

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

<i>(in thousands of Canadian dollars, except per share amounts)</i>	Notes	Three months		Nine months	
		2023	2022	2023	2022
Revenue.....	4	\$ 175,086	\$ 180,102	\$ 538,260	\$ 552,485
Operating expenses.....	5	(49,545)	(55,738)	(154,651)	(179,028)
Depreciation.....		(47,058)	(46,269)	(140,067)	(142,064)
Amortization.....		(3,164)	(3,758)	(9,927)	(11,204)
Other operating gains (losses), net.....	6	(14)	53	344,899	—
Operating income.....		75,305	74,390	578,514	220,189
Interest expense.....	7	(67,748)	(56,278)	(205,171)	(154,452)
Gain on repurchase of debt.....	13	68,072	—	221,462	106,916
Interest and other income.....		16,181	7,321	48,764	10,561
Gain (loss) on changes in fair value of financial instruments.....		—	(321)	—	4,314
Gain (loss) on foreign exchange.....		(76,886)	(249,155)	181	(311,842)
Income (loss) before income taxes.....		14,924	(224,043)	643,750	(124,314)
Tax (expense) recovery.....	8	(18,199)	(4,669)	(98,452)	(48,143)
Net income (loss).....		\$ (3,275)	\$ (228,712)	\$ 545,298	\$ (172,457)
Net income (loss) attributable to:					
Telesat Corporation shareholders.....		\$ (1,022)	\$ (58,552)	\$ 147,021	\$ (46,517)
Non-controlling interest.....		(2,253)	(170,160)	398,277	(125,940)
		\$ (3,275)	\$ (228,712)	\$ 545,298	\$ (172,457)
Net income (loss) per common share attributable to Telesat Corporation shareholders					
Basic.....		\$ (0.08)	\$ (4.69)	\$ 11.01	\$ (3.81)
Diluted.....		\$ (0.08)	\$ (4.69)	\$ 10.62	\$ (3.81)
Total Weighted Average Common Shares Outstanding					
Basic.....	17	13,576,099	12,489,993	13,354,723	12,210,018
Diluted.....	17	13,576,099	12,489,993	15,161,977	12,210,018

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

<i>(in thousands of Canadian dollars)</i>	Three months		Nine months	
	2023	2022	2023	2022
Net income (loss)	\$ (3,275)	\$ (228,712)	\$ 545,298	\$ (172,457)
Other comprehensive income (loss)				
Items that may be reclassified into profit or loss				
Foreign currency translation adjustments . .	58,015	152,433	8,124	192,998
Total other comprehensive income (loss)	58,015	152,433	8,124	192,998
Total comprehensive income (loss)	<u>\$ 54,740</u>	<u>\$ (76,279)</u>	<u>\$ 553,422</u>	<u>\$ 20,541</u>
Total comprehensive income (loss) attributable to:				
Telesat Corporation shareholders	\$ 14,605	\$ (20,438)	\$ 149,563	\$ 1,482
Non-controlling interest	40,135	(55,841)	403,859	19,059
	<u>\$ 54,740</u>	<u>\$ (76,279)</u>	<u>\$ 553,422</u>	<u>\$ 20,541</u>

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

<i>(in thousands of Canadian dollars)</i>	Common shares/Public shares	Accumulated earnings	Equity- settled employee benefits reserve	Foreign currency translation reserve	Total reserves	Total Telesat Corporation shareholders' equity	Non- controlling Interest	Total shareholders' equity
Balance as at January 1, 2022	\$ 42,841	\$ 350,029	\$ 38,664	\$ (15,860)	\$ 22,804	\$ 415,674	\$ 1,280,619	\$ 1,696,293
Net income (loss)	—	(46,517)	—	—	—	(46,517)	(125,940)	(172,457)
Issuance of share capital on settlement of restricted share units	344	—	(739)	—	(739)	(395)	—	(395)
Exchange of Limited Partnership units for Public Shares	1,539	17,273	2,271	(407)	1,864	20,676	(20,676)	—
Other comprehensive income (loss), net of tax (expense) recovery of \$Nil	—	—	—	47,999	47,999	47,999	144,999	192,998
Adjustment of non-controlling interest	—	—	—	—	—	—	(21,225)	(21,225)
Share-based compensation	—	—	14,539	—	14,539	14,539	40,915	55,454
Balance as at September 30, 2022	<u>\$ 44,724</u>	<u>\$ 320,785</u>	<u>\$ 54,735</u>	<u>\$ 31,732</u>	<u>\$ 86,467</u>	<u>\$ 451,976</u>	<u>\$ 1,298,692</u>	<u>\$ 1,750,668</u>
Balance as at October 1, 2022	\$ 44,724	\$ 320,785	\$ 54,735	\$ 31,732	\$ 86,467	\$ 451,976	\$ 1,298,692	\$ 1,750,668
Net income (loss)	—	23,121	—	—	—	23,121	69,219	92,340
Issuance of share capital on settlement of restricted share units	1,798	—	(485)	—	(485)	1,313	(2,991)	(1,678)
Exchange of Limited Partnership units for Public Shares	32	4,539	(2,285)	224	(2,061)	2,510	(2,510)	—
Other comprehensive income (loss), net of tax (expense) recovery of \$6,768	—	6,757	—	(11,103)	(11,103)	(4,346)	(13,682)	(18,028)
Final Transaction adjustment	—	—	—	—	—	—	435	435
Share-based compensation	—	—	5,791	—	5,791	5,791	6,174	11,965
Balance as at December 31, 2022	<u>\$ 46,554</u>	<u>\$ 355,202</u>	<u>\$ 57,756</u>	<u>\$ 20,853</u>	<u>\$ 78,609</u>	<u>\$ 480,365</u>	<u>\$ 1,355,337</u>	<u>\$ 1,835,702</u>
Balance as at January 1, 2023	\$ 46,554	\$ 355,202	\$ 57,756	\$ 20,853	\$ 78,609	\$ 480,365	\$ 1,355,337	\$ 1,835,702
Net income (loss)	—	147,021	—	—	—	147,021	398,277	545,298
Issuance of share capital on settlement of restricted share units	3,032	11	(611)	—	(611)	2,432	(5,411)	(2,979)
Issuance of share capital on exercise of stock options	29	—	—	—	—	29	(13)	16
Exchange of Limited Partnership units for Public Shares	1,457	21,118	2,375	1,344	3,719	26,294	(26,294)	—
Other comprehensive income (loss), net of tax (expense) recovery of \$Nil	—	—	—	2,542	2,542	2,542	5,582	8,124
Share-based compensation	—	—	6,446	—	6,446	6,446	19,652	26,098
Balance as at September 30, 2023	<u>\$ 51,072</u>	<u>\$ 523,352</u>	<u>\$ 65,966</u>	<u>\$ 24,739</u>	<u>\$ 90,705</u>	<u>\$ 665,129</u>	<u>\$ 1,747,130</u>	<u>\$ 2,412,259</u>

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Balance Sheets

<i>(in thousands of Canadian dollars)</i>	Notes	September 30, 2023	December 31, 2022
Assets			
Cash and cash equivalents		\$ 1,775,044	\$ 1,677,792
Trade and other receivables		64,393	41,248
Other current financial assets		509	515
Current income tax recoverable		12,997	18,409
Prepaid expenses and other current assets		50,117	50,324
Total current assets		1,903,060	1,788,288
Satellites, property and other equipment	4,9	1,304,575	1,364,084
Deferred tax assets		2,887	49,984
Other long-term financial assets		7,117	10,476
Long-term income tax recoverable		15,303	15,303
Other long-term assets	4	46,399	47,977
Intangible assets	4,10	764,325	756,878
Goodwill	11	2,446,603	2,446,603
Total assets		<u>\$ 6,490,269</u>	<u>\$ 6,479,593</u>
LIABILITIES			
Trade and other payables		\$ 44,520	\$ 43,555
Other current financial liabilities		51,320	48,397
Income taxes payable		8,425	3,476
Other current liabilities		71,056	75,968
Current indebtedness	13	35,979	—
Total current liabilities		211,300	171,396
Long-term indebtedness	13	3,276,943	3,850,081
Deferred tax liabilities		270,662	275,696
Other long-term financial liabilities		16,458	19,663
Other long-term liabilities		302,647	327,055
Total liabilities		<u>4,078,010</u>	<u>4,643,891</u>
SHAREHOLDERS' EQUITY			
Share capital	14	51,072	46,554
Accumulated earnings		523,352	355,202
Reserves		90,705	78,609
Total Telesat Corporation shareholders' equity		665,129	480,365
Non-controlling interest	15	1,747,130	1,355,337
Total shareholders' equity		2,412,259	1,835,702
Total liabilities and shareholders' equity		<u>\$ 6,490,269</u>	<u>\$ 6,479,593</u>

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

<i>(in thousands of Canadian dollars)</i>	Notes	2023	2022
Cash flows from operating activities			
Net income (loss)		\$ 545,298	\$ (172,457)
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Depreciation		140,067	142,064
Amortization		9,927	11,204
Tax expense (recovery)		98,452	48,143
Interest expense		205,171	154,452
Interest income		(47,627)	(10,985)
(Gain) loss on foreign exchange		(181)	311,842
(Gain) loss on changes in fair value of financial instruments		—	(4,314)
Share-based compensation		26,066	55,460
(Gain) loss on disposal of assets		(7)	—
Gain on repurchase of debt		(221,462)	(106,916)
Deferred revenue amortization		(45,453)	(48,232)
Pension expense		4,254	5,694
C-band clearing income		(344,892)	—
Other		2,819	(792)
Income taxes paid, net of income tax received	22	(44,650)	(81,821)
Interest paid, net of interest received	22	(140,125)	(113,492)
Operating assets and liabilities	22	(31,640)	(28,832)
Net cash from operating activities		<u>156,017</u>	<u>161,018</u>
Cash flows (used in) generated from investing activities			
Satellite programs		(46,896)	(22,820)
Purchase of property and other equipment		(26,879)	(23,462)
Purchase of intangible assets		(13,211)	(27)
C-band clearing proceeds		351,438	64,651
Net cash (used in) generated from investing activities		<u>264,452</u>	<u>18,342</u>
Cash flows (used in) generated from financing activities			
Repayment of indebtedness	13,22	(316,733)	(97,234)
Payments of principal on lease liabilities	22	(1,608)	(1,804)
Satellite performance incentive payments	22	(4,319)	(5,064)
Proceeds from exercise of stock options		27	—
Tax withholdings on settlement of restricted share units		(2,719)	—
Government grant received		1,089	15,921
Net cash (used in) generated from financing activities		<u>(324,263)</u>	<u>(88,181)</u>
Effect of changes in exchange rates on cash and cash equivalents		<u>1,046</u>	<u>134,269</u>
Changes in cash and cash equivalents		97,252	225,448
Cash and cash equivalents, beginning of period		<u>1,677,792</u>	<u>1,449,593</u>
Cash and cash equivalents, end of period		<u>\$ 1,775,044</u>	<u>\$ 1,675,041</u>

See accompanying notes to the unaudited interim condensed consolidated financial statements

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2023
(all amounts in thousands of Canadian dollars, except where otherwise noted)

1. BACKGROUND OF THE COMPANY

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

The Corporation is a global satellite operator, providing mission-critical communications solutions to support the requirements of sophisticated satellite users throughout the world. The Company’s state-of-the-art fleet consists of 15 geostationary satellites and the Canadian payload on Viasat-1.

The Corporation is developing a constellation of low earth orbit (“LEO”) satellites and integrated terrestrial infrastructure, called “Telesat Lightspeed”. In January 2018, the first LEO satellite, LEO 1, was successfully launched into orbit. The LEO 1 satellite has demonstrated certain key features of the Telesat Lightspeed system design, specifically the capability of the satellite and customer terminals to deliver a low latency broadband experience. In July 2023, the Corporation successfully launched its LEO 3 satellite into orbit.

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

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

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

References herein to “Telesat” or “Company” refer to Telesat Corporation and its subsidiaries.

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

On November 3, 2023, 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, 2022 consolidated financial statements of the Corporation. The financial statements use the same basis of presentation and accounting policies and critical accounting judgments and estimates as outlined in Notes 4 and 5 of the consolidated financial statements for the year ended December 31, 2022.

Telesat Corporation
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3. MATERIAL ACCOUNTING POLICY INFORMATION

Future Changes in Accounting Policies

The International Accounting Standards Board (“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

In October 2022, the IASB amended IAS 1, *Presentation of Financial Statements* with the aim of improving the information companies provide about long-term debt covenants.

The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The amendment requires a company to disclose information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period. Such disclosure includes information about covenants and facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 with early adoption permitted.

The Company is currently evaluating the impact of the amendment.

4. SEGMENT INFORMATION

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

The Company derives revenue from the following services:

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

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

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

Revenue derived from the above services were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Broadcast.	\$ 85,146	\$ 85,061	\$ 257,015	\$ 271,617
Enterprise	87,036	92,360	272,497	272,045
Consulting and other.	2,904	2,681	8,748	8,823
Revenue	<u>\$ 175,086</u>	<u>\$ 180,102</u>	<u>\$ 538,260</u>	<u>\$ 552,485</u>

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

4. SEGMENT INFORMATION (cont.)

Equipment sales included within the various services were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Broadcast.	\$ 6	\$ 1	\$ 16	\$ 2
Enterprise	2,127	1,266	10,755	6,565
Equipment sales	\$ 2,133	\$ 1,267	\$ 10,771	\$ 6,567

Geographic Information

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Canada.	\$ 82,691	\$ 83,106	\$ 253,370	\$ 246,637
United States.	61,933	61,762	183,779	205,184
Latin America & Caribbean	8,903	12,740	36,782	42,830
Asia & Australia	12,914	11,973	37,485	31,896
Europe, Middle East & Africa	8,645	10,521	26,844	25,938
Revenue	\$ 175,086	\$ 180,102	\$ 538,260	\$ 552,485

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

As at,	September 30, 2023	December 31, 2022
Canada.	\$ 782,210	\$ 784,261
United Kingdom	485,307	525,672
United States.	22,601	36,612
Europe, Middle East & Africa (excluding United Kingdom)	12,390	15,344
All others.	2,067	2,195
Satellites, property and other equipment	\$ 1,304,575	\$ 1,364,084

As at,	September 30, 2023	December 31, 2022
Canada.	\$ 707,024	\$ 698,336
United States.	40,601	40,647
Latin America & Caribbean	12,189	12,754
All others.	4,511	5,141
Intangible assets	\$ 764,325	\$ 756,878

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

4. SEGMENT INFORMATION (cont.)

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

As at,	September 30, 2023	December 31, 2022
Canada.	\$ 46,399	\$ 47,977
Other long-term assets	\$ 46,399	\$ 47,977

Goodwill was not allocated to geographic regions.

Major Customers

For the three and nine months ended September 30, 2023 and 2022, there were two significant customers each representing more than 10% of consolidated revenue.

5. OPERATING EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Compensation and employee benefits ^(a) . . .	\$ 27,020	\$ 32,590	\$ 88,768	\$ 115,961
Other operating expenses ^(b)	12,156	14,180	36,143	39,149
Cost of sales ^(c)	10,369	8,968	29,740	23,918
Operating expenses	\$ 49,545	\$ 55,738	\$ 154,651	\$ 179,028

- (a) Compensation and employee benefits included salaries, bonuses, commissions, post-employment benefits and charges arising from share-based compensation.
- (b) Other operating expenses included general and administrative expenses, marketing expenses, insurance expenses, professional fees and facility costs. The balance for the three and nine months ended September 30, 2023 included \$0.3 million and \$1.4 million, respectively, of leases not capitalized due to exemptions and variable lease payments not included in the measurement of the lease liabilities (three and nine months ended September 30, 2022 — \$Nil and \$1.4 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.

6. OTHER OPERATING GAINS (LOSSES), NET

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Gain (loss) on disposal of assets	\$ (14)	\$ 53	\$ 7	\$ —
C-band clearing income	—	—	344,892	—
Other operating gains (losses), net.	\$ (14)	\$ 53	\$ 344,899	\$ —

C-Band Clearing Income

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").

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

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

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.

In May 2020, the Company officially committed to the accelerated version of the C-Band clearing program. 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 payments received in 2022.

In June 2023, the Company filed certification of accelerated relocation relating to Phase II. The FCC received no challenges and on June 30, 2023, issued an order validating the certification. An amount of US\$259.6 million was accrued and subsequently received during the nine months ended September 30, 2023, relating to Phase II accelerated clearing of the C-band spectrum. As of September 30, 2023, the Company has fulfilled all requirements of the program and all clearing proceeds have been received.

7. INTEREST EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Interest on indebtedness	\$ 63,360	\$ 51,381	\$ 191,538	\$ 135,491
Interest on derivative instruments	—	(310)	—	3,040
Interest on satellite performance incentive payments	357	439	1,131	1,370
Interest on significant financing component	3,853	4,249	11,945	12,986
Interest on employee benefit plans	(195)	121	(583)	355
Interest on leases	373	398	1,140	1,210
Interest expense	\$ 67,748	\$ 56,278	\$ 205,171	\$ 154,452

8. INCOME TAXES

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Current tax expense (recovery)	\$ 14,531	\$ 9,637	\$ 55,559	\$ 62,474
Deferred tax expense (recovery)	3,668	(4,968)	42,893	(14,331)
Tax expense (recovery)	\$ 18,199	\$ 4,669	\$ 98,452	\$ 48,143

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2023
(all amounts in thousands of Canadian dollars, except where otherwise noted)

8. INCOME TAXES (cont.)

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Income (loss) before tax	\$ 14,924	\$ (224,043)	\$ 643,750	\$ (124,314)
Multiplied by the statutory income tax rates	26.43%	26.46%	26.43%	26.46%
	3,944	(59,282)	170,143	(32,894)
Income tax recorded at rates different from the Canadian tax rate	(7,846)	(1,881)	(11,421)	(5,528)
Permanent differences	7,919	34,344	(64,444)	41,142
Effect on deferred tax balances due to the change in income tax rates	—	—	(102)	—
Effect of temporary differences not recognized as deferred tax assets	17,350	37,552	6,687	53,748
Change in estimates related to prior period	(139)	465	(2,152)	(597)
Impact of foreign exchange	(2,825)	(5,921)	(421)	(7,120)
Other	(204)	(608)	162	(608)
Tax expense (recovery)	\$ 18,199	\$ 4,669	\$ 98,452	\$ 48,143
Effective income tax rate	121.94%	(2.08)%	15.29%	(38.73)%

9. SATELLITES, PROPERTY AND OTHER EQUIPMENT

For the nine months ended September 30, 2023, the Company had additions of \$78.3 million (September 30, 2022 — \$36.8 million) primarily related to acquisitions associated with the LEO program and the acquisition of a geostationary satellite in 2023.

10. INTANGIBLE ASSETS

For the nine months ended September 30, 2023, the Company had additions of \$16.5 million. The additions are related to acquisitions associated with the LEO program.

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 2023, we reviewed certain key assumptions to determine whether or not there were any changes in the assumptions from the valuation that was performed at the end of 2022. Based upon this review, there were no changes to the assumptions from the valuation that was performed at the end of 2022, and as such there was no impairment of the intangible assets, orbital slots or trade name.

Telesat Corporation
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11. GOODWILL

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

During the first, second and third quarter of 2023, we reviewed certain key assumptions to determine whether or not there were any changes in the assumptions from the valuation that was performed at the end of 2022. Based upon this review, there was no impairment of goodwill.

12. LEASE LIABILITIES

The expected undiscounted contractual cash flows of the lease liabilities as at September 30, 2023 were as follows:

Remaining 2023	2024	2025	2026	2027	Thereafter	Total
\$ 952	\$ 3,726	\$ 3,644	\$ 3,071	\$ 2,896	\$ 33,859	\$ 48,148

The undiscounted contractual cash flows included \$13.8 million of interest payments.

13. INDEBTEDNESS

The outstanding indebtedness was comprised of the following:

	September 30, 2023	December 31, 2022
Senior Secured Credit Facilities		
Revolving facility	\$ —	\$ —
Term Loan B – U.S. Facility ⁽¹⁾ (September 30, 2023 – US\$1,448,267; December 31, 2022 – US\$1,552,815)	1,966,312	2,104,685
Senior Unsecured Notes ⁽²⁾ (September 30, 2023 – US\$295,000; December 31, 2022 – US\$390,000) . . .	400,522	528,606
Senior Secured Notes ⁽³⁾ (September 30, 2023 – US\$299,995; December 31, 2022 – US\$400,000) . . .	407,303	542,160
2026 Senior Secured Notes ⁽⁴⁾ (September 30, 2023 – US\$399,040; December 31, 2022 – US\$500,000) . . .	541,777	677,700
	3,315,914	3,853,151
Deferred financing costs, prepayment options and loss on repayment.	(2,992)	(3,070)
	3,312,922	3,850,081
Less: current indebtedness	(35,979)	—
Long-term indebtedness	\$ 3,276,943	\$ 3,850,081

(1) 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 ("Senior Secured Credit Facilities"). The Senior Secured Credit Facilities are comprised of two tranches — a revolving credit facility ("Revolving facility") of up to US\$200.0 million (or Canadian equivalent) maturing in December 2024 and Term Loan B — U.S. Facility of US\$1,908.5 million maturing in December 2026.

On May 9, 2023, Telesat Canada entered into a seventh amendment (the "Amendment") to the Credit Agreement. The Amendment amends the Credit Agreement to replace LIBOR-based benchmark rates with SOFR-based benchmark rates and to make certain other conforming changes. Following the Amendment, loans under the Revolving Facility bear interest,

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13. INDEBTEDNESS (cont.)

at Telesat Canada's option, at either (x) in the case of loans denominated in Canadian Dollars, (i) a floating rate based on the Canadian prime rate, plus an applicable margin ranging from 0.75% to 1.25% or (ii) a floating rate based on the Canadian BA rate, plus an applicable margin ranging from 1.75% to 2.25%, or (y) in the case of loans denominated in US dollars, (i) a floating rate based on the base rate, plus an applicable margin ranging from 0.75% to 1.25% or (ii) a floating rate based on SOFR, plus an applicable margin ranging from 1.75% to 2.25%. Loans under the Term Loan B Facility bear interest, at Telesat Canada's option, at either (i) a floating rate based on the base rate, plus an applicable margin of 1.75% or (ii) a floating rate based on SOFR, plus an applicable margin of 2.75%. In addition, loans benchmarked against SOFR will be subject to a credit spread adjustment of 0.11448% for a one-month interest period, 0.26161% for a three-month interest period and 0.42826% for a six-month interest period.

During the three and nine months ended September 30, 2023, Telesat repurchased a portion of the Term Loan B loans with a principal amount of \$141.2 million (US\$104.5 million) for retirement in exchange for \$106.6 million (US\$78.9 million).

- (2) On October 11, 2019, Telesat Canada issued, through a private placement, US\$550.0 million of 6.5% Senior Unsecured Notes at an interest rate of 6.5%, which mature in October 2027 ("Senior Unsecured Notes").

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

There were no repurchases during the three months ended September 30, 2022.

During the nine months ended September 30, 2023, Telesat repurchased Senior Unsecured Notes, with a principal amount of \$128.9 million (US\$95.0 million) in exchange for \$53.7 million (US\$39.5 million).

There were no repurchases during the three months ended September 30, 2023.

- (3) On December 6, 2019, Telesat Canada issued, through a private placement, US\$400.0 million 4.875% Senior Secured Notes, at an interest rate of 4.875%, which mature in June 2027 ("Senior Secured Notes").

During the nine months ended September 30, 2023, Telesat repurchased Senior Secured Notes with a principal amount of \$133.6 million (US\$100.0 million) in exchange for \$77.0 million (US\$57.6 million). Of this balance, Telesat repurchased Senior Secured Notes in the three months ended September 30, 2023 with a principal amount of \$9.2 million (US\$6.9 million) in exchange for \$5.5 million (US\$4.1 million).

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

During the nine months ended September 30, 2023, Telesat repurchased 2026 Senior Secured Notes with a principal amount of \$134.5 million (US\$101.0 million) in exchange for \$79.6 million (US\$59.7 million). Of this balance, Telesat repurchased 2026 Senior Secured Notes in the three months ended September 30, 2023 with a principal amount of \$75.6 million (US\$57.3 million) in exchange for \$45.5 million (US\$34.5 million).

As a result of the repurchases of the Senior Unsecured Notes, Senior Secured Notes, the 2026 Senior Secured Notes and the Term Loan B loans for the nine month ended September 30, 2023, a gain on repurchase of debt of \$221.5 million, inclusive of a write-off of the related debt costs and prepayment options of \$0.1 million, was recorded. Of this balance, in the three months ended September 30, 2023, a gain on repurchase of debt of \$68.1 million, inclusive of a write-off of the related debt costs and prepayment options of \$0.1 million, was recorded.

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14. 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 together represent Telesat Corporation Shares ("Telesat Corporation Shares").

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

	September 30, 2023		December 31, 2022	
	Number of shares	Stated value	Number of shares	Stated value
Telesat Public Shares.	13,486,170	\$ 44,732	12,692,450	\$ 40,214
Class C Shares.	112,841	6,340	112,841	6,340
	<u>13,599,011</u>	<u>\$ 51,072</u>	<u>12,805,291</u>	<u>\$ 46,554</u>

The breakdown of the number of shares of Telesat Public Shares, as at September 30, 2023, was as follows:

Class A Common shares	1,321,912
Class B Variable Voting shares	12,164,258
Telesat Public shares	<u>13,486,170</u>

The split between the Class A Common shares and Class B Variable Voting shares in the table above is based on information available to the Company as at September 30, 2023.

In addition, the Company has one Class A Special Voting Share, one Class B Special Voting Share, one Class C Special Voting Share and one Golden Share outstanding, each with a nominal stated value as at September 30, 2023 and December 31, 2022. The voting rights of the Special Voting Shares and the Golden Share are more fully described in the Company's Annual Report filed on Form 20-F for the year ended December 31, 2022 that can be obtained on the SEC's website at <http://www.sec.gov> and on SEDAR at <http://www.sedarplus.ca>.

During the nine months ended September 30, 2023, 511,157 Restricted Share Units ("RSUs") were settled for 260,247 Telesat Public Shares, on a net settlement basis (nine months ended September 30, 2022 — 27,573 RSUs were settled for 12,813 Telesat Public Shares, on a net settlement basis).

During the nine months ended September 30, 2023, 532,473 Telesat Public Shares were issued in exchange for an equal number of Class B Limited Partnership units ("LP Units") (nine months ended September 30, 2022 — 562,351).

During the nine months ended September 30, 2023, 1,000 options were exercised in exchange for an equal number of Telesat Public Shares (nine months ended September 30, 2022 — Nil).

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

	September 30, 2023		December 31, 2022	
	Number of units	Stated value	Number of units	Stated value
Class A and Class B LP Units.	18,321,792	\$ 50,141	18,854,265	\$ 51,598
Class C LP Units.	18,098,362	38,893	18,098,362	38,893
	<u>36,420,154</u>	<u>\$ 89,034</u>	<u>36,952,627</u>	<u>\$ 90,491</u>

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

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15. NON-CONTROLLING INTEREST

Non-controlling interests represent equity interests in the Partnership that are not attributable to the Company. As at September 30, 2023, the Corporation held a general partnership interest representing approximately 27% economic interest in the Partnership (December 31, 2022 — approximately 26%). The remaining 73% economic interest represents exchangeable units held by the limited partnership unit holders (December 31, 2022 — 74%).

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

16. 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 changes in number of time vesting stock options outstanding and their weighted average exercise price under the Omnibus Plan and Historic Plan have been summarized below:

	Historic plan		Omnibus Plan	
	Number of options	Weighted average exercise price (in \$)	Number of options	Weighted average exercise price (in \$)
Outstanding, January 1, 2023	793,667	\$ 50.30	285,149	\$ 16.64
Granted	—	\$ —	550,519	\$ 11.89
Forfeited	(5,981)	\$ 44.95	(32,403)	\$ 16.64
Expired	(579,459)	\$ 54.58	—	\$ —
Exercised	(1,000)	\$ 26.77	—	\$ —
Outstanding, September 30, 2023	<u>207,227</u>	<u>\$ 38.60</u>	<u>803,265</u>	<u>\$ 13.38</u>

The movement under the Historic Plan was as follows:

	Number of RSUs with time criteria	Number of RSUs with time and performance criteria
Outstanding, January 1, 2023	973,338	124,080
Forfeited	(47,564)	—
Settled	(408,086)	—
Outstanding, September 30, 2023	<u>517,688</u>	<u>124,080</u>

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16. SHARE-BASED COMPENSATION PLANS (cont.)

The movement under the Omnibus Plan was as follows:

	Number of RSUs with time criteria	Number of PSUs with time and performance criteria	Number of DSUs
Outstanding, January 1, 2023	351,071	140,583	46,576
Granted	577,536	281,683	64,216
Settled	(103,071)	—	—
Forfeited	(19,846)	(15,975)	—
Outstanding, September 30, 2023	<u>805,690</u>	<u>406,291</u>	<u>110,792</u>

17. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income (loss) 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 numerators of the basic and diluted per share computations:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net income (loss) attributable to Telesat Corporation Shares	\$ (1,022)	\$ (58,552)	\$ 147,021	\$ (46,517)
Effect of diluted securities	—	—	13,999	—
Diluted net income (loss) attributable to Telesat Corporation Shares	<u>\$ (1,022)</u>	<u>\$ (58,552)</u>	<u>\$ 161,020</u>	<u>\$ (46,517)</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Basic total weighted average number of Telesat Corporation Shares outstanding	13,576,099	12,489,993	13,354,723	12,210,018
Effect of diluted securities				
Stock options	—	—	33,911	—
RSUs	—	—	1,433,410	—
DSUs	—	—	81,976	—
PSUs	—	—	257,957	—
Diluted total weighted average number of Telesat Corporation Shares outstanding	<u>13,576,099</u>	<u>12,489,993</u>	<u>15,161,977</u>	<u>12,210,018</u>

Effect of diluted securities represents Telesat Public Shares and Class C Shares assumed to be issued for no consideration. The difference between the number of Telesat Public Shares and Class C Shares assumed issued on exercise and the number of Telesat Public Shares and Class C Shares assumed repurchased are treated as an issue of common shares for no consideration. Balances are only included within the table if the security has a dilutive impact on the total weighted average number of Telesat Corporation shares and in the case of stock options are in-the-money.

For the purpose of earnings per share, all of the Telesat Public Shares and Class C Shares have equivalent economic rights.

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18. GOVERNMENT GRANT

In May 2019, Telesat entered into an agreement for a non-refundable government contribution of a value up to \$85 million for a period until December 31, 2024 relating to the Telesat Lightspeed constellation.

For the nine months ended September 30, 2023, the Company recorded \$12.9 million relating to the agreement (nine months ended September 30, 2022 — \$6.9 million).

Of the amount recorded in the nine months ended September 30, 2023, \$9.8 million was recorded as a reduction to satellites, property and other equipment and \$3.1 million was recorded as a reduction to operating expenses (nine months ended September 30, 2022 — \$3.4 million was recorded as a reduction to satellites, property and other equipment, \$0.1 million as reduction to prepaid expenses and other current assets and \$3.4 million was recorded as a reduction to operating expenses).

19. CAPITAL DISCLOSURES

The Senior Secured Credit Facilities, Senior Secured Notes and 2026 Senior Secured Notes are secured by substantially all of the Company's assets, excluding the assets of unrestricted subsidiaries. If the Revolving Facility is drawn, the Senior Secured Credit Facilities require the Company to comply with a first lien net leverage ratio test. As at September 30, 2023, the first lien net leverage ratio was 4.78:1, which was less than the maximum test ratio of 5.75:1.

The Company's operating results are tracked against budget on a monthly basis, and this analysis is reviewed by senior management.

20. FINANCIAL INSTRUMENTS

Measurement of Risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at September 30, 2023.

Credit risk

Credit risk is the risk that a counterparty to a financial asset will default, resulting in the Company incurring a financial loss. As at September 30, 2023, the maximum exposure to credit risk is equal to the carrying value of the financial assets which totaled \$1,847.1 million (December 31, 2022 — \$1,730.0 million).

The following table provides breakdown by maturity of financial assets as at September 30, 2023:

	Carrying amount	Contractual cash flows					
		Remaining 2023	2024	2025	2026	2027	Thereafter
Cash and cash equivalents. . . .	\$ 1,775,044	\$ 1,775,044	\$ —	\$ —	\$ —	\$ —	\$ —
Trade and other receivables, excluding deferred receivables.	60,076	60,076	—	—	—	—	—
Deferred receivables.	10,605	1,663	3,036	1,526	1,390	680	2,310
Other financial assets.	1,338	509	—	—	—	—	829
	\$ 1,847,063	\$ 1,837,292	\$ 3,036	\$ 1,526	\$ 1,390	\$ 680	\$ 3,139

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20. 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 September 30, 2023, North American and International customers made up 43% and 57% of the outstanding trade receivable balance, respectively (December 31, 2022 — 48% and 52%, respectively). Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts as at September 30, 2023 was \$6.5 million (December 31, 2022 — \$4.9 million).

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

Foreign exchange risk

The Company's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The Company's main currency exposures lie in its U.S. dollar denominated cash and cash equivalents, trade and other receivables, trade and other payables and indebtedness with the most significant impact being on the U.S. dollar denominated indebtedness, cash and short-term investments. As at September 30, 2023 and December 31, 2022, the entire indebtedness was denominated in U.S. dollars, with the Canadian dollar equivalent of the U.S. dollar denominated indebtedness equaling \$3,315.9 million and \$3,853.2 million, respectively, before netting of deferred financing costs, prepayment options and loss on repayment.

As at September 30, 2023, the impact of a 5 percent increase (decrease) in the value of the U.S. dollar against the Canadian dollar on financial assets and liabilities would have decreased (increased) net income (loss) by \$152.5 million (December 31, 2022 — \$172.1 million) and increased (decreased) other comprehensive income (loss) by \$70.7 million (December 31, 2022 — \$57.5 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.

If the interest rates on the variable rate indebtedness change by 0.25%, the result would be an increase or decrease to net income of \$1.3 million and \$3.9 million for the three and nine months ended September 30, 2023, respectively (for the three and nine months ended September 30, 2022 — \$0.9 million and \$3.0 million, respectively).

Liquidity risk

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

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20. FINANCIAL INSTRUMENTS (cont.)

The contractual maturities of financial liabilities as at September 30, 2023 were as follows:

	<u>Carrying amount</u>	<u>Contractual cash flows (undiscounted)</u>	<u>Remaining 2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Thereafter</u>
Trade and other payables	\$ 44,520	\$ 44,520	\$ 44,520	\$ —	\$ —	\$ —	\$ —	\$ —
Customer and other deposits	1,621	1,621	630	564	222	51	—	154
Satellite performance incentive payments . .	21,163	25,689	2,753	5,670	3,343	3,404	2,519	8,000
Other financial liabilities	2,391	2,391	2,391	—	—	—	—	—
Indebtedness ⁽¹⁾	<u>3,358,515</u>	<u>4,160,637</u>	<u>129,928</u>	<u>242,832</u>	<u>241,431</u>	<u>2,702,659</u>	<u>843,787</u>	<u>—</u>
	<u>\$ 3,428,210</u>	<u>\$ 4,234,858</u>	<u>\$ 180,222</u>	<u>\$ 249,066</u>	<u>\$ 244,996</u>	<u>\$ 2,706,114</u>	<u>\$ 846,306</u>	<u>\$ 8,154</u>

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

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

	<u>Interest payable</u>	<u>Interest payments</u>
Satellite performance incentive payments	\$ 369	\$ 4,895
Indebtedness	\$ 42,601	\$ 844,723

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

<u>As at September 30, 2023</u>	<u>Amortized cost</u>	<u>Fair Value</u>	<u>Fair value hierarchy</u>
Cash and cash equivalents	\$ 1,775,044	\$ 1,775,044	Level 1
Trade and other receivables	64,393	64,393	(1)
Other current financial assets	509	509	Level 1
Other long-term financial assets	7,117	7,117	Level 1
Trade and other payables	(44,520)	(44,520)	(1)
Other current financial liabilities	(51,320)	(51,771)	Level 2
Other long-term financial liabilities	(16,458)	(15,636)	Level 2
Indebtedness ⁽²⁾	<u>(3,315,914)</u>	<u>(2,286,118)</u>	Level 2
	<u>\$ (1,581,149)</u>	<u>\$ (550,982)</u>	

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20. FINANCIAL INSTRUMENTS (cont.)

As at December 31, 2022	Amortized cost	Fair Value	Fair value hierarchy
Cash and cash equivalents.	\$ 1,677,792	\$ 1,677,792	Level 1
Trade and other receivables.	41,248	41,248	(1)
Other current financial assets	515	515	Level 1
Other long-term financial assets	10,476	10,476	Level 1
Trade and other payables.	(43,555)	(43,555)	(1)
Other current financial liabilities	(48,397)	(49,500)	Level 2
Other long-term financial liabilities	(19,663)	(19,164)	Level 2
Indebtedness ⁽²⁾	(3,853,151)	(1,684,897)	Level 2
	<u>\$ (2,234,735)</u>	<u>\$ (67,085)</u>	

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

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

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.

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20. FINANCIAL INSTRUMENTS (cont.)

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate fair value due to the short-term maturity of these instruments. As at September 30, 2023, cash and cash equivalents included \$10.3 million (December 31, 2022 — \$8.5 million) of short-term investments.

The fair value of the satellite performance incentive payments, included in other current and long-term financial liabilities, was determined using a discounted cash flow methodology. The calculation is performed on a recurring basis. As at September 30, 2023 and December 31, 2022, the discount rate used was 7.5% and 6.6%, 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, which are a percentage of face value of the indebtedness, used were as follows:

	September 30, 2023	December 31, 2022
Term Loan B – U.S. Facility – Senior Secured Credit Facilities	73.13%	45.63%
Senior Unsecured Notes	52.23%	29.90%
Senior Secured Notes	65.02%	45.71%
2026 Senior Secured Notes	69.08%	47.02%

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.

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

The discount rates used to discount cash flows as at September 30, 2023 ranged from 4.89% to 5.81% (December 31, 2022 — 4.00% to 5.16%).

21. EMPLOYEE BENEFIT PLANS

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

	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Three months ended September 30, 2023						
Consolidated statements of income (loss)						
Operating expenses	\$ 1,131	\$ 170	\$ 1,301	\$ 116	\$ —	\$ 116
Interest expense (income)	\$ (574)	\$ 142	\$ (432)	\$ 231	\$ 6	\$ 237
Three months ended September 30, 2022						
Consolidated statements of income (loss)						
Operating expenses	\$ 1,594	\$ 135	\$ 1,729	\$ 178	\$ —	\$ 178
Interest expense (income)	\$ (199)	\$ 134	\$ (65)	\$ 182	\$ 4	\$ 186

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21. EMPLOYEE BENEFIT PLANS (cont.)

Nine months ended September 30, 2023	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Consolidated statements of income (loss)						
Operating expenses	\$ 3,393	\$ 512	\$ 3,905	\$ 349	\$ —	\$ 349
Interest expense (income)	\$ (1,720)	\$ 424	\$ (1,296)	\$ 695	\$ 18	\$ 713

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

No amounts were recorded on the condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2023 or 2022.

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

As at September 30, 2023	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Included in other long-term liabilities	\$ —	\$ 9,957	\$ 9,957	\$ 18,456	\$ 3,578	\$ 22,034
Included in other long-term assets	\$ 46,049	\$ —	\$ 46,049	\$ —	\$ —	\$ —

As at December 31, 2022	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Included in other long-term liabilities	\$ —	\$ 11,117	\$ 11,117	\$ 17,888	\$ 3,857	\$ 21,745
Included in other long-term assets	\$ 47,312	\$ —	\$ 47,312	\$ —	\$ —	\$ —

22. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents were comprised of the following:

As at September 30,	2023	2022
Cash	\$ 1,764,777	\$ 1,666,695
Short-term investments ⁽¹⁾	10,267	8,346
Cash and cash equivalents	\$ 1,775,044	\$ 1,675,041

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

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

Nine months ended September 30,	2023	2022
Income taxes paid	\$ (44,653)	\$ (82,436)
Income taxes received	3	615
	\$ (44,650)	\$ (81,821)

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22. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

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

Nine months ended September 30,	2023	2022
Interest paid.	\$ (188,265)	\$ (123,627)
Interest received	48,140	10,135
	<u>\$ (140,125)</u>	<u>\$ (113,492)</u>

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

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2023.	\$ 3,850,081	\$ 25,124	\$ 34,106
Cash outflows	(316,733)	(4,319)	(1,608)
Amortization of deferred financing costs, prepayment options and loss on repayment	765	—	—
Gain on repurchase of debt.	(221,462)	—	—
Non-cash additions	—	—	1,424
Interest paid.	—	—	(1,140)
Interest accrued.	—	—	1,140
Impact of foreign exchange.	271	(11)	3
Balance as at September 30, 2023	<u>\$ 3,312,922</u>	<u>\$ 20,794</u>	<u>\$ 33,925</u>

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

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

Nine months ended September 30,	2023	2022
Trade and other receivables.	\$ (17,024)	\$ (767)
Financial assets	3,215	3,668
Other assets	(4,283)	(19,744)
Trade and other payables.	(13,141)	(11,535)
Financial liabilities	(1,201)	(1,310)
Other liabilities	794	856
	<u>\$ (31,640)</u>	<u>\$ (28,832)</u>

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22. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

Non-cash investing activities were comprised of:

Nine months ended September 30,	2023	2022
Satellites, property and other equipment	\$ 8,918	\$ (2,084)
Intangible assets	\$ 3,298	\$ —

23. COMMITMENTS AND CONTINGENT LIABILITIES

The following were the Company's off-balance sheet contractual obligations as at September 30, 2023:

	Remaining 2023	2024	2025	2026	2027	Thereafter	Total
Property leases	\$ 409	\$ 1,110	\$ 1,114	\$ 1,113	\$ 980	\$ 11,192	\$ 15,918
Capital commitments	46,724	43,481	54,444	—	—	—	144,649
Other operating commitments. .	8,723	28,076	13,672	8,978	6,782	13,199	79,430
	<u>\$ 55,856</u>	<u>\$ 72,667</u>	<u>\$ 69,230</u>	<u>\$ 10,091</u>	<u>\$ 7,762</u>	<u>\$ 24,391</u>	<u>\$ 239,997</u>

Property leases consisted of off-balance sheet contractual obligations for land or building usage, while capital commitments included commitments for capital projects. Other operating commitments consisted of third-party satellite capacity arrangements as well as other commitments that are not categorized as property leases or capital commitments. The Company's off-balance sheet obligations included the future minimum payments for the non-cancellable period of each respective obligation, which have various terms and expire between 2023 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 non-cancellable commitments as at September 30, 2023 were included in capital commitments.

The Company has agreements with various customers for prepaid revenue on several service agreements which take effect when the satellite is placed in service. The Company is responsible for operating and controlling these satellites.

As at September 30, 2023, customer prepayments of \$300.8 million (December 31, 2022 — \$326.4 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 CanHold Corporation 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.

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23. COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

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 and penalties, is now \$108.3 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.

Other than the legal proceedings disclosed above and in Note 34 of the Company's December 31, 2022 consolidated financial statements, the Company is not aware of any proceedings outstanding or threatened as at 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.

24. RELATED PARTY TRANSACTIONS

Transactions with subsidiaries

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

Compensation of executives and Board level directors

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

Transactions with related parties

The Company's related parties included Red Isle Private Investments Inc. ("Red Isle") and MHR Fund Management LLC ("MHR"). There were no transactions or balances with Red Isle or MHR during any of the periods presented.

Other related party transactions

The Company funds certain defined benefit pension plans. Contributions made to the plans for the three and nine months ended September 30, 2023 were \$2.4 million and \$3.1 million, respectively (three and nine months ended September 30, 2022 — \$2.6 million and \$4.7 million, respectively).

25. SUBSEQUENT EVENTS

Debt repurchases

In October 2023 and up to November 3, 2023, Telesat committed to repurchase a portion of the Term Loan B loans with a principal amount of \$36.0 million (US\$26.5 million) for retirement at an aggregate cost of \$27.0 million (US\$19.9 million).