basic	16	12,113,123	49,546,692	12,068,419	49,546,692
Diluted	16	12,113,123	51,545,378	13,814,381	50,704,966

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars)	Three months 2022	Three months 2021 (Note 3)	Six months 2022	Six months 2021 (Note 3)
Net income (loss)	$ (4,375)	$ 53,007	$ 56,255	$ 94,329
Other comprehensive income (loss)				
Items that may be reclassified into profit or loss				
Foreign currency translation adjustments	58,108	(16,969)	40,565	(31,071)
Other comprehensive income (loss)	58,108	(16,969)	40,565	(31,071)
Total comprehensive income (loss)	$ 53,733	$ 36,038	$ 96,820	$ 63,258
Total comprehensive income (loss) attributable to				
Telesat Corporation shareholders	$ 12,137	$ 36,038	$ 21,920	$ 63,258
Non-controlling interest	41,596	—	74,900	—
	$ 53,733	$ 36,038	$ 96,820	$ 63,258

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars)	Common shares/Public shares	Preferred shares	Total share capital	Accumulated earnings	Equity-settled employee benefits reserve	Foreign currency translation reserve	Total reserves	Total Telesat Corporation/ Telesat Canada shareholders' equity	Non-controlling Interest	Total shareholders' equity
Telesat Canada balance as at January 1, 2021	$ 26,580	$ 129,118	$ 155,698	$ 1,266,514	$ 85,648	$ (47,924)	$ 37,724	$ 1,459,936	$ —	$ 1,459,936
Cumulative adjustments	—	—	—	(758)	—	—	—	(758)	—	(758)
Net income (loss)	—	—	—	94,329	—	—	—	94,329	—	94,329
Other comprehensive income (loss), net of tax (expense) recovery of $Nil	—	—	—	—	—	(31,071)	(31,071)	(31,071)	—	(31,071)
Share-based compensation	—	—	—	—	26,587	—	26,587	26,587	—	26,587
Telesat Canada balance as at June 30, 2021	$ 26,580	$ 129,118	$ 155,698	$ 1,360,085	$ 112,235	$ (78,995)	$ 33,240	$ 1,549,023	$ —	$ 1,549,023
Telesat Canada balance as at July 1, 2021	$ 26,580	$ 129,118	$ 155,698	$ 1,360,085	$ 112,235	$ (78,995)	$ 33,240	$ 1,549,023	$ —	$ 1,549,023
Net income (loss)	—	—	—	(9,139)	—	—	—	(9,139)	69,835	60,696
Dividends declared on Director Voting Preferred shares	—	—	—	(10)	—	—	—	(10)	—	(10)
Issuance of share capital on settlement of restricted share units	—	16	16	—	—	—	—	16	—	16
Other comprehensive income (loss), net of tax (expense) recovery of $14,424	—	—	—	9,946	—	18,998	18,998	28,944	25,570	54,514
Share-based compensation	—	—	—	—	38,547	—	38,547	38,547	8,590	47,137
Reallocation related to transaction	16,261	(129,134)	(112,873)	(1,010,853)	(112,118)	44,137	(67,981)	(1,191,707)	1,176,624	(15,083)
Telesat Corporation balance as at December 31, 2021	$ 42,841	$ —	$ 42,841	$ 350,029	$ 38,664	$ (15,860)	$ 22,804	$ 415,674	$ 1,280,619	$ 1,696,293
Telesat Corporation balance as at January 1, 2022	$ 42,841	$ —	$ 42,841	$ 350,029	$ 38,664	$ (15,860)	$ 22,804	$ 415,674	$ 1,280,619	$ 1,696,293
Net income (loss)	—	—	—	12,035	—	—	—	12,035	44,220	56,255
Issuance of share capital on settlement of restricted share units	344	—	344	—	(739)	—	(739)	(395)	—	(395)
Exchange of Limited Partnership units for Public Shares	899	—	899	10,160	1,296	(328)	968	12,027	(12,027)	—
Other comprehensive income (loss), net of tax (expense) recovery of $Nil	—	—	—	—	—	9,885	9,885	9,885	30,680	40,565
Share-based compensation	—	—	—	—	11,215	—	11,215	11,215	31,632	42,847
Telesat Corporation balance as at June 30, 2022	$ 44,084	$ —	$ 44,084	$ 372,224	$ 50,436	$ (6,303)	$ 44,133	$ 460,441	$ 1,375,124	$ 1,835,565

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars)	Notes	June 30, 2022	December 31, 2021 (Note 3)
Assets			
Cash and cash equivalents		$ 1,482,250	$ 1,449,593
Trade and other receivables		70,035	122,698
Other current financial assets		781	861
Current income tax recoverable		5,420	3,219
Prepaid expenses and other current assets		57,030	41,064
Total current assets		1,615,516	1,617,435
Satellites, property and other equipment	5,9	1,371,469	1,429,688
Deferred tax assets		46,630	46,187
Other long-term financial assets		13,504	16,348
Long-term income tax recoverable		15,202	12,277
Other long-term assets	5	30,492	31,254
Intangible assets	5,10	758,197	762,659
Goodwill	10	2,446,603	2,446,603
Total assets		$ 6,297,613	$ 6,362,451
Liabilities			
Trade and other payables		$ 24,387	$ 54,628
Other current financial liabilities		22,666	36,647
Income taxes payable		13,942	5,622
Other current liabilities		85,160	85,058
Total current liabilities		146,155	181,955
Long-term indebtedness	12	3,655,993	3,792,597
Deferred tax liabilities		286,357	296,318
Other long-term financial liabilities		21,308	23,835
Other long-term liabilities		352,235	371,453
Total liabilities		4,462,048	4,666,158
Shareholders' Equity			
Share capital	13	44,084	42,841
Accumulated earnings		372,224	350,029
Reserves		44,133	22,804
Total Telesat Corporation shareholders' equity		460,441	415,674
Non-controlling interest	14	1,375,124	1,280,619
Total shareholders' equity		1,835,565	1,696,293
Total liabilities and shareholders' equity		$ 6,297,613	$ 6,362,451

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the six months ended June 30

(in thousands of Canadian dollars)	Notes	2022	2021 (Note 3)
Cash flows from operating activities			
Net income (loss)		$ 56,255	$ 94,329
Adjustments to reconcile net income (loss) to cash flows from operating activities			
Depreciation		95,795	102,739
Amortization		7,446	8,063
Tax expense (recovery)		43,474	34,827
Interest expense		98,174	88,462
Interest income		(3,526)	(2,322)
(Gain) loss on foreign exchange		62,687	(75,754)
(Gain) loss on changes in fair value of financial instruments		(4,635)	21,328
Share-based compensation	6	42,863	26,587
(Gain) loss on disposal of assets		53	747
Gain on extinguishment of debt	21	(106,916)	—
Deferred revenue amortization		(31,162)	(33,612)
Pension expenses		3,787	4,030
Other		(1,434)	(3,881)
Income taxes paid, net of income taxes received	21	(48,589)	(53,168)
Interest paid, net of interest received	21	(92,710)	(69,079)
Operating assets and liabilities	21	(52,383)	9,195
Net cash from operating activities		69,179	152,491
Cash flows (used in) generated from investing activities			
Satellite programs		(15,875)	(78,442)
Purchase of property and other equipment		(17,375)	(11,530)
Purchase of intangible assets		(27)	—
C-band clearing proceeds		64,651	—
Net cash (used in) generated from investing activities		31,374	(89,972)
Cash flows (used in) generated from financing activities			
Proceeds from indebtedness	21	—	619,900
Payment of debt issue costs	21	—	(6,834)
Repayment of indebtedness	21	(97,234)	—
Payments of principal on lease liabilities	21	(872)	(1,355)
Satellite performance incentive payments	21	(3,642)	(3,350)
Government grant received		8,015	—
Net cash (used in) generated from financing activities		(93,733)	608,361
Effect of changes in exchange rates on cash and cash equivalents		25,837	(23,159)
Changes in cash and cash equivalents		32,657	647,721
Cash and cash equivalents, beginning of period		1,449,593	818,378
Cash and cash equivalents, end of period		$ 1,482,250	$ 1,466,099

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

1. BACKGROUND OF THE COMPANY

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

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

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

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

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

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

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

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

On August 4, 2022, these financial statements were approved by the Audit Committee of the Board of Directors and authorized for issue.

2. BASIS OF PRESENTATION

Statement of Compliance

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

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

2. BASIS OF PRESENTATION (cont.)

Basis of Consolidation

Subsidiaries

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

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

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

Joint arrangements

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

3. CHANGES IN ACCOUNTING POLICIES (cont.)

The Company adopted the IFRIC agenda decision retroactively.

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

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

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

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

	Three months ended June 30, 2021		Six months ended June 30, 2021	
Operating expenses	$	887	$	1,298
Satellites, property and other equipment	$	(907)	$	(1,318)
Foreign currency translation adjustments	$	20	$	20
Net income per common share attributable to Telesat Corporation shareholders – Basic	$	(0.02)	$	(0.03)
Net income per common share attributable to Telesat Corporation shareholders – Diluted	$	(0.02)	$	(0.03)

4. SIGNIFICANT ACCOUNTING POLICIES

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

Software as a service arrangements

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Critical judgments in applying accounting policies

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

Software as a service arrangements

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

Future Changes in Accounting Policies

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

Amendments to IAS 1 and IFRS Practice Statement 2

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

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

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

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

The Company is currently evaluating the impact of the amendment.

Amendments to IAS 12

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

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

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

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

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

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

5. SEGMENT INFORMATION

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

The Company derives revenue from the following services:

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

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

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

Revenue derived from the above services were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Broadcast	$ 89,573	$ 96,868	$ 186,556	$ 195,821
Enterprise	94,277	87,927	179,685	176,549
Consulting and other	2,764	3,093	6,142	6,010
Revenue	$ 186,614	$ 187,888	$ 372,383	$ 378,380

Equipment sales included within the various services were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Broadcast	$ 1	$ 15	$ 1	$ 15
Enterprise	1,943	1,675	5,299	7,215
Total equipment sales	$ 1,944	$ 1,690	$ 5,300	$ 7,230

Geographic Information

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Canada	$ 81,911	$ 82,672	$ 163,531	$ 170,443
United States	68,459	69,259	143,422	139,421
Latin America & Caribbean	17,814	14,002	30,090	28,679
Europe, Middle East & Africa	7,521	9,097	15,417	18,544
Asia & Australia	10,909	12,858	19,923	21,293
Revenue	$ 186,614	$ 187,888	$ 372,383	$ 378,380

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

5. SEGMENT INFORMATION (cont.)

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

As at,	June 30, 2022	December 31, 2021
Canada	$ 781,375	$ 812,478
United Kingdom	525,106	541,126
Europe, Middle East & Africa	17,339	19,310
United States	45,361	54,390
All others	2,288	2,384
Satellites, property and other equipment	$ 1,371,469	$ 1,429,688

As at,	June 30, 2022	December 31, 2021
Canada	$ 701,104	$ 706,083
United States	38,678	38,039
Latin America & Caribbean	12,917	12,643
All others	5,498	5,894
Intangible assets	$ 758,197	$ 762,659

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

As at,	June 30, 2022	December 31, 2021
Canada	$ 30,300	$ 30,979
United Kingdom	192	275
Other long-term assets	$ 30,492	$ 31,254

Goodwill was not allocated to geographic regions.

Major Customers

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

6. OPERATING EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Compensation and employee benefits[(a)]	$ 40,305	$ 45,324	$ 83,371	$ 67,530
Other operating expenses[(b)]	11,511	14,785	24,969	23,198
Cost of sales[(c)]	7,108	4,938	14,950	14,684
Operating expenses	$ 58,924	$ 65,047	$ 123,290	$ 105,412

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

(b) Other operating expenses included general and administrative expenses, marketing expenses, insurance expenses, professional fees and facility costs. The balance for the three and six months ended June 30, 2022 included $0.6 million and $1.4 million, respectively of leases not capitalized due to exemptions and variable lease payments not included in the measurement of the leases liabilities (three and six months ended June 30, 2021 - $1.0 million and $1.5 million, respectively).

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

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

6. OPERATING EXPENSES (cont.)

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

7. INTEREST EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Interest on indebtedness	$ 42,916	$ 36,986	$ 84,110	$ 69,177
Interest on derivative instruments	1,511	3,469	3,350	7,040
Interest on satellite performance incentive payments	454	560	931	1,162
Interest on significant financing component	4,326	4,720	8,737	9,679
Interest on employee benefit plans	117	324	234	648
Interest on leases	347	408	812	756
Interest expense	$ 49,671	$ 46,467	$ 98,174	$ 88,462

8. INCOME TAXES

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Current tax expense (recovery)	$ 31,212	$ 17,534	$ 52,837	$ 41,653
Deferred tax expense (recovery)	(7,167)	(4,472)	(9,363)	(6,826)
Tax expense (recovery)	$ 24,045	$ 13,062	$ 43,474	$ 34,827

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Income before tax	$ 19,670	$ 66,069	$ 99,729	$ 129,156
Multiplied by the statutory income tax rates.	26.46%	26.46%	26.46%	26.46%
	5,205	17,482	26,388	34,175
Income tax recorded at rates different from the Canadian tax rate	(1,882)	(31,002)	(3,647)	(33,817)
Permanent differences	8,688	1,905	6,798	7,975
Effect of temporary differences not recognized as deferred tax assets	14,984	27,699	16,196	29,519
Change in estimates related to prior period	(1,062)	(2,119)	(1,062)	(2,119)
Other	(1,888)	(903)	(1,199)	(906)
Tax expense	$ 24,045	$ 13,062	$ 43,474	$ 34,827
Effective income tax rate	122.24%	19.77%	43.59%	26.96%

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

9. SATELLITES, PROPERTY AND OTHER EQUIPMENT

For the six months ended June 30, 2022, the Company had additions of $20.0 million (June 30, 2021 — $96.7 million) primarily related to acquisitions associated with the LEO program.

10. GOODWILL AND INTANGIBLE ASSETS

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

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

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

During the first and second quarter of 2022, we reviewed the more sensitive assumptions to determine whether or not there were any changes from the assumptions from the valuation that was performed at the end of 2021. Based upon the review performed, the only significant material difference noted was related to the discount rates utilized on the valuation of GEO, U.S. C-band clearing proceeds and orbital slots. In all cases, the discount rate increased from 7.5% to 9.5%.

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

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

11. LEASE LIABILITIES

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

Remainder 2022	2023	2024	2025	2026	Thereafter	Total
$ 1,840	$ 3,625	$ 3,488	$ 3,218	$ 3,001	$ 35,524	$ 50,696

The undiscounted contractual cash flows included $15.2 million of interest payments.

12. INDEBTEDNESS

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

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

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

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

12. INDEBTEDNESS (cont.)

	June 30, 2022	December 31, 2021
Senior Secured Credit Facilities		
Revolving Credit Facility	$ —	$ —
Term Loan B – U.S. Facility (June 30, 2022 and December 31, 2021 – US$1,552,815)	1,998,939	1,962,292
Senior Unsecured Notes (June 30, 2022 – US$390,000 and December 31, 2021 – US$550,000)	502,047	695,035
2026 Senior Secured Notes (US$500,000)	643,650	631,850
Senior Secured Notes (US$400,000)	514,920	505,480
	3,659,556	3,794,657
Deferred financing costs, prepayment options and loss on repayment	(3,563)	(2,060)
Long-term indebtedness	$ 3,655,993	$ 3,792,597

During the three and six months ended June 30, 2022, Telesat repurchased for retirement Senior Unsecured Notes with a principal amount of $162.1 million and $202.1 million, respectively (US$128.0 million and US$160.0 million, respectively) by way of open market purchases in exchange for $77.8 million and $97.2 million, respectively (US$61.4 million and US$77.0 million, respectively).

For the three and six months ended June 30, 2022, the repurchase resulted in a write-off of the related debt issue costs and prepayment options in the amount of $1.5 million and $1.9 million, respectively (US$1.2 million and US$1.5 million, respectively), and a gain on extinguishment of debt of $85.9 million and $106.9 million, respectively (US$67.7 million and US$84.5 million, respectively).

13. SHARE CAPITAL

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

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

	June 30, 2022		December 31, 2021	
	Number of shares	Stated value	Number of shares	Stated value
Telesat Public Shares	12,248,652	$ 37,744	11,907,246	$ 36,501
Class C Shares	112,841	6,340	112,841	6,340
	12,361,493	$ 44,084	12,020,087	$ 42,841

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

Telesat Public shares	
Class A Common shares	448,135
Class B Variable Voting shares	11,800,517
Total Telesat Public shares	12,248,652

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

13. SHARE CAPITAL (cont.)

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

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

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

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

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

	June 30, 2022		December 31, 2021	
	Number of units	Stated value	Number of units	Stated value
Class A and Class B LP Units	19,099,898	$ 52,270	19,428,491	$ 53,169
Class C LP Units	18,098,362	59,683	18,098,362	59,683
	37,198,260	$ 111,953	37,526,853	$ 112,852

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

Class A and Class B LP Units	
Class A LP Units	12,500
Class B LP Units	19,087,398
Total Class A and Class B LP Units	19,099,898

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

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

14. NON-CONTROLLING INTEREST

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

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

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

15. SHARE-BASED COMPENSATION PLANS

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

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

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

	Number of options	Weighted average exercise price
Outstanding, January 1, 2022	900,789	$ 48.77
Granted	285,149	$ 16.64
Outstanding June 30, 2022	1,185,938	$ 41.06

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

	RSUs with time criteria	RSUs with time and performance criteria	PSUs with time and performance criteria	DSUs
Outstanding, January 1, 2022	1,363,501	124,080	—	—
Granted	382,888	—	140,583	14,144
Settled	(27,573)	—	—	—
Outstanding, June 30, 2022	1,718,816	124,080	140,583	14,144

16. EARNINGS PER SHARE

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net income (loss) attributable to Telesat Corporation Shares	$ (1,948)	$ 53,007	$ 12,035	$ 94,329
Effect of diluted securities	—	—	1,222	—
Diluted net income (loss) attributable to Telesat Corporation Shares	$ (1,948)	$ 53,007	$ 13,257	$ 94,239

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

16. EARNINGS PER SHARE (cont.)

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

	Three months ended June 30,		Six months ended June 30,	
	2022	**2021**	**2022**	**2021**
Basic total weighted average number of Telesat Corporation Shares outstanding	12,113,123	49,546,692	12,068,419	49,546,692
Effect of diluted securities				
Stock options	—	511,105	31,290	400,697
RSUs	—	1,487,581	1,651,638	757,577
DSUs	—	—	7,111	—
PSUs	—	—	55,923	—
Diluted total weighted average number of Telesat Corporation Shares outstanding	12,113,123	51,545,378	13,814,381	50,704,966

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

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

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

17. CAPITAL DISCLOSURES

The Senior Secured Credit Facilities, Senior Secured Notes and 2026 Senior Secured Notes are secured by substantially all of the Company's assets, excluding the assets of unrestricted subsidiaries. If the Revolving Facility is drawn, the Senior Secured Credit Facilities require the Company to comply with a first lien net leverage ratio test. As at June 30, 2022, the first lien net leverage ratio was 4.78:1.00, which was less than the maximum test ratio of 5.75:1.00.

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

18. GOVERNMENT GRANT

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

For the six months ended June 30, 2022, the Company recorded $5.7 million relating to the agreement (six months ended June 30, 2021 — $5.1 million).

Of the amount recorded in the six months ended June 30, 2022, $3.4 million was recorded as a reduction to satellites, property and other equipment and $2.3 million was recorded as a reduction to operating expenses (six months ended June 30, 2021 — $3.0 million as a reduction to satellites, property and other equipment and $2.1 million recorded as a reduction to operating expenses).

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

19. FINANCIAL INSTRUMENTS

Measurement of Risks

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

Credit risk

Credit risk is the risk that a counterparty to a financial asset will default, resulting in the Company incurring a financial loss. As at June 30, 2022, the maximum exposure to credit risk is equal to the carrying value of the financial assets which totaled $1,566.6 million (December 31, 2021 — $1,589.5 million).

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

		Contractual cash flows					
	Carrying amount	Remaining 2022	2023	2024	2025	2026	Thereafter
Cash and cash equivalents	$ 1,482,250	$ 1,482,250	$ —	$ —	$ —	$ —	$ —
Trade and other receivables, excluding deferred receivables	64,470	64,470	—	—	—	—	—
Deferred receivables	16,478	3,001	4,809	3,003	1,434	1,345	2,886
Other financial assets	3,372	781	1,807	—	—	—	784
	$ 1,566,570	$ 1,550,502	$ 6,616	$ 3,003	$ 1,434	$ 1,345	$ 3,670

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 June 30, 2022, North American and International customers made up 64% and 36% of the outstanding trade receivable balance, respectively (December 31, 2021 — 54% and 46%, respectively). Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts as at June 30, 2022 was $4.7 million (December 31, 2021 — $5.2 million).

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

Foreign exchange risk

The Company's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The Company's main currency exposures lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and indebtedness with the most significant impact being on the U.S. dollar denominated indebtedness cash and short-term investments. As at June 30, 2022 and December 31, 2021, the entire indebtedness was denominated in U.S. dollars, with the Canadian dollar equivalent of the U.S. dollar denominated indebtedness equaling $3,659.6 million and $3,794.7 million, respectively, before netting of deferred financing costs, prepayment options and loss on repayment.

As at June 30, 2022, the impact of a 5 percent increase (decrease) in the value of the Canadian dollar against the U.S. dollar on financial assets and liabilities would have decreased (increased) net income before tax by $166.6 million (December 31, 2021 — $174.0 million) and increased (decreased) other comprehensive income by $56.9 million (December 31, 2021 — $57.0 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

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

19. FINANCIAL INSTRUMENTS (cont.)

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 June 30, 2022, one interest rate swap of US$450 million, with expiration term of September 2022, was outstanding to hedge the interest rate risk associated with the variable interest rate on the U.S. denominated Term Loan B at fixed interest rate, excluding applicable margins, of 2.04%.

If the interest rates on the variable rate indebtedness change by 0.25%, the result would be an increase or decrease to net income of $0.9 million and $2.1 million for the three and six months ended June 30, 2022, respectively (for the three and six months ended June 30, 2021 — $1.2 million and $2.4 million, respectively).

Liquidity risk

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

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

	Carrying amount	Contractual cash flows (undiscounted)	Remaining 2022	2023	2024	2025	2026	Thereafter
Trade and other payables	$ 24,387	$ 24,387	$ 24,387	$ —	$ —	$ —	$ —	$ —
Customer and other deposits	1,686	1,686	1,164	148	18	210	—	146
Satellite performance incentive payments	27,538	33,764	4,388	7,605	5,399	3,169	3,228	9,975
Other financial liabilities	2,752	2,752	2,752	—	—	—	—	—
Indebtedness[(1)]	3,671,554	4,527,915	92,615	184,486	184,665	183,521	2,820,477	1,062,151
	$ 3,727,917	$ 4,590,504	$ 125,306	$ 192,239	$ 190,082	$ 186,900	$ 2,823,705	$ 1,072,272

(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	$ 336	$ 6,562
Indebtedness	$ 11,998	$ 868,359

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

19. FINANCIAL INSTRUMENTS (cont.)

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 June 30, 2022	FVTPL	Amortized cost	Total	Fair value	Fair value hierarchy
Cash and cash equivalents	$ —	$ 1,482,250	$ 1,482,250	$ 1,482,250	Level 1
Trade and other receivables	—	70,035	70,035	70,035	(3)
Other current financial assets[1]	298	483	781	781	Level 1, Level 2
Other long-term financial assets	—	13,504	13,504	13,504	Level 1
Trade and other payables	—	(24,387)	(24,387)	(24,387)	(3)
Other current financial liabilities	—	(22,666)	(22,666)	(24,121)	Level 2
Other long-term financial liabilities	—	(21,308)	(21,308)	(21,316)	Level 2
Indebtedness[2]	—	(3,659,556)	(3,659,556)	(2,302,522)	Level 2
	$ 298	$ (2,161,645)	$ (2,161,347)	$ (805,776)	

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)	

(1) As at June 30, 2022, other current financial assets classified as fair value through profit or loss were calculated using level 2 of the fair value hierarchy. As at December 31, 2021, other long-term financial assets classified as fair value through profit or loss were calculated using level 2 of the fair value hierarchy. All other balances were calculated using level 1 of the fair value hierarchy.

(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.

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

19. FINANCIAL INSTRUMENTS (cont.)

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.

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 June 30, 2022, cash and cash equivalents included $7.6 million (December 31, 2021 — $81.0 million) of short-term investments.

The fair value of the satellite performance incentive payments, included in other current and long-term financial liabilities, was determined using a discounted cash flow methodology. The calculation is performed on a recurring basis. As at June 30, 2022 and December 31, 2021, the discount rate used was 5.0 % and 4.6%, respectively.

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

	June 30, 2022	December 31, 2021
Term Loan B – U.S. Facility – Senior Secured Credit Facilities	69.13%	88.25%
Senior Unsecured Notes	43.20%	77.65%
Senior Secured Notes	58.74%	88.72%
2026 Senior Secured Notes	62.36%	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.

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

19. FINANCIAL INSTRUMENTS (cont.)

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 June 30, 2022 ranged from 1.76% to 3.69 % (December 31, 2021 — 0.08% to 1.37%).

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

As at June 30, 2022	Other current financial assets	Other current financial liabilities	Total
Interest rate swaps	$ 298	$ —	$ 298
Prepayment options	—	—	—
	$ 298	$ —	$ 298

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)

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

Fair value, December 31, 2021 and January 1, 2022	$ (4,329)
Unrealized gains (losses) on derivatives	
Prepayment options	(1,045)
Interest rate swaps	5,680
Impact of foreign exchange	(8)
Fair value, June 30, 2022	$ 298

20. EMPLOYEE BENEFIT PLANS

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

	Pension Plans			Other Post-employment Benefit Plans		
Three months ended June 30, 2022	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 1,585	$ 132	$ 1,717	$ 177	$ —	$ 177
Interest expense (income)	$ (200)	$ 130	$ (70)	$ 183	$ 4	$ 187

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

20. EMPLOYEE BENEFIT PLANS (cont.)

	Pension Plans			Other Post-employment Benefit Plans		
Three months ended June 30, 2021	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 1,974	$ —	$ 1,974	$ 42	$ —	$ 42
Interest expense	$ 186	$ —	$ 186	$ 138	$ —	$ 138

	Pension Plans			Other Post-employment Benefit Plans		
Six months ended June 30, 2022	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 3,168	$ 264	$ 3,432	$ 355	$ —	$ 355
Interest expense (income)	$ (400)	$ 260	$ (140)	$ 366	$ 8	$ 374

	Pension Plans			Other Post-employment Benefit Plans		
Six months ended June 30, 2021	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Consolidated statements of income (loss)						
Operating expenses	$ 3,947	$ —	$ 3,947	$ 83	$ —	$ 83
Interest expense	$ 372	$ —	$ 372	$ 276	$ —	$ 276

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

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

	Pension Plans			Other Post-employment Benefit Plans		
As at June 30, 2022	**Canadian**	**US**	**Total**	**Canadian**	**US**	**Total**
Included in other long-term liabilities	$ —	$ 18,792	$ 18,792	$ 22,835	$ 4,732	$ 27,567
Included in other long-term assets	$ 29,502	$ —	$ 29,502	$ —	$ —	$ —

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents were comprised of the following:

As at June 30,	**2022**	**2021**
Cash	$ 1,474,681	$ 1,387,811
Short-term investments[(1)]	7,569	78,288
Cash and cash equivalents	$ 1,482,250	$ 1,466,099

(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.

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

21. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

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

Six months ended June 30,	2022	2021
Income taxes paid	$ (48,602)	$ (53,214)
Income taxes received	13	46
	$ (48,589)	$ (53,168)

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

Six months ended June 30,	2022	2021
Interest paid	$ (96,225)	$ (71,382)
Interest received	3,515	2,303
	$ (92,710)	$ (69,079)

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

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2022	$ 3,792,597	$ 30,344	$ 35,678
Cash outflows	(97,234)	(3,642)	(872)
Amortization of deferred financing costs, prepayment options and loss on repayment	349	—	—
Gain on extinguishment of debt	(106,916)	—	—
Non-cash addition	—	—	376
Interest paid	—	—	(812)
Interest accrued	—	—	812
Impact of foreign exchange	67,197	500	177
Balance as at June 30, 2022	$ 3,655,993	$ 27,202	$ 35,359

	Indebtedness	Satellite performance incentive payments	Leases
Balance as at January 1, 2021	$ 3,187,152	$ 37,574	$ 29,051
Cash inflows	619,900	—	—
Cash outflows	—	(3,350)	(1,355)
Amortization of deferred financing costs, prepayment options and loss on repayment	101	—	—
Debt issue costs	(6,834)	—	—
Prepayment option at inception–2026 Senior Secured Notes	1,896	—	—
Interest accrued	—	—	757
Interest paid	—	—	(757)
Non-cash additions	—	—	7,209
Non-cash disposals	—	—	(939)
Other	—	25	—
Impact of foreign exchange	(81,843)	(948)	21
Balance as at June 30, 2021	$ 3,720,372	$ 33,301	$ 33,987

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

21. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

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

Six months ended June 30,	2022	2021
Trade and other receivables	$ (14,531)	$ 11,103
Financial assets	2,346	1,018
Other assets	(15,175)	(4,015)
Trade and other payables	(21,170)	(2,170)
Financial liabilities	(1,550)	2,703
Other liabilities	(2,303)	556
	$ (52,383)	$ 9,195

Non-cash investing activities were comprised of:

Six months ended June 30,	2022	2021
Satellites, property and other equipment	$ (1,506)	$ 6,661

22. COMMITMENTS AND CONTINGENT LIABILITIES

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

	Remaining 2022	2023	2024	2025	2026	Thereafter	Total
Property leases	$ 459	$ 1,091	$ 1,076	$ 995	$ 993	$ 11,893	$ 16,507
Capital commitments	16,188	31,185	40,936	51,621	—	—	139,930
Other operating commitments	31,383	20,546	12,052	6,139	3,009	8,786	81,915
	$ 48,030	$ 52,822	$ 54,064	$ 58,755	$ 4,002	$ 20,679	$ 238,352

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 June 30, 2022 were included in capital commitments.

The Company has agreements with various customers for prepaid revenue on several service agreements which take effect when the satellite is placed in service. The Company is responsible for operating and controlling these satellites. As at June 30, 2022, customer prepayments of $347.4 million (December 31, 2021 — $368.1 million), a portion of which is refundable under certain circumstances, were reflected in other current and long-term liabilities.

In the normal course of business, the Company has executed agreements that provide for indemnification and guarantees to counterparties in various transactions. These indemnification undertakings and guarantees may require the Company to compensate the counterparties for costs and losses incurred as a result of certain events including, without limitation, loss or damage to property, change in the interpretation of laws and regulations (including tax legislation), claims that may arise while providing services, or as a result of litigation that may be suffered by the counterparties. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount the Company could be required to pay counterparties as the

22. COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments under such indemnifications.

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

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

Legal Proceedings

Telesat previously received assessments from Brazilian tax authorities alleging that additional taxes are owed on revenue earned for the period 2003 to 2018. The total disputed amount for the period 2003 to 2018, including interest and penalties, is now $82 million. The disputes relate to the Brazilian tax authorities' characterization of revenue. The Company has challenged the assessments. The Company believes the likelihood of a favorable outcome in these disputes is more likely than not and, as such, no reserve has been established.

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

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

23. RELATED PARTY TRANSACTIONS

Transactions with subsidiaries

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

Compensation of executives and Board level directors

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

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

23. RELATED PARTY TRANSACTIONS (cont.)

Transactions with related parties

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

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

Three months ended June 30, 2021	Sales of goods and services	Purchase of goods and services
Revenue	$ 31	$ —
Operating expenses	$ —	$ 1,546

Six months ended June 30, 2021	Sales of goods and services	Purchase of goods and services
Revenue	$ 63	$ —
Operating expenses	$ —	$ 3,139

Other related party transactions

The Company funds certain defined benefit pension plans. Contributions made to the plans for the three and six months ended June 30, 2022 were $0.8 million and $2.1 million, respectively (three and six months ended June 30, 2021 — $1.5 million and $2.7 million, respectively).