

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Telesat Corporation Unaudited Interim Condensed Consolidated Statements of Income (Loss) For the three months ended March 31

<i>(in thousands of Canadian dollars, except per share amounts)</i>	Notes	2023	2022
Revenue	4	\$ 183,422	\$ 185,769
Operating expenses	5	(53,472)	(64,366)
Depreciation		(46,377)	(49,308)
Amortization		(3,360)	(3,698)
Other operating gains (losses), net		23	(30)
Operating income		80,236	68,367
Interest expense	6	(68,873)	(48,503)
Gain on extinguishment of debt	11	—	21,030
Interest and other income		15,467	660
Gain (loss) on changes in fair value of financial instruments		—	2,358
Gain (loss) on foreign exchange		10,136	36,147
Income (loss) before income taxes		36,966	80,059
Tax (expense) recovery	7	(8,333)	(19,429)
Net income (loss)		<u>\$ 28,633</u>	<u>\$ 60,630</u>
Net income (loss) attributable to:			
Telesat Corporation shareholders		\$ 8,065	\$ 13,983
Non-controlling interest		20,568	46,647
		<u>\$ 28,633</u>	<u>\$ 60,630</u>
Net income (loss) per common share attributable to			
Telesat Corporation shareholders			
Basic		\$ 0.62	\$ 1.16
Diluted.		\$ 0.60	\$ 1.13
Total Weighted Average Common Shares Outstanding			
Basic	15	13,022,905	12,023,077
Diluted.	15	14,638,067	13,562,260

See accompanying notes to the unaudited interim consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
For the three months ended March 31

<i>(in thousands of Canadian dollars)</i>	2023	2022
Net income (loss)	<u>\$ 28,633</u>	<u>\$ 60,630</u>
Other comprehensive income (loss)		
Items that may be reclassified into profit or loss		
Foreign currency translation adjustments	<u>(5,457)</u>	<u>(17,543)</u>
Total other comprehensive income (loss)	<u>(5,457)</u>	<u>(17,543)</u>
Total comprehensive income (loss)	<u><u>\$ 23,176</u></u>	<u><u>\$ 43,087</u></u>
Total comprehensive income (loss) attributable to:		
Telesat Corporation shareholders	\$ 6,512	\$ 9,783
Non-controlling interest	<u>16,664</u>	<u>33,304</u>
	<u><u>\$ 23,176</u></u>	<u><u>\$ 43,087</u></u>

See accompanying notes to the unaudited interim 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)	—	13,983	—	—	—	13,983	46,647	60,630
Issuance of share capital on settlement of restricted share units . .	344	—	(739)	—	(739)	(395)	—	(395)
Other comprehensive income (loss), net of tax (expense) recovery of \$Nil	—	—	—	(4,200)	(4,200)	(4,200)	(13,343)	(17,543)
Share-based compensation	—	—	6,417	—	6,417	6,417	17,731	24,148
Balance as at								
March 31, 2022	<u>\$ 43,185</u>	<u>\$ 364,012</u>	<u>\$ 44,342</u>	<u>\$ (20,060)</u>	<u>\$ 24,282</u>	<u>\$ 431,479</u>	<u>\$ 1,331,654</u>	<u>\$ 1,763,133</u>
Balance as at								
April 1, 2022	\$ 43,185	\$ 364,012	\$ 44,342	\$ (20,060)	\$ 24,282	\$ 431,479	\$ 1,331,654	\$ 1,763,133
Net income (loss)	—	(37,379)	—	—	—	(37,379)	(103,368)	(140,747)
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	1,571	21,812	(14)	(183)	(197)	23,186	(23,186)	—
Other comprehensive income (loss), net of tax (expense) recovery of \$6,768	—	6,757	—	41,096	41,096	47,853	144,660	192,513
Final Transaction adjustment	—	—	—	—	—	—	(20,790)	(20,790)
Share-based compensation	—	—	13,913	—	13,913	13,913	29,358	43,271
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)	—	8,065	—	—	—	8,065	20,568	28,633
Issuance of share capital on settlement of restricted share units . .	627	—	(31)	—	(31)	596	(1,169)	(573)
Exchange of Limited Partnership units for Public Shares	1,457	16,282	2,375	1,084	3,459	21,198	(21,198)	—
Other comprehensive income (loss), net of tax (expense) recovery of \$Nil	—	—	—	(1,553)	(1,553)	(1,553)	(3,904)	(5,457)
Share-based compensation	—	—	1,834	—	1,834	1,834	7,161	8,995
Balance as at								
March 31, 2023	<u>\$ 48,638</u>	<u>\$ 379,549</u>	<u>\$ 61,934</u>	<u>\$ 20,384</u>	<u>\$ 82,318</u>	<u>\$ 510,505</u>	<u>\$ 1,356,795</u>	<u>\$ 1,867,300</u>

See accompanying notes to the unaudited interim consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Balance Sheets

<i>(in thousands of Canadian dollars)</i>	Notes	March 31, 2023	December 31, 2022
Assets			
Cash and cash equivalents		\$ 1,709,577	\$ 1,677,792
Trade and other receivables		51,833	41,248
Other current financial assets		474	515
Current income tax recoverable		22,246	18,409
Prepaid expenses and other current assets		61,704	50,324
Total current assets		1,845,834	1,788,288
Satellites, property and other equipment	4,8	1,336,824	1,364,084
Deferred tax assets		49,914	49,984
Other long-term financial assets		9,418	10,476
Long-term income tax recoverable		15,303	15,303
Other long-term assets	4	47,338	47,977
Intangible assets	4	753,729	756,878
Goodwill	9	2,446,603	2,446,603
Total assets		<u>\$ 6,504,963</u>	<u>\$ 6,479,593</u>
LIABILITIES			
Trade and other payables		\$ 43,462	\$ 43,555
Other current financial liabilities		72,107	48,397
Income taxes payable		4,008	3,476
Other current liabilities		72,445	75,968
Total current liabilities		192,022	171,396
Long-term indebtedness	11	3,839,510	3,850,081
Deferred tax liabilities		270,179	275,696
Other long-term financial liabilities		18,580	19,663
Other long-term liabilities		317,372	327,055
Total liabilities		<u>4,637,663</u>	<u>4,643,891</u>
SHAREHOLDERS' EQUITY			
Share capital	12	48,638	46,554
Accumulated earnings		379,549	355,202
Reserves		82,318	78,609
Total Telesat Corporation shareholders' equity		510,505	480,365
Non-controlling interest	13	1,356,795	1,355,337
Total shareholders' equity		<u>1,867,300</u>	<u>1,835,702</u>
Total liabilities and shareholders' equity		<u>\$ 6,504,963</u>	<u>\$ 6,479,593</u>

See accompanying notes to the unaudited interim consolidated financial statements

Telesat Corporation
Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the three months ended March 31

<i>(in thousands of Canadian dollars)</i>	Notes	2023	2022
Cash flows from operating activities			
Net income (loss)		\$ 28,633	\$ 60,630
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Depreciation		46,377	49,308
Amortization		3,360	3,698
Tax expense (recovery)		8,333	19,429
Interest expense		68,873	48,503
Interest income		(15,518)	(964)
(Gain) loss on foreign exchange		(10,136)	(36,147)
(Gain) loss on changes in fair value of financial instruments		—	(2,358)
Share-based compensation		8,958	24,169
(Gain) loss on disposal of assets		(23)	30
Gain on extinguishment of debt		—	(21,030)
Deferred revenue amortization		(15,474)	(16,434)
Pension expense		1,419	1,893
Other		571	(510)
Income taxes paid, net of income tax received	20	(17,510)	(29,471)
Interest paid, net of interest received	20	(24,153)	(22,109)
Operating assets and liabilities	20	(21,061)	(35,194)
Net cash from operating activities		<u>62,649</u>	<u>43,443</u>
Cash flows (used in) generated from investing activities			
Cash payments related to satellite programs		(12,523)	(8,420)
Cash payments related to property and other equipment		(12,436)	(9,633)
C-band clearing proceeds		—	64,651
Net cash (used in) generated from investing activities		<u>(24,959)</u>	<u>46,598</u>
Cash flows (used in) generated from financing activities			
Repayment of indebtedness	11,20	—	(14,880)
Payments of principal on lease liabilities	20	(523)	(368)
Satellite performance incentive payments	20	(1,529)	(1,364)
Government grant received		—	4,541
Net cash (used in) generated from financing activities		<u>(2,052)</u>	<u>(12,071)</u>
Effect of changes in exchange rates on cash and cash equivalents		<u>(3,853)</u>	<u>(14,973)</u>
Changes in cash and cash equivalents		31,785	62,997
Cash and cash equivalents, beginning of period		1,677,792	1,449,593
Cash and cash equivalents, end of period		<u>\$ 1,709,577</u>	<u>\$ 1,512,590</u>

See accompanying notes to the unaudited interim consolidated financial statements

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
March 31, 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 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, 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 low latency broadband experience.

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

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

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

References herein to “Telesat” or “Company” refer to Telesat 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 May 10, 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.

The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results that may be expected for the full fiscal year.

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2023
(all amounts in thousands of Canadian dollars, except where otherwise noted)

3. MATERIAL ACCOUNTING POLICY INFORMATION

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

In October 2022, 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 March 31,	2023	2022
Broadcast.	\$ 85,578	\$ 96,983
Enterprise	95,091	85,408
Consulting and other.	2,753	3,378
Revenue	\$ 183,422	\$ 185,769

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2023
(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 March 31,	2023	2022
Enterprise	\$ 7,305	\$ 3,356
Equipment sales	<u>\$ 7,305</u>	<u>\$ 3,356</u>

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 March 31,	2023	2022
Canada	\$ 88,723	\$ 81,620
United States	59,037	74,963
Latin America & Caribbean	14,462	12,276
Asia & Australia	12,147	9,014
Europe, Middle East & Africa	9,053	7,896
Revenue	<u>\$ 183,422</u>	<u>\$ 185,769</u>

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,	March 31, 2023	December 31, 2022
Canada	\$ 777,636	\$ 784,261
United Kingdom	510,658	525,672
United States	31,998	36,612
Europe, Middle East & Africa (excluding United Kingdom)	14,370	15,344
All others	2,162	2,195
Satellites, property and other equipment	<u>\$ 1,336,824</u>	<u>\$ 1,364,084</u>

As at,	March 31, 2023	December 31, 2022
Canada	\$ 695,425	\$ 698,336
United States	40,495	40,647
Latin America & Caribbean	12,880	12,754
All others	4,929	5,141
Intangible assets	<u>\$ 753,729</u>	<u>\$ 756,878</u>

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

As at,	March 31, 2023	December 31, 2022
Canada	\$ 47,338	\$ 47,977
Other long-term assets	<u>\$ 47,338</u>	<u>\$ 47,977</u>

Goodwill was not allocated to geographic regions.

Major Customers

For the three months ended March 31, 2023 and 2022, there were two significant customers each representing more than 10% of consolidated revenue.

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2023
(all amounts in thousands of Canadian dollars, except where otherwise noted)

5. OPERATING EXPENSES

Three months ended March 31,	2023	2022
Compensation and employee benefits ^(a)	\$ 29,974	\$ 43,066
Other operating expenses ^(b)	12,586	13,458
Cost of sales ^(c)	10,912	7,842
Operating expenses	\$ 53,472	\$ 64,366

- (a) Compensation and employee benefits included salaries, bonuses, commissions, post-employment benefits and charges arising from share-based compensation.
- (b) Other operating expenses included general and administrative expenses, marketing expenses, in-orbit insurance expenses, professional fees and facility costs. The balance for the three months ended March 31, 2023 included \$0.5 million of leases not capitalized due to exemptions and variable lease payments not included in the measurement of the lease liabilities (three months ended March 31, 2022 - \$0.8 million).
- (c) Cost of sales included the cost of third-party satellite capacity, the cost of equipment sales and other costs directly attributable to fulfilling the Company's obligations under customer contracts.

6. INTEREST EXPENSE

Three months ended March 31,	2023	2022
Interest on indebtedness	\$ 64,181	\$ 41,194
Interest on derivative instruments	—	1,839
Interest on satellite performance incentive payments	396	477
Interest on significant financing component	4,110	4,411
Interest on employee benefit plans	(193)	117
Interest on leases	379	465
Interest expense	\$ 68,873	\$ 48,503

7. INCOME TAXES

Three months ended March 31,	2023	2022
Current tax expense	\$ 13,749	\$ 21,625
Deferred tax recovery	(5,416)	(2,196)
Tax expense (recovery)	\$ 8,333	\$ 19,429

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 March 31,	2023	2022
Income (loss) before income taxes	\$ 36,966	\$ 80,059
Multiplied by the statutory income tax rates	26.44%	26.46%
	9,774	21,184
Income tax recorded at rates different from the Canadian tax rate	(1,637)	(1,765)
Permanent differences	1,215	(962)
Effect of temporary differences not recognized as deferred tax assets	(1,755)	1,212
Foreign exchange	736	(240)
Tax expense (recovery)	\$ 8,333	\$ 19,429
Effective income tax rate	22.54%	24.27%

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2023
(all amounts in thousands of Canadian dollars, except where otherwise noted)

8. SATELLITES, PROPERTY AND OTHER EQUIPMENT

For the three months ended March 31, 2023, the Company had additions of \$21.8 million (March 31, 2022 — \$7.5 million) primarily related to an acquisition of a geostationary satellite and acquisitions associated with the LEO program.

9. GOODWILL AND INTANGIBLE ASSETS

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.

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 quarter of 2023, we reviewed the most sensitive 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 on goodwill, orbital slots or trade name.

10. LEASE LIABILITIES

The expected undiscounted contractual cash flows of the lease liabilities as at March 31, 2023 were as follows:

Remaining 2023	2024	2025	2026	2027	Thereafter	Total
\$ 2,696	\$ 3,473	\$ 3,192	\$ 2,957	\$ 2,883	\$ 33,695	\$ 48,896

The undiscounted contractual cash flows included \$14.4 million of interest payments.

11. INDEBTEDNESS

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 \$200.0 million US dollars (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 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").

In March 2022, Telesat repurchased for retirement Senior Unsecured Notes with a principal amount of \$40.0 million (US\$32.0 million) by way of open market purchases in exchange for \$19.4 million (US\$15.6 million). Of this balance, \$14.9 million (US\$11.9 million) was settled prior to March 31, 2022, with \$4.5 million (US\$3.6 million) settled in April 2022.

During the year ended December 31, 2022, Telesat repurchased for retirement Senior Unsecured Notes with a principal amount of \$202.1 million (US\$160.0 million) by way of open market purchases in exchange for \$97.2 million (US\$77.0 million). The repurchase resulted in a write-off of the related debt issue costs and prepayment options in the amount of \$1.9 million (US\$1.5 million), and a gain on extinguishment of debt of \$106.9 million (US\$84.5 million).

On December 6, 2019, Telesat Canada issued, through a 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").

Telesat Corporation
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2023
(all amounts in thousands of Canadian dollars, except where otherwise noted)

11. INDEBTEDNESS (cont.)

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").

	March 31, 2023	December 31, 2022
Senior Secured Credit Facilities		
Revolving facility	\$ —	\$ —
Term Loan B – U.S. Facility (US\$1,552,815).	2,098,785	2,104,685
Senior Unsecured Notes (US\$390,000)	527,124	528,606
2026 Senior Secured Notes (US\$500,000)	675,800	677,700
Senior Secured Notes (US\$400,000)	540,640	542,160
	<u>3,842,349</u>	<u>3,853,151</u>
Deferred financing costs, prepayment options and loss on repayment.	(2,839)	(3,070)
	<u>3,839,510</u>	<u>3,850,081</u>
Less: current indebtedness	—	—
Long-term indebtedness	<u><u>\$ 3,839,510</u></u>	<u><u>\$ 3,850,081</u></u>

12. 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:

	March 31, 2023		December 31, 2022	
	Number of shares	Stated value	Number of shares	Stated value
Telesat Public Shares.	13,279,039	\$ 42,298	12,692,450	\$ 40,214
Class C Shares.	112,841	6,340	112,841	6,340
	<u>13,391,880</u>	<u>\$ 48,638</u>	<u>12,805,291</u>	<u>\$ 46,554</u>

The breakdown of the number of shares of Telesat Public Shares, as at March 31, 2023, was as follows:

Telesat Public shares	
Class A Common shares	1,012,172
Class B Variable Voting shares	12,266,867
Total Telesat Public shares	<u>13,279,039</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 April 3, 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 March 31, 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.sedar.com>

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)

12. SHARE CAPITAL (cont.)

During the three months ended March 31, 2023, 103,071 Restricted Share Units (“RSUs”) were settled for 54,166 Telesat Public Shares, on a net settlement basis (Three months ended March 31, 2022 — 27,573 RSUs were settled for 12,813 Telesat Public Shares, on a net settlement basis).

During the three months ended March 31, 2023, 532,423 Telesat Public Shares were issued in exchange for an equal number of Class B Limited Partnership units (“LP Units”) (Three months ended March 31, 2022 — Nil).

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

	March 31, 2023		December 31, 2022	
	Number of units	Stated value	Number of units	Stated value
Class A and Class B LP Units.	18,321,842	\$ 50,141	18,854,265	\$ 51,598
Class C LP Units.	18,098,362	38,893	18,098,362	38,893
	<u>36,420,204</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.

13. NON-CONTROLLING INTEREST

Non-controlling interests represent equity interests in the Partnership that are not attributable to the Company. As at March 31, 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).

14. 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	Number of options	Weighted average exercise price
Outstanding, January 1, 2023	793,667	\$ 50.30	285,149	\$ 16.64
Forfeited	(5,568)	\$ 43.63	(10,080)	\$ 16.64
Outstanding March 31, 2023.	<u>788,099</u>	<u>\$ 50.35</u>	<u>275,069</u>	<u>\$ 16.64</u>

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14. SHARE-BASED COMPENSATION PLANS (cont.)

The movement under the Historic Plan was as follows:

	RSUs with time criteria	RSUs with time and performance criteria
Outstanding, January 1, 2023	973,338	124,080
Forfeited	(33,088)	—
Outstanding, March 31, 2023	<u>940,250</u>	<u>124,080</u>

The movement under the Omnibus Plan was as follows:

	RSUs with time criteria	PSUs with time and performance criteria	DSUs
Outstanding, January 1, 2023	351,071	140,583	46,576
Granted	—	—	19,666
Settled	(103,071)	—	—
Forfeited	(8,132)	(7,455)	—
Outstanding, March 31, 2023	<u>239,868</u>	<u>133,128</u>	<u>66,242</u>

15. 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 March 31	2023	2022
Net income (loss) attributable to Telesat Common Shares	\$ 8,065	\$ 13,983
Effect of diluted securities	718	1,342
Diluted net income (loss) attributable to Telesat Common Shares	<u>\$ 8,783</u>	<u>\$ 15,325</u>

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

Three months ended March 31	2023	2022
Basic total weighted average number of Telesat Common Shares outstanding ..	13,022,905	12,023,077
Effect of diluted securities		
Stock options	—	15,321
RSUs, DSUs and PSUs	<u>1,615,162</u>	<u>1,523,862</u>
Diluted total weighted average number of Telesat Common Shares outstanding	<u>14,638,067</u>	<u>13,562,260</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.

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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16. GOVERNMENT GRANT

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

For the three months ended March 31, 2023, the Company recorded \$1.7 million relating to the agreement (Three months ended March 31, 2022 — \$4.2 million).

Of the amount recorded in the three months ended March 31, 2023, \$0.7 million was recorded as a reduction to satellites, property and other equipment and \$1.0 million was recorded as a reduction to operating expenses (Three months ended March 31, 2022 — \$3.0 million was recorded as a reduction to satellites, property and other equipment and \$1.2 million was recorded as a reduction to operating expenses).

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 March 31, 2023, the first lien net leverage ratio was 5.36:1.00, 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.

18. 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 March 31, 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 March 31, 2023, the maximum exposure to credit risk is equal to the carrying value of the financial assets which totaled \$1,771.3 million (December 31, 2022 — \$1,730.0 million).

The following table provides breakdown by maturity of financial assets as at March 31, 2023:

	Carrying amount	Contractual cash flows					
		Remaining 2023	2024	2025	2026	2027	Thereafter
Cash and cash equivalents.	\$ 1,709,577	\$ 1,709,577	\$ —	\$ —	\$ —	\$ —	\$ —
Trade and other receivables, excluding deferred receivables. .	46,691	46,691	—	—	—	—	—
Deferred receivables	12,975	4,150	3,238	1,302	1,352	642	2,291
Other financial assets	2,059	1,238	—	—	—	—	821
	<u>\$ 1,771,302</u>	<u>\$ 1,761,656</u>	<u>\$ 3,238</u>	<u>\$ 1,302</u>	<u>\$ 1,352</u>	<u>\$ 642</u>	<u>\$ 3,112</u>

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

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18. FINANCIAL INSTRUMENTS (cont.)

with customer defaults has been minimal. As at March 31, 2023, North American and International customers made up 45% and 55% 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 March 31, 2023 was \$5.4 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 March 31, 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 \$3,842.3 million and \$3,853.2 million, respectively, before netting of deferred financing costs, prepayment options and loss on repayment.

As at March 31, 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 \$169.6 million (December 31, 2022 — \$172.1 million) and increased (decreased) other comprehensive income (loss) by \$57.7 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 (loss) of \$1.3 million for three months ended March 31, 2023 (three months ended March 31, 2022 — \$1.2 million).

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 March 31, 2023 were as follows:

	Carrying amount	Contractual cash flows (undiscounted)	Remaining 2023	2024	2025	2026	2027	Thereafter
Trade and other payables.	\$ 43,462	\$ 43,462	\$ 43,462	\$ —	\$ —	\$ —	\$ —	\$ —
Customer and other deposits. . .	1,563	1,563	630	559	221	—	—	153
Satellite performance incentive payments.	23,664	28,908	6,075	5,644	3,328	3,389	2,507	7,965
Other financial liabilities.	2,132	2,132	2,132	—	—	—	—	—
Indebtedness ⁽¹⁾	3,905,677	4,907,441	246,994	261,316	259,931	3,023,995	1,115,205	—
	<u>\$ 3,976,498</u>	<u>\$ 4,983,506</u>	<u>\$ 299,293</u>	<u>\$ 267,519</u>	<u>\$ 263,480</u>	<u>\$ 3,027,384</u>	<u>\$ 1,117,712</u>	<u>\$ 8,118</u>

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

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18. FINANCIAL INSTRUMENTS (cont.)

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	\$ 140	\$ 5,384
Indebtedness	\$ 63,328	\$ 1,065,092

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 March 31, 2023	Amortized cost	Fair Value	Fair value hierarchy
Cash and cash equivalents.	\$ 1,709,577	\$ 1,709,577	Level 1
Trade and other receivables.	51,833	51,833	(1)
Other current financial assets	474	474	Level 1
Other long-term financial assets	9,418	9,418	Level 1
Trade and other payables.	(43,462)	(43,462)	(1)
Other current financial liabilities	(72,107)	(72,719)	Level 2
Other long-term financial liabilities	(18,580)	(17,939)	Level 2
Indebtedness ⁽²⁾	(3,842,349)	(1,910,438)	Level 2
	<u>\$ (2,205,196)</u>	<u>\$ (273,256)</u>	

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

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18. FINANCIAL INSTRUMENTS (cont.)

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 March 31, 2023, cash and cash equivalents included \$79.1 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 March 31, 2023 and December 31, 2022, the discount rate used was 6.9% 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:

	March 31, 2023	December 31, 2022
Term Loan B – U.S. Facility – Senior Secured Credit Facilities	53.00%	45.63%
Senior Unsecured Notes	30.88%	29.90%
Senior Secured Notes	51.71%	45.71%
2026 Senior Secured Notes	52.64%	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 March 31, 2023 ranged from 3.53% to 5.19% (December 31, 2022 — 4.00% to 5.16%).

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19. EMPLOYEE BENEFIT PLANS

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

Three months ended March 31, 2023	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Consolidated statements of income (loss)						
Operating expenses	\$ 1,131	\$ 171	\$ 1,302	\$ 117	\$ —	\$ 117
Interest (income) expense	\$ (573)	\$ 142	\$ (431)	\$ 232	\$ 6	\$ 238

Three months ended March 31, 2022	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Consolidated statements of income (loss)						
Operating expenses	\$ 1,583	\$ 132	\$ 1,715	\$ 178	\$ —	\$ 178
Interest (income) expense	\$ (200)	\$ 130	\$ (70)	\$ 183	\$ 4	\$ 187

No amounts were recorded on the statements of comprehensive income (loss) for the three months ended March 31, 2023 or 2022.

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

As at March 31, 2023	Pension Plans			Other Post-employment Benefit Plans		
	Canadian	US	Total	Canadian	US	Total
Included in other long-term liabilities	\$ —	\$ 11,399	\$ 11,399	\$ 18,077	\$ 3,751	\$ 21,828
Included in other long-term assets	\$ 46,855	\$ —	\$ 46,855	\$ —	\$ —	\$ —

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	\$ —	\$ —	\$ —

20. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents were comprised of the following:

As at March 31,	2023	2022
Cash	\$ 1,630,473	\$ 1,508,720
Short-term investments ⁽¹⁾	79,104	3,870
Cash and cash equivalents	<u>\$ 1,709,577</u>	<u>\$ 1,512,590</u>

- (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.

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20. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

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

Three months ended March 31,	2023	2022
Income taxes paid	\$ (17,513)	\$ (29,481)
Income taxes received	3	10
	<u>\$ (17,510)</u>	<u>\$ (29,471)</u>

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

Three months ended March 31,	2023	2022
Interest paid	\$ (39,079)	\$ (23,119)
Interest received	14,926	1,010
	<u>\$ (24,153)</u>	<u>\$ (22,109)</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	—	(1,529)	(523)
Amortization of deferred financing costs, prepayment options and loss on repayment	231	—	—
Interest paid	—	—	(379)
Interest accrued	—	—	379
Non-cash disposal	—	—	(10)
Impact of foreign exchange	(10,802)	(71)	(10)
Balance as at March 31, 2023	<u>\$ 3,839,510</u>	<u>\$ 23,524</u>	<u>\$ 33,563</u>

	Indebtedness	Satellite performance incentive payments	Lease liabilities
Balance as at January 1, 2022	\$ 3,792,597	\$ 30,344	\$ 35,678
Cash outflows	(14,880)	(1,364)	(368)
Amortization of deferred financing costs, prepayment options and loss on repayment	186	—	—
Gain on extinguishment of debt	(21,030)	—	—
Interest paid	—	—	(465)
Interest accrued	—	—	465
Impact of foreign exchange	(39,672)	(308)	(45)
Balance as at March 31, 2022	<u>\$ 3,717,201</u>	<u>\$ 28,672</u>	<u>\$ 35,265</u>

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20. SUPPLEMENTAL CASH FLOW INFORMATION (cont.)

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

Three months ended March 31,	2023	2022
Trade and other receivables	\$ (9,890)	\$ (11,401)
Financial assets	1,071	1,154
Other assets	(11,656)	(15,940)
Trade and other payables	1,967	(5,019)
Financial liabilities	(47)	(786)
Other liabilities	(2,506)	(3,202)
	<u>\$ (21,061)</u>	<u>\$ (35,194)</u>

Non-cash investing activities were comprised of:

Three months ended March 31,	2023	2022
Satellites, property and other equipment	\$ 977	\$ (2,617)

21. COMMITMENTS AND CONTINGENT LIABILITIES

The following were the Company's off-balance sheet contractual obligations as at March 31, 2023:

	Remaining 2023	2024	2025	2026	2027	Thereafter	Total
Property leases	\$ 748	\$ 1,114	\$ 1,033	\$ 1,032	\$ 986	\$ 11,192	\$ 16,105
Capital commitments	49,334	42,981	54,199	—	—	—	146,514
Other operating commitments	32,561	25,657	15,856	6,543	4,144	12,096	96,857
	<u>\$ 82,643</u>	<u>\$ 69,752</u>	<u>\$ 71,088</u>	<u>\$ 7,575</u>	<u>\$ 5,130</u>	<u>\$ 23,288</u>	<u>\$ 259,476</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 commitments as at March 31, 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 March 31, 2023, customer prepayments of \$313.5 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

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21. 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 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.

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 \$95.2 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.

22. 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 and certain of its subsidiaries regularly engage in transactions with related parties. The Company's related parties included Red Isle and 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 months ended March 31, 2023 were \$0.3 million (Three months ended March 31, 2022 — \$1.3 million).

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March 31, 2023
(all amounts in thousands of Canadian dollars, except where otherwise noted)

23. SUBSEQUENT EVENTS

Debt repurchases

In April 2023 and up to May 10, 2023, Telesat repurchased Senior Secured Notes, 2026 Senior Secured Notes and Senior Unsecured Notes with a principal amount of US\$48.2 million, US\$37.2 million and US\$17.7 million, respectively by way of open market purchases at an aggregate cost of US\$56.0 million.

Transition from London Interbank Offered Rate (“LIBOR”) to Secured Overnight Financing Rate (“SOFR”)

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 will bear interest, 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 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 will 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 borrowed in 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.