

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A. Operating results

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following management's discussion and analysis (the "MD&A") for Telesat Corporation and Telesat Partnership LP is dated March 17, 2022 and provides information concerning our financial condition and results of operations for the year ended December 31, 2021. You should read this MD&A together with Telesat Corporation's audited consolidated financial statements and the related notes for the year ended December 31, 2021 and Telesat Partnership LP's audited consolidated financial statements and related notes for the year ended December 31, 2021.*

*For the comparison of the balances between 2019 and 2020, refer to Telesat Corporation's Registration Statement on Form F-4 filed with the US Securities and 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>.*

*As used in this MD&A, unless the context states or requires otherwise, references to "Telesat," "Company," "we," "our" and "us" refer to Telesat Canada and its subsidiaries for the period to November 18, 2021. The use of "we," "our" and "us" refer to Telesat Corporation and its subsidiaries and Telesat Partnership LP and its subsidiaries for the period from November 19, 2021 to December 31, 2021. Unless the context states or requires otherwise, reference herein to "the consolidated financial statements" or "the financial statements" or similar terms refer to Telesat Corporation's audited consolidated financial statements included herein.*

*Unless otherwise noted, the balances for Telesat Corporation and Telesat Partnership LP were consistent for the year ended December 31, 2021.*

*All figures reported in this MD&A are in Canadian dollars, except where we indicate otherwise, and are referenced as "\$" and "dollars".*

*This MD&A contains a translation of some Canadian dollar amounts into United States dollars at specified exchange rates solely for your convenience. All references to "US\$" and "U.S. dollar" refers to United States dollars.*

*Certain totals, subtotals and percentages may not reconcile due to rounding.*

*The information contained in this MD&A takes into account information available up to March 17, 2022, unless otherwise noted.*

*This MD&A makes reference to certain non-IFRS measures, namely, Adjusted EBITDA, Adjusted EBITDA margin and Consolidated EBITDA. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Rather, these non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For a reconciliation of the non-IFRS measure to the most closely comparable IFRS measure, see below under the heading "Non-IFRS Measures".*

## FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. When used in this MD&A, the words “believes,” “expects,” “plans,” “may,” “will,” “would,” “could,” “should,” “anticipates,” “estimates,” “project,” “intend” or “outlook” or other variations of these words or other similar expressions are intended to identify forward-looking statements and information. In addition, Telesat Corporation or its representatives have made or may make forward-looking statements, orally or in writing, which may be included in, but are not limited to, various filings made from time to time with the SEC, and press releases or oral statements made with the approval of an authorized executive officer of Telesat Corporation. Statements containing forward-looking information are not historical facts nor assurances of future performance but instead represent management’s expectations, estimates and projections regarding future events or circumstances.

These forward-looking statements and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Actual results may differ materially from anticipated results as a result of certain risks and uncertainties which are described, but are not limited to, the risks listed below and in the section entitled “Risk Factors” included in Telesat Corporation’s annual report on Form 20-F for the year ended December 31, 2021 (the “Annual Report”). There may be additional risks of which we are not presently aware or that we currently believe are immaterial which could have an adverse impact on our business. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances that may change, except where we are expressly required to do so by law.

Factors that could cause actual results to differ from those projected include, but are not limited to (1) risks associated with financial factors, including swings in the global financial markets, increases in interest rates and access to capital; (2) risks associated with satellite services, including dependence on large customers, launch delays and failures, in-orbit failures and competition; (3) risks and uncertainties associated with Telesat Lightspeed, including overcoming technological challenges, access to spectrum and markets, governmental restrictions or regulations, supply chain disruptions, raising sufficient capital to design and implement the system and competition from other low earth orbit systems; (4) regulatory risks, such as the effect of industry and government regulations that affect Telesat; and (5) other risks, including risks relating to and resulting from the COVID-19 pandemic. The foregoing list of important factors is not exclusive. Furthermore, Telesat operates in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond Telesat’s control.

These factors should not be construed as exhaustive and should be read with the other cautionary statements in this MD&A. These forward-looking statements are based on our current expectations, estimates, forecasts and projections about our business and the industry in which we operate and management’s beliefs and assumptions, and are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this MD&A may turn out to be inaccurate.

Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data. These forward-looking statements speak only as at the date of this MD&A. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC and the Canadian securities regulatory authorities, after the date of this MD&A.

This MD&A contains estimates, projections, market research and other information concerning our industry, our business, and the markets for our services. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties, and actual events or circumstances may differ materially from events and circumstances that are assumed in this information.

Unless otherwise expressly stated, we obtained this industry, business, market and other data from our own internal estimates and research as well as from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry and general publications, government data and similar sources.

In addition, assumptions and estimates of our and our industry's future performance are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the section of our Annual Report entitled "Risk Factors." These and other factors could cause our future performance to differ materially from our assumptions and estimates.

Any references to forward-looking statements in this MD&A include forward-looking information within the meaning of applicable Canadian securities laws.

## **OVERVIEW OF THE BUSINESS**

We are a leading global satellite services operator, providing our customers with mission-critical communications services since the start of the satellite communications industry in the 1960s. Through a combination of advanced satellites and ground facilities and a highly expert and dedicated staff, our communications solutions support the requirements of sophisticated satellite users throughout the world. We are organized into one operating segment, the satellite services business; however, we provide our services through three business categories: Broadcast, Enterprise and Consulting and other.

The satellite services business is capital intensive and the build-out of a satellite fleet requires substantial time and investment. Once the investment in a satellite is made, the incremental costs to maintain and operate the satellite are relatively low over the life of the satellite, with the exception of in-orbit insurance. We have been able to generate a large contracted revenue backlog by entering into long-term contracts with some of our customers for all or substantially all of a satellite's life. Historically, this has resulted in revenue from the satellite services business being fairly predictable.

As at December 31, 2021, we provided satellite services to customers from our fleet of 14 in-orbit geostationary satellites, as well as our Canadian payload on the ViaSat-1 satellite. We also manage the operations of additional satellites for third parties.

We have commenced the development of what we believe will be the world's most advanced constellation of low earth orbit ("LEO") satellites and integrated terrestrial infrastructure, called "Telesat Lightspeed" — a platform designed to revolutionize the provision of global broadband connectivity. In January 2018, our first LEO satellite was successfully launched into orbit. This Phase 1 LEO satellite has demonstrated certain key features of the Telesat Lightspeed system design, specifically the capability of the satellite and customer terminals to deliver a low latency broadband experience. We also installed ground infrastructure at our teleport in Allan Park in Canada to support testing with a variety of existing and prospective customers and potential suppliers of the Telesat Lightspeed system hardware who have been participating in trials since the second half of 2018.

Telesat and its affiliates operate satellites pursuant to authorizations granted by governments, including those of Canada, the United States, Brazil, the Kingdom of Tonga and the United Kingdom, to access and use certain geostationary orbital locations and associated spectrum resources. The use of these orbital locations, as well as our other operations, is subject to a variety of Canadian and international regulations.

### ***Revenue***

We earn most of our revenue by providing video and data services using satellite transponder capacity. We also earn revenue by providing ground-based transmit and receive services, selling equipment, managing satellite networks, and providing consulting services in the field of satellite communications.

We recognize revenue from satellite services on a monthly basis as services are performed in an amount that reflects the consideration we expect to receive in exchange for those services. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability is considered probable.

Consulting revenue for cost plus contracts is recognized as the approved time and labor is completed by Telesat. We recognize consulting revenue for fixed price contracts using the input method to determine the progress towards complete satisfaction of the performance obligation. Equipment sale revenue is recognized when the customer obtains control of the equipment, being at the time the equipment is delivered to and accepted by the customer.

## *Expenses*

Our operating expenses consist of labor, the cost of which has historically been relatively stable, and variable operating expenses which include in-orbit insurance and direct-billed expenses, such as third-party contractor services.

Interest expense is significant and arises principally from our: Senior Secured Credit Facilities comprised of two outstanding secured credit facilities comprising a revolving facility maturing in 2024 and Term Loan B maturing in 2026 (together, the “Senior Secured Credit Facilities”), 6.5% senior notes due in 2027 issued by Telesat Canada and Telesat LLC (the “Senior Notes”), 4.875% senior secured notes due in 2027 issued by Telesat Canada and Telesat LLC, as the co-issuer (the “Senior Secured Notes”) and 5.625% senior secured notes due in December 2026 issued by Telesat Canada and Telesat LLC, as the co-issuer (the “2026 Senior Secured Notes”). Foreign exchange gains or losses incurred on the translation our U.S. dollar denominated indebtedness and the gains or losses on financial instruments resulting from variations in the fair value of interest rate swaps, the prepayment options on our Senior Notes, the prepayment option on our Senior Secured Notes and the prepayment option on our 2026 Senior Secured Notes remain significant components of our total expenses.

Other significant operating expenses include the straight-line depreciation of the cost of each of our satellites over their useful lives and amortization expense related to various finite-life intangible assets.

In the case of Telesat Partnership LP, a significant expense relates to the changes in fair value of the Limited Partnership Units (“LP Units”) liability.

## **OPERATING HIGHLIGHTS**

### *Telesat Corporation becomes a public company*

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

As per the terms and conditions set forth in the Transaction Agreement (as defined below), the Transaction (as defined below) resulted in:

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

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

For further details on the Transaction, please refer to Telesat Corporation’s Registration Statement on Form F-4 filed with the U.S. Securities and 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>.

### *Further Development of the Telesat Lightspeed Constellation*

We continue to advance our Telesat Lightspeed plans.

On February 18, 2021, we announced that we had entered into a Memorandum of Understanding (“MOU”) with the Government of Québec for an investment of \$400 million into Telesat Lightspeed. Under the terms of the MOU, the investment by the Government of Québec will consist of \$200 million in preferred equity of Telesat LEO Inc. as well as a \$200 million loan. It is expected that a final agreement will be completed in the coming months. The Government of Québec’s \$400 million investment is subject to a number of conditions, including financing and the entering into of a definitive agreement.

On August 9, 2021, Telesat and the Government of Ontario announced that they have partnered to bridge the digital divide in Ontario by leveraging Telesat’s planned advanced, state-of-the-art Low-Earth Orbit satellite network, Telesat Lightspeed. Under this \$109 million, 5-year partnership, a dedicated Telesat Lightspeed capacity pool will be made available at substantially reduced rates to Canadian Internet service providers (“ISPs”), including Indigenous owned and operated ISPs, as well as mobile network operators to expand high-speed Internet and LTE/5G networks to Ontario’s unserved and underserved communities.

On August 12, 2021, we announced that we expect to receive a \$1.44 billion investment from the Government of Canada to support Telesat Lightspeed. Under the terms of the arrangement, the Government of Canada would provide a loan of \$790 million and make a \$650 million preferred equity investment in Telesat LEO Inc., an indirect operating subsidiary that will hold substantially all of the assets of Lightspeed. In return, we would commit to make certain minimum capital and operating expenditures in Canada in connection with the program and to create hundreds of Canadian, high-quality, full-time jobs and co-ops and to provide academic scholarships. In addition, we will grant to the Government of Canada warrants to purchase a number of Telesat Public Shares (as defined below) with an aggregate price equal to (i) 10% of the principal amount of the loan and (ii) 10% of the subscription amount of the preferred equity investment in Telesat LEO Inc. at an exercise price equal to the 180-day volume weighted average trading price of the Telesat Public Shares on the NASDAQ immediately after the listing of the Telesat Public Shares. With the investment from the Government of Canada and other financing sources already in place, Telesat now has arrangements for approximately \$4 billion in funding for the program. These arrangements, including the Government of Canada investment, are subject to a number of conditions, including the entry by Telesat into definitive agreements with the Government of Canada with respect to such investment.

Thales Alenia Space, our proposed primary vendor for the Lightspeed program, has advised us that global supply chain constraints on the availability of certain components required for the development and construction of our Lightspeed constellation are likely to extend the expected construction timeline, delay entry into service of the Lightspeed constellation, and increase our expected cost of the program. We are working with TAS to assess the impact of, and potential mitigants to, these supply chain issues. This development has delayed our ability to finalize financing agreements with certain Export Credit Agencies, which has also negatively impacted the timeline. For additional details on the risks associated with the Telesat Lightspeed Constellation, see the section entitled “Risk Factors” in our Annual Report.

### *Repurposing of C-Band Spectrum*

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

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

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

The Report and Order also provided for reimbursement of reasonable relocation costs to those who are able to meet the deadline of December 5, 2025. In May 2020, Telesat Canada officially committed to the accelerated version of the C-Band clearing program and is expected to receive a total of US\$344.4 million (US\$84.8 million for Phase I and US\$259.6 for Phase II), as accelerated payments. An amount of \$108.5 million (US\$84.8 million) was

recognized for the year ended December 31, 2021, relating to Phase I accelerated clearing of the C-band spectrum. Of this balance, \$42.9 million was received in 2021 with the remaining payment received in early 2022. We believe that we can meet all remaining requirements to receive the Phase II clearing payments.

## FUTURE OUTLOOK

Our desirable spectrum rights, commitment to providing the highest level of customer service, deep technical expertise and culture of innovation have enabled us to successfully develop our business to date. Leveraging these strengths and building on our existing contractual revenue backlog, our focus is on profitably growing our business by increasing the utilization of our in-orbit satellites and, in a disciplined manner, deploying expansion satellite capacity where we anticipate there will be strong market demand.

After decades of developing and successfully operating our geosynchronous orbit-based satellite services business, we are now poised to revolutionize the provision of global broadband connectivity by developing what we believe will be the world's most advanced constellation of LEO satellites and integrated terrestrial infrastructure, Telesat Lightspeed.

We believe we are well-positioned to serve our customers and the markets in which we participate. We actively pursue opportunities to develop new satellites, particularly in conjunction with current or prospective customers who will commit to long-term service agreements prior to the time the satellite construction contract is signed. Although we regularly pursue opportunities to develop new satellites, we do not procure additional or replacement satellites until we believe there is a demonstrated need and a sound business plan for such satellite capacity.

Leading into 2022, we remain focused on increasing the utilization of our existing satellites, the development of our global Telesat Lightspeed constellation, and identifying and pursuing opportunities to invest in expansion satellite capacity all while maintaining our operating discipline.

## RESULTS OF OPERATIONS

### *Review of financial performance*

Telesat Corporation's net income for the year ended December 31, 2021, was \$157.8 million compared to net income of \$245.6 million for the prior year. The negative variation of \$87.8 million was principally due to lower revenues combined with higher income tax expense, partially offset by the recognition of Phase I accelerated clearing payments for repurposing of C-band spectrum.

Telesat Partnership's net income for the year ended December 31, 2021, was \$28.0 million compared to net income of \$245.6 million for the prior year. The negative variation of \$217.6 million was principally due to loss on changes in fair value of partnership units liability, lower revenue combined with higher income tax expense. This was partially offset with the recognition of the Phase I accelerated clearing payments for repurposing of C-band spectrum.

Below are the foreign exchange rates used for our audited consolidated financial statements and this MD&A:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
US\$ to \$ spot rate as at December 31, . . . . .	1.2637	1.2725	1.2990
US\$ to \$ average rate for the year ended December 31, . . . . .	1.2556	1.3425	1.3289

### *Revenue*

<u>(in millions of Canadian dollars except percentages)</u>	<u>Years ended December 31,</u>		<u>% Increase (Decrease)</u>
	<u>2021</u>	<u>2020</u>	
Broadcast. . . . .	\$ 390.8	\$ 411.4	(5.0)%
Enterprise . . . . .	354.1	389.7	(9.1)%
Consulting and other. . . . .	13.3	19.4	(31.5)%
<b>Revenue</b> . . . . .	<u>\$ 758.2</u>	<u>\$ 820.5</u>	<u>(7.6)%</u>

Total revenue for the year ended December 31, 2021, decreased by \$62.3 million to \$758.2 million compared to \$820.5 million for the prior year.

Revenue from Broadcast services decreased by \$20.6 million for the year ended December 31, 2021, when compared to the prior year. The decrease was mainly due to an unfavorable impact of the conversion of the U.S. dollar denominated revenue into Canadian dollars combined with a reduction of services by one of our North American DTH customers.

Revenue from Enterprise services decreased by \$35.6 million for the year ended December 31, 2021, when compared to the prior year. The decrease was primarily due to an unfavorable impact of the conversion of the U.S. dollar denominated revenue into Canadian dollars, a reduction in services on contract renewal, a non-renewal of a contract for capacity and the full year effect of contract restructurings in 2020 for a mobility customer as a result of COVID-19. This was partially offset by short-term services provided to another satellite operator in 2021, which had not occurred in 2020, combined with increased services provided to customers in the mobility market as it began to recover from the impact of COVID-19.

Consulting and other revenue decreased by \$6.1 million for the year ended December 31, 2021, when compared to the prior year. The decrease was primarily due to the completion of non-recurring consulting revenue in 2020 combined with a decrease in revenue associated with the U.S. government.

### *Expenses*

<b>(in millions of Canadian dollars except percentages)</b>	<b>Years ended December 31,</b>		<b>% Increase (Decrease)</b>
	<b>2021</b>	<b>2020</b>	
Depreciation . . . . .	\$ 203.8	\$ 216.9	(6.0)%
Amortization . . . . .	16.1	17.2	(6.1)%
Operating expenses . . . . .	234.1	180.9	29.4%
Other operating losses, net . . . . .	(107.6)	0.2	(50,153.5)%
<b>Total expenses . . . . .</b>	<b>\$ 346.4</b>	<b>\$ 415.2</b>	<b>(16.6)%</b>

### *Depreciation*

Depreciation of satellites, property and other equipment decreased by \$13.1 million for the year ended December 31, 2021, when compared to the prior year. The decrease in depreciation was primarily due to the end of useful life, for accounting purposes, of our Anik F1R satellite in the fourth quarter of 2020.

Upon completion of the Transaction, there was no change to depreciation for the period from November 19, 2021 to December 31, 2021 incremental to those incurred by Telesat Canada.

### *Amortization*

Amortization of intangible assets decreased by \$1.1 million for the year ended December 31, 2021, when compared to the prior year. The decrease was primarily related to a favorable impact of Brazilian Reais foreign exchange rate on concession rights and reduction of amortization on revenue backlog due to the remaining expected period of revenue recognition associated with the related contracts.

### *Other Operating Gains (Losses), Net*

The \$107.6 million other operating gains, net for the year ended December 31, 2021 related to recognition of Phase I accelerated clearing payments for repurposing of U.S. C-band spectrum, partially offset by losses on disposals of assets.

The \$0.2 million other operating losses, net for the year ended December 31, 2020 related to losses on disposals of assets.

## Operating Expenses

(in millions of Canadian dollars except percentages)	Years ended December 31,		% Increase (Decrease)
	2021	2020	
Compensation and employee benefits . . . . .	\$ 155.0	\$ 89.9	72.4%
Other operating expenses . . . . .	48.9	57.6	(15.2)%
Cost of sales . . . . .	30.2	33.4	(9.5)%
<b>Operating expenses</b> . . . . .	<b>\$ 234.1</b>	<b>\$ 180.9</b>	<b>29.4%</b>

Total operating expenses for Telesat Corporation increased by \$53.2 million for the year ended December 31, 2021, when compared to the prior year.

Total operating expenses for Telesat Partnership LP increased by \$51.9 million for the year ended December 31, 2021, when compared to the prior year. All differences relate to other operating expenses.

Compensation and employee benefits increased by \$65.1 million for the year ended December 31, 2021, in comparison to the prior year. The increase was primarily due to higher non-cash share-based compensation as a result of accelerated recognition of share-based compensation upon cancellation of certain stock options combined with the impact from the issuance of new restricted share units in the second quarter of 2021. This was combined with higher wages due to the hiring of additional employees primarily to support our Telesat Lightspeed program as well as a one-time bonus in November 2021 tied to the completion of the Transaction. This was partially offset by higher capitalized engineering costs associated with the increased activity in the Telesat Lightspeed program.

During the fourth quarter of 2021, we engaged a third-party to perform a formal valuation of the fair value of the restricted share units that were issued in the second quarter of 2021. The valuation resulted in an increase of \$6.9 million and \$9.5 million in the second and third quarter of 2021, respectively. This adjustment was recorded in the fourth quarter of 2021.

For Telesat Corporation, other operating expenses decreased by \$8.8 million for the year ended December 31, 2021, in comparison to the prior year. For Telesat Partnership LP, other operating expenses decreased by \$10.0 million for the year ended December 31, 2021, in comparison to the prior year. The decreases were primarily due to the reversal of a bad debt provision in the first quarter of 2021 compared to a bad debt provision in the prior year associated with the impact from the COVID-19 pandemic.

Cost of sales decreased by \$3.2 million for the year ended December 31, 2021, when compared to the prior year. The decrease was primarily due to lower equipment sales to the Canadian Government when compared to the prior year.

## Interest Expense

(in millions of Canadian dollars except percentages)	Years ended December 31,		% Increase (Decrease)
	2021	2020	
Debt service costs . . . . .	\$ 164.0	\$ 175.9	(6.8)%
Interest expense on significant financing component . . . . .	18.9	22.4	(16.0)%
Interest expense on satellite performance incentive payments . . . . .	2.2	2.9	(23.7)%
Interest expense on employee benefit plans . . . . .	1.4	1.2	23.2%
Interest expense on leases . . . . .	1.5	1.3	11.1%
<b>Interest expense</b> . . . . .	<b>\$ 188.0</b>	<b>\$ 203.8</b>	<b>(7.7)%</b>

Interest expense included interest related to our debt, as well as, interest related to our derivative instruments, significant financing components on certain revenue agreements, satellite performance incentive payments, employee benefit plans and leases.

Debt service costs, which included interest expense on indebtedness and derivative instruments, decreased by \$11.9 million for the year ended December 31, 2021, when compared to the prior year. The decrease in interest expense was primarily due to changes in interest rates on our Senior Secured Credit Facilities and interest rate swaps, declining balances of debt due to the repayment of US\$344.4 million on our Term Loan B — U.S. Facility, which occurred in December 2020, a favorable foreign exchange impact on the conversion of U.S. dollar denominated debt service costs into the Canadian dollar equivalent, combined with the impact of the maturity of one of our interest rate swaps. This was partially offset by interest on the 2026 Senior Secured Notes, which were issued in April 2021.

Interest expense on significant financing component decreased by \$3.6 million for the year ended December 31, 2021, when compared to the prior year. The decrease in interest expense was primarily due to lower average prepayment balances for revenue agreements with a significant financing component.

Interest on satellite performance incentive payments decreased by \$0.7 million for the year ended December 31, 2021, when compared to the prior year, primarily due to declining balances of satellite performance incentive liabilities.

Interest expense on employee benefit plans increased by \$0.3 million for the year ended December 31, 2021, when compared to the prior year. The increase was primarily a result of the employee benefit plan of former Loral employees and an increased estimate of interest expense according to actuarial reports.

Interest expense on leases increased by \$0.2 million for the year ended December 31, 2021, when compared to the prior year. The increase was primarily a result of new leases during the year.

### ***Interest and Other Income***

<b>(in millions of Canadian dollars)</b>	<b>Years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Interest and other income . . . . .	\$ 3.4	\$ 5.2

Interest and other income decreased by \$1.8 million for the year ended December 31, 2021, when compared to the prior year. The decrease was primarily due to lower interest rates earned on our outstanding cash and cash equivalent balances, partially offset by a loss on the US\$341.4 million repayment of our Term Loan B — U.S. Facility in 2020.

### ***Foreign Exchange and Derivatives***

<b>(in millions of Canadian dollars)</b>	<b>Years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Loss on changes in fair value of financial instruments . . . . .	\$ (18.7)	\$ (13.1)
Gain on foreign exchange . . . . .	\$ 27.5	\$ 47.6

The loss on changes in fair value of financial instruments for the year ended December 31, 2021 was \$18.7 million compared to a loss of \$13.1 million for the same period in 2020 resulting in a negative change of \$5.6 million.

The loss on changes in fair value of financial instruments for the year ended December 31, 2021 primarily reflected changes in the fair values of our interest rate swaps, and prepayment options on our Senior Notes, Senior Secured Notes and 2026 Senior Secured Notes. The loss on changes in fair value of financial instruments for the year ended December 31, 2020 primarily reflected changes in the fair values of our interest rate swaps, prepayment options on our Senior Notes and Senior Secured Notes. The gains or losses on changes in fair value of financial instruments were as a result of changes in key economic variables, such as foreign exchange rates, credit spreads and swap rates.

The foreign exchange gain for the year ended December 31, 2021, was \$27.5 million compared to a foreign exchange gain of \$47.6 million for 2020 resulting in a negative change of \$20.1 million.

The gain for the year ended December 31, 2021, was mainly the result of a weaker U.S. dollar to Canadian dollar spot rate as at December 31, 2021 (\$1.2637), compared to the spot rate as at December 31, 2020 (\$1.2725), and the resulting favorable impact on the translation of our U.S. dollar denominated indebtedness.

The gain for the year ended December 31, 2020, was mainly the result of a weaker U.S. dollar to Canadian dollar spot rate as at December 31, 2020 (\$1.2725), compared to the spot rate as at December 31, 2019 (\$1.2990), and the resulting favorable impact on the translation of our U.S. dollar denominated indebtedness.

### ***Loss on changes in fair value of partnership units liability***

During the year ended December 31, 2021, Telesat Partnership LP recorded a loss of \$131.0 million. This loss related to the movement in the fair value of the LP Units that occurred from November 19, 2021 through December 31, 2021. There were no loss on changes in fair value of partnership units liability recorded in the year ended December 31, 2020.

## Income Taxes

(in millions of Canadian dollars)	Years ended December 31,	
	2021	2020
Current tax expense	\$ 85.2	\$ 77.1
Deferred tax recovery	(6.8)	(81.5)
<b>Tax expense</b>	<b>\$ 78.4</b>	<b>\$ (4.4)</b>

The tax expense for the year ended December 31, 2021, was \$82.7 million higher than the prior year. The increase was primarily due to an increase in operating income, decrease in interest expense and changes in temporary differences not recognized as deferred assets in 2021 as compared to the prior year.

## Backlog

Contracted revenue backlog (“backlog”) represents our expected future revenue from existing service contracts (without discounting for present value) including any deferred revenue that we will recognize in the future in respect of cash already received. The majority of our contracted revenue backlog is generated from contractual agreements for satellite capacity. We do not include revenue beyond the stated expiration date of a contract regardless of the potential for a renewal. As at December 31, 2021, our contracted backlog was approximately \$2.1 billion, which does not include any backlog associated with the Telesat Lightspeed program. Historically, backlog at the beginning of the year as a percentage of that year’s revenue has been greater than 80%. Beginning of year backlog as a percentage of revenue was 83%, 86%, and 85% in 2019, 2020 and 2021, respectively.

Generally, following the successful launch of a satellite, if the satellite is operating nominally, our customers may only terminate their service agreements for satellite capacity by paying us all, or substantially all, of the payments that would have otherwise become due over the term of the service agreement. However, if certain of our existing satellites were to experience an in-orbit failure, or otherwise fail to operate as anticipated, our customers may be entitled to terminate their agreement and we may be obligated to return all or a portion of the customer prepayments made under service agreements for that satellite and reduce the associated contractual revenue from revenue backlog. Any repayments under such conditions would be funded by insurance proceeds we may receive, cash on hand, short-term investments, and funds available under our Revolving Credit Facility (as defined below).

We expect our backlog as at December 31, 2021 to be recognized as follows:

(in millions of Canadian dollars)	2022	2023	2024	2025	2026	Thereafter
Backlog	\$ 581.9	\$ 461.3	\$ 313.2	\$ 219.1	\$ 184.8	\$ 371.3

## LIQUIDITY AND CAPITAL RESOURCES

### Cash and Available Credit

As at December 31, 2021, we had \$1,449.6 million of cash and short-term investments, including \$979.5 million held in unrestricted subsidiaries, as well as approximately \$200.0 million U.S. dollars (or Canadian dollar equivalent) borrowing availability under our Revolving Credit Facility.

### Cash Flows generated from Operating Activities

Cash generated from operating activities for the year ended December 31, 2021, was \$296.4 million, a \$76.0 million decrease compared to the prior year. The decrease was primarily due to a new receivable balance associated with outstanding Phase I accelerated clearing payments for the repurposing of C-band spectrum and higher income taxes paid. This was partially offset by lower interest paid on indebtedness.

### Cash Flows used in Investing Activities

Cash used in investing activities for the year ended December 31, 2021 was \$272.9 million. This consisted of \$279.9 million on purchases associated with the Telesat Lightspeed constellation, \$34.6 million of payments for property and other equipment and \$1.2 million intangible asset acquisition in software. The cash outflows were partially offset by proceeds received from the Phase I accelerated clearing payments for the repurposing of C-band spectrum.

Cash used in investing activities for the year ended December 31, 2020 was \$93.0 million. This consisted of \$75.9 million on purchases associated with the Telesat Lightspeed constellation and \$17.1 million of payments for property and other equipment.

***Cash Flows generated from (used in) Financing Activities***

Cash generated from financing activities for the year ended December 31, 2021 was \$605.2 million. This was primarily due to proceeds received from the issuance of the 2026 Senior Secured Notes in April 2021.

Cash used in financing activities for the year ended December 31, 2020 was \$450.2 million. This related principally to regular repayments, as well as the voluntary US\$341.4 million repayment made in December 2020, on our Term Loan B — U.S. Facility.

***Government Grant***

In 2019, we entered into an agreement with the Government of Canada (“GoC”) pursuant to which the GoC would contribute up to \$85.0 million to support the development of the Telesat Lightspeed constellation through the GoC Strategic Innovation Fund. In return for the grant, Telesat has made a number of commitments to the Government of Canada, including commitments to conduct over \$200.0 million of research and development activities in Canada as well as to expand its Canadian workforce.

The costs that were incurred in connection with this program to date are summarized below:

<b>(in millions of Canadian dollars)</b>	<b>Years ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Satellites, property and other equipment . . . . .	\$ 323.0	\$ 83.1	\$ —
Intangible assets . . . . .	—	—	23.4
Total capital expenditures . . . . .	323.0	83.1	23.4
Operating expenses . . . . .	31.7	21.1	7.1
<b>Total costs incurred.</b> . . . .	<b>\$ 354.7</b>	<b>\$ 104.2</b>	<b>\$ 30.5</b>

Total research and development costs for Telesat Lightspeed for the year ended December 31, 2021 increased by \$250.5 million from \$104.2 million to \$354.7 million, when compared to the prior year.

Total research and development costs for Telesat Lightspeed for the year ended December 31, 2020 increased by \$73.7 million from \$30.5 million to \$104.2 million, when compared to the prior year.

The increases were primarily driven by the continued ramp in the development of Telesat Lightspeed.

The following claims against the government grant have been made to date against the costs incurred associated with the program:

<b>(in millions of Canadian dollars)</b>	<b>Years ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Satellites, property and other equipment . . . . .	\$ 10.0	\$ 8.0	\$ —
Intangible assets . . . . .	—	—	3.3
Total capital expenditures . . . . .	10.0	8.0	3.3
Operating expenses . . . . .	4.8	4.0	1.7
<b>Total costs incurred.</b> . . . .	<b>\$ 14.8</b>	<b>\$ 12.0</b>	<b>\$ 5.0</b>

***Liquidity***

A large portion of our annual cash receipts are reasonably predictable because they are primarily derived from an existing backlog of long-term customer contracts and high contract renewal rates. We believe cash and short-term investments as at December 31, 2021, cash flows from operating activities, and drawings on the Revolving Credit Facility under our Senior Secured Credit Facilities will be adequate to meet our expected cash requirements for at least the next twelve months for activities in the normal course of business, including required interest and principal

payments on our indebtedness and our capital requirements. This includes the commitments we have made to date for our Telesat Lightspeed program, but does not include the capital that would be required to commence construction of the constellation.

The construction of any satellite replacement or expansion program will require significant capital expenditures, in particular the planned Telesat Lightspeed constellation. Cash required for any future satellite programs may be funded from a range of sources including: cash and short-term investments, cash flows generated from operating activities, cash flows from customer prepayments or through borrowings on the Revolving Credit Facility under the Senior Secured Credit Facilities; vendor financing; equity investments, including through the issuance of public equity; export credit agency financing; additional secured or unsecured debt financing; proceeds received from repurposing U.S. C-band spectrum; and from government sources. In addition, Telesat may sell certain satellite assets and, in accordance with the terms and conditions of the Senior Secured Credit Facilities, reinvest the proceeds in replacement satellites or pay down indebtedness under the Senior Secured Credit Facilities. However, our ability to access these sources of funding is not guaranteed, and therefore, Telesat may not be able to fully fund additional replacement or new satellite programs.

We are developing our planned Telesat Lightspeed constellation in Unrestricted Subsidiaries (as defined in the credit agreement governing our Senior Secured Credit Facilities (the “Credit Agreement”) and indentures governing the Senior Notes, Senior Secured Notes and 2026 Senior Secured Notes (together, the “Indentures”), and we expect to complete the development of, fund, and operate our Telesat Lightspeed constellation through current or future Unrestricted Subsidiaries.

## **DEBT**

### ***Senior Secured Credit Facilities***

The obligations under the Credit Agreement and the guarantees of those obligations are secured, subject to certain exceptions, by a first priority security interest in the assets of Telesat and certain of our subsidiaries (“Guarantors”). The Credit Agreement contains covenants that restrict the ability of Telesat and the Guarantors to take specified actions, including, among other things and subject to certain significant exceptions: creating liens, incurring indebtedness, making investments, engaging in mergers, selling property, paying dividends, entering into sale-leaseback transactions, creating subsidiaries, repaying subordinated debt or amending organizational documents. The Credit Agreement also requires Telesat and the Guarantors to comply with a maximum first lien leverage ratio and contains customary events of default and affirmative covenants, including an excess cash sweep, that may require us to repay a portion of the outstanding principal under our Senior Secured Credit Facilities prior to the stated maturity.

Our Senior Secured Credit Facilities are comprised of the following facilities:

#### ***i — Revolving Credit Facility***

Our Revolving Credit Facility (“Revolving Facility”) is a \$200.0 million loan facility available in either U.S. dollar or Canadian dollar equivalent, maturing in December 2024. Loans under the Revolving Facility bear interest at a floating interest rate. For Canadian Prime Rate and Alternative Base Rate (“ABR”) loans, an applicable margin ranging from 0.75% to 1.25% is applied to the Prime Rate and ABR as these interest rates are defined in the Senior Secured Credit Facilities. For Bankers Acceptance (“BA”) Loans and Eurodollar Loans, an applicable margin ranging from 1.75% to 2.25% is applied to either the BA interest rate or LIBOR. The rates on the Revolving Facility vary depending upon the results of the first lien leverage ratio. Our Revolving Facility currently has an unused commitment fee that ranges from 25 to 37.5 basis points per annum, depending upon the result of the total leverage ratio. As at December 31, 2021, other than approximately \$0.2 million in drawings related to letters of credit, there were no borrowings under this facility.

## ***ii — Term Loan B — U.S. Facility***

Our Term Loan B — U.S. Facility (“U.S. TLB Facility”) is a US\$1,908.5 million facility maturing in December 2026.

As at December 31, 2021, US\$1,552.8 million of this facility was outstanding, which represents the full amount available. The borrowings under our U.S. TLB Facility bear interest at a floating rate of either: (i) LIBOR as periodically determined for interest rate periods selected by Telesat in accordance with the terms of the Senior Secured Credit Facilities plus an applicable margin of 2.75%; or (ii) Alternative Base Rate as determined in accordance with the terms of the Senior Secured Credit Facilities plus an applicable margin of 1.75%. In December 2020, a prepayment of US\$341.4 million was made on the U.S. TLB Facility.

The mandatory principal repayments on our U.S. TLB Facility are one quarter of 1.00% of the value of the loan, which must be paid on the last day of each quarter. As a result of the prepayment made in December 2020, mandatory quarterly principal repayments will no longer be required.

### ***Senior Secured Notes***

Our Secured Senior Notes, in the amount of US\$400.0 million, bear interest at an annual rate of 4.875% and are due in June 2027. The indenture governing the Senior Secured Notes includes covenants or terms that restrict our ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, investments or acquisitions, enter into certain transactions with affiliates, modify or cancel our satellite insurance, effect mergers with another entity, and redeem our Senior Secured Notes, without penalty, before December 1, 2024, in each case subject to exceptions provided in the Senior Secured Notes indenture.

### ***2026 Senior Secured Notes***

On April 27, 2021, we issued US\$500.0 million in aggregate principal amount of 2026 Senior Secured Notes which bear interest at an annual rate of 5.625% and are due in December 2026. The indenture governing the 2026 Senior Secured Notes includes covenants and terms that restrict our ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, investments or acquisitions, enter into certain transactions with affiliates, modify or cancel its satellite insurance, effect mergers with another entity, and redeem the 2026 Senior Secured Notes, without penalty, before December 6, 2022, in each case subject to exceptions provided in such indenture.

We incurred debt issue costs of \$6.8 million in connection with the issuance of the 2026 Senior Secured Notes. The prepayment options associated with the 2026 Senior Secured Notes were fair valued at the time of issuance. The initial impact, as at April 27, 2021, of the prepayment option related to the 2026 Senior Secured Notes was an increase of \$1.9 million to the indebtedness. The debt issue costs and prepayment options recorded against the indebtedness will be subsequently amortized to interest expense using the effective interest method.

### ***Senior Notes***

Our Senior Notes, in the amount of US\$550.0 million, bear interest at an annual rate of 6.5% and are due in October 2027. The indenture governing the Senior Notes includes covenants or terms that restrict our ability to, among other things, incur additional indebtedness, incur liens, pay dividends or make certain other restricted payments, investments or acquisitions, enter into certain transactions with affiliates, modify or cancel our satellite insurance, effect mergers with another entity, and redeem our Senior Notes, without penalty, before October 15, 2024, in each case subject to exceptions provided in the Senior Notes indenture.

As at December 31, 2021, we were in compliance with the financial covenants of our Senior Secured Credit Facilities, the indenture governing our Senior Notes, the indenture governing our Senior Secured Notes and the indenture governing our 2026 Senior Secured Notes.

### ***Limited Partnership Units Liability***

The LP Units issued by the Partnership as part of the Transaction in exchange for Telesat Canada shares are exchangeable into the Corporation's shares at the discretion of the holders, subject to a lockup period which expires on the date that is six months from the completion of the Transaction (the "Lock-Up Period"). From and after the Lock-Up Period, a holder of LP Units shall, at any time and from time to time, have the right to require the Partnership to repurchase any or all of LP Units held by such holder in exchange for the applicable class of the Corporation shares.

Accordingly, these LP Units have been classified as a financial liability in the financial statements of the Partnership. This liability is remeasured at fair value at the balance sheet date and changes in fair value is recorded through profit and loss.

### ***Debt Service Cost***

The interest expense on our Senior Secured Credit Facilities, Senior Notes, Senior Secured Notes, 2026 Senior Secured Notes and interest rate swaps, excluding the impact of the amortization of deferred financing costs, prepayment options and loss on repayment for the year ended December 31, 2021 was \$163.3 million.

### ***Derivatives***

We use, from time to time, interest rate and currency derivatives to manage our exposure to changes in interest rates and foreign exchange rates.

As at December 31, 2021, we had one outstanding interest rate swap, which hedges the interest rate risk on US\$450.0 million of U.S. denominated Term Loan B borrowings. As at December 31, 2021, the fair value of the interest rate swaps was a liability of \$5.4 million. The contract, which matures in September 2022, is at a fixed interest rate of 2.04%, excluding applicable margin.

We also have embedded derivatives that are accounted for separately at fair value. These embedded derivatives are related to the prepayment option on our Senior Notes, the prepayment option on our Senior Secured Notes and the prepayment option on our 2026 Senior Secured Notes. As at December 31, 2021, the fair value of the embedded derivative related to the prepayment option on our Senior Notes was \$Nil, the fair value of the embedded derivative related to the prepayment option on our Senior Secured Notes was an asset of \$0.3 million and the fair value of the embedded derivative related to the prepayment option on our 2026 Senior Secured Notes was an asset of \$0.7 million.

The changes in the fair value of these embedded derivatives are recorded on our consolidated statements of income as a gain or loss on changes in fair value of financial instruments and are non-cash.

All derivative instruments are measured at 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, we determine 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.

These estimates 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 our derivative instruments are not reflected in the fair values. The fair values also include an adjustment related to the counterparty credit risk. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

## MATERIAL CASH REQUIREMENTS

A summary of the material cash requirements as at December 31, 2021, that are due in each of the next five years and after 2026 are summarized the table below:

<u>(in millions of Canadian dollars)</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>	<u>Total</u>
Satellite performance incentive payments, including interest <sup>(1)</sup> . . . . .	\$ 8.9	\$ 7.5	\$ 5.3	\$ 3.1	\$ 3.2	\$ 9.8	\$ 37.7
Senior Secured Credit Facilities and Notes <sup>(2)</sup> . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 2,594.1	\$ 1,200.5	\$ 3,794.7
Interest on long-term indebtedness and interest rate swaps <sup>(2)</sup> . . . . .	\$ 174.5	\$ 164.0	\$ 164.1	\$ 163.1	\$ 159.6	\$ 57.5	\$ 882.7
Lease liabilities <sup>(3)</sup> . . . . .	\$ 3.5	\$ 3.6	\$ 3.4	\$ 3.2	\$ 3.0	\$ 35.0	\$ 51.7
Property lease commitments <sup>(4)</sup> . . . . .	\$ 0.9	\$ 1.1	\$ 1.1	\$ 1.0	\$ 1.0	\$ 11.9	\$ 17.0
Commitments for capital expenditures <sup>(5)</sup> . . . . .	\$ 22.9	\$ 21.4	\$ 40.2	\$ 50.7	\$ —	\$ —	\$ 135.2
Other operating commitments <sup>(6)</sup> . . . . .	\$ 23.1	\$ 5.8	\$ 4.8	\$ 4.2	\$ 2.0	\$ 9.5	\$ 49.4
Contributions to defined benefit plans <sup>(7)</sup> . . . . .	\$ 4.2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4.2

- (1) Satellite performance incentive payments are obligations payable to satellite manufacturers over the lives of certain satellites. Satellite performance incentive payments will be paid through the usage of cash and short-term investments, cash flows from operating activities, or drawings on the Revolving Credit Facility under our Senior Secured Credit Facilities.
- (2) Balance relates to Senior Secured Credit Facilities, Senior Notes, Senior Secured Notes and 2026 Senior Secured Notes and all corresponding interest thereon, excluding the impact of the amortization of deferred financing costs, loss on repayment and prepayment options. Balance also includes the anticipated payments to be made on the interest rate swaps. Over the next twelve months, the payments will be paid through the usage of cash and short-term investments, cash flows from operating activities, or drawings on the Revolving Credit Facility under our Senior Secured Credit Facilities.
- (3) Balance relates to payments to be made in connection with leases. Over the next twelve months, the payments will be made through the usage of cash and short-term investments, cash flows from operating activities, or drawings on the Revolving Credit Facility under our Senior Secured Credit Facilities.
- (4) Property lease commitments consists of off-balance sheet contractual obligations for land or building usage. Over the next twelve months, the payments will be made through the usage of cash and short-term investments, cash flows from operating activities, or drawings on the Revolving Credit Facility under our Senior Secured Credit Facilities.
- (5) We have entered into contracts for the development of our Telesat Lightspeed constellation and other capital expenditures. These expenditures may be funded from some or all of the following: cash and short-term investments, cash flow from operating activities, cash flow from customer prepayments or funds available under our Revolving Credit Facility.
- (6) 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. Over the next twelve months, the payments will be made through the usage of cash and short-term investments, cash flows from operating activities, or drawings on the Revolving Credit Facility under our Senior Secured Credit Facilities.
- (7) Over the next twelve months, contributions to the defined benefit pension plans will be made through the usage of cash and short-term investments and cash flows from operating activities. Contributions subsequent to 2022 are not quantifiable as they are largely dependent on the result of actuarial valuations that are performed periodically and on the investment performance of the pension fund assets.
- (8) The LP Units issued by the Partnership as part of the Transaction in exchange for Telesat Canada shares are exchangeable into the Corporation's shares at the discretion of the holders, subject to the Lock-Up Period. From and after the Lock-Up Period, a holder of LP Units shall, at any time and from time to time, have the right to require the Partnership to repurchase any or all of LP Units held by such holder in exchange for the applicable class of the Corporation shares. As the LP Units will not be settled in cash, they have not been quantified per year as a material cash requirement.

## MARKET RISK

### *Credit Risk Related to Financial Instruments*

Financial instruments that potentially subject us to a concentration of credit risk consist of cash and short-term investments, accounts receivable, derivative assets and other assets. Cash and short-term investments are invested with high quality financial institutions and are governed by our corporate investment policy, which aims to reduce credit risk by restricting investments to high-grade, mainly U.S. dollar and Canadian dollar denominated investments. Credit checks are performed to minimize exposure to any one customer. We are exposed to credit risk if counterparties to our derivative instruments are unable to meet their obligations. It is expected that these counterparties will be able to meet their obligations as they are institutions with strong credit ratings, but we continue to periodically monitor their credit risk and credit exposure.

### *Foreign Exchange Risk*

Our 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 most significant impact of variations in the exchange rate is on our U.S. dollar denominated indebtedness and cash and short-term investments. In addition, a portion of our revenue and expenses, as well as the majority of our capital expenditures are denominated in U.S. dollars. As a result, the volatility of the U.S. currency exposes us to foreign exchange risks.

For the year ended December 31, 2021, we recorded a mainly non-cash foreign exchange gain of approximately \$27.5 million due to a weaker U.S. to Canadian dollar spot rate (\$1.2637) compared to December 31, 2020 (\$1.2725).

For the year ended December 31, 2020, we recorded a mainly non-cash foreign exchange gain of approximately \$47.6 million due to a weaker U.S. to Canadian dollar spot rate (\$1.2725) compared to December 31, 2019 (\$1.2990).

The approximate amount of our revenue and certain expenses denominated in U.S. dollars, as a percentage of their overall balance, is summarized in the table below:

<b>Years ended December 31,</b>	<b>2021</b>	<b>2020</b>
Revenue. . . . .	53.1%	52.9%
Operating expenses. . . . .	32.1%	45.6%
Interest on our indebtedness. . . . .	100.0%	100.0%

We use, from time to time, the following instruments to manage our exposure to foreign exchange risk:

- forward currency contracts to hedge foreign exchange risk on anticipated cash flows, mainly related to the construction of satellites and interest payments; and
- currency derivative instruments to hedge the foreign exchange risk on our U.S. dollar denominated indebtedness.

Our policy is that we do not use derivative instruments for speculative purposes. As at December 31, 2021, we have no forward currency contracts nor any currency derivative instruments.

A five percent increase (decrease) in the value of the U.S. dollar against the Canadian dollar would have increased (decreased) our indebtedness and (decreased) increased our net income as at December 31, 2021 by \$189.7 million.

A five percent increase (decrease) in the value of the U.S. dollar against the Canadian dollar would have increased (decreased) our cash and cash equivalents by \$69.1 million, increased (decreased) our net income by \$16.8 million and increased (decreased) our other comprehensive income by \$52.3 million as at and for the year ended December 31, 2021.

A five percent increase (decrease) in the value of the U.S. dollar against the Canadian dollar would have increased (decreased) our revenue and certain expenses for the year ended December 31, 2021, as summarized in the table below:

(in millions of Canadian dollars)

Revenue . . . . .	\$	20.1
Operating expenses . . . . .	\$	3.3
Interest on our indebtedness . . . . .	\$	7.6

The sensitivity analyses above assume that all other variables remain constant.

Through our U.S. dollar denominated indebtedness, we are exposed to foreign exchange fluctuations. The following table contains our existing U.S. dollar denominated indebtedness balances at the beginning of each respective year, which are net of our scheduled debt repayments, and based on the foreign exchange rate as at December 31, 2021.

(\$ millions, beginning of year)	2022	2023	2024	2025	2026	Thereafter
U.S. TLB Facility . . . . .	\$ 1,962.3	\$ 1,962.3	\$ 1,962.3	\$ 1,962.3	\$ 1,962.3	\$ —
Senior Notes . . . . .	695.0	695.0	695.0	695.0	695.0	695.0
Senior Secured Notes . . . . .	505.5	505.5	505.5	505.5	505.5	505.5
2026 Senior Secured Notes . . . . .	631.9	631.9	631.9	631.9	631.9	—
<b>U.S. dollar denominated debt balances . . . . .</b>	<b>\$ 3,794.7</b>	<b>\$ 1,200.5</b>				

### Interest Rate Risk

We are exposed to interest rate risk on our cash and short-term investments and on our indebtedness, a portion of the indebtedness which includes a variable interest rate. Changes in the interest rates could impact the amount of interest that we receive or are required to pay.

We use, from time to time, interest rate swaps to hedge the interest rate risk related to our indebtedness.

Our policy is that we do not use derivative instruments for speculative purposes. In October 2017, we entered into four interest rate swaps which hedge the interest rate risk on US\$1,800.0 million of borrowings under our U.S. TLB Facility. These contracts, which mature on various dates through September 2022, are at fixed interest rates ranging from 1.72% to 2.04%, excluding applicable margin. As at December 31, 2021, one of the interest rate swaps was outstanding to hedge the interest rate risk on US\$450.0 million of borrowings under our U.S. TLB Facility. The outstanding contract, which matures in September 2022, is at a fixed interest rate of 2.04%, excluding applicable margin.

If the interest rates on our variable rate debt increased (decreased) by 0.25%, the result would be a decrease (increase) of \$4.9 million to our net income for year ended December 31, 2021.

As at December 31, 2021, through our U.S. TLB Facility we are exposed to interest rate fluctuations. The following table contains the balance of the U.S. TLB facility at the beginning of each respective year, net of our scheduled repayments, and based on the foreign exchange rate as at December 31, 2021.

(\$ millions)	2022	2023	2024	2025	2026	Thereafter
U.S. TLB Facility <sup>(1)</sup> . . . . .	\$ 1,962.3	\$ 1,962.3	\$ 1,962.3	\$ 1,962.3	\$ 1,962.3	\$ —
Interest rate derivative variable to fixed <sup>(2)</sup> . . .	(568.7)	—	—	—	—	—
<b>Debt exposed to variable interest rate after interest rate derivatives . . . . .</b>	<b>\$ 1,393.6</b>	<b>\$ 1,962.3</b>	<b>\$ 1,962.3</b>	<b>\$ 1,962.3</b>	<b>\$ 1,962.3</b>	<b>\$ —</b>

(1) U.S. TLB Facility is U.S. dollar denominated and bears interest at LIBOR plus a spread.

(2) US\$450.0 million notional outstanding, variable rate is LIBOR. The weighted average fixed rate (before spread) is 2.04%.

## *Guarantees*

In the normal course of business, we enter into agreements that provide for indemnification and guarantees to counterparties in transactions involving sales of assets, sales of services, purchases and development of assets, securitization agreements and operating leases. The nature of almost all of these indemnifications prevents us from making a reasonable estimate of the maximum potential amount that we could be required to pay counterparties. As a result, we cannot determine how they could affect future liquidity, capital resources or our credit risk profile. We have not made any significant payments under these indemnifications in the past. For more information, see Note 34 of our audited consolidated financial statements.

## **RELATED PARTY TRANSACTIONS**

On November 23, 2020, Telesat Canada, a Canadian corporation, entered into a Transaction Agreement and Plan of Merger (the “Transaction Agreement”) with Loral Space & Communications Inc., a Delaware corporation, Telesat Partnership LP, a limited partnership formed under the laws of Ontario, Canada, Telesat Corporation, a newly formed corporation incorporated under the laws of the Province of British Columbia, Canada and the sole general partner of Telesat Partnership, Telesat CanHold Corporation, a corporation incorporated under the laws of British Columbia, Canada and wholly owned subsidiary of Telesat Partnership, Lion Combination Sub Corporation, a Delaware corporation and wholly owned subsidiary of Loral, Public Sector Pension Investment Board, a Canadian Crown corporation, and Red Isle Private Investments Inc., a Canadian corporation and wholly owned subsidiary of PSP Investments, under which Lion Combination Sub Corporation merged with and into Loral, with Loral surviving the merger as a wholly owned subsidiary of Telesat Partnership (the “Merger”), and Loral stockholders receiving Class A common shares or Class B variable voting shares (together the “Telesat Public Shares”) of Telesat Corporation and/or Class A Units or Class B Units of Telesat Partnership that will be exchangeable for Telesat Public Shares six months following closing of the Transaction (collectively the “Transaction”). The Transaction closed on November 18, 2021.

As at December 31, 2021, related parties consisted of PSP Investments and MHR Fund Management LLC, together with their subsidiaries and affiliates.

Prior to November 19, 2021, our related parties consisted of PSP Investments and Loral, our common shareholders, together with their subsidiaries and affiliates. In addition to the documents related to the Transaction, we have also entered into various commercial arrangements with Loral and subsidiaries and affiliates of Loral.

On October 31, 2007, Loral and Telesat Canada entered into a consulting services agreement (the “Consulting Agreement”). Pursuant to the terms of the Consulting Agreement, Loral agreed to provide non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat Canada as part of the Skynet Transaction, as well as with respect to certain aspects of our satellite communications business. The Consulting Agreement had an initial term of seven years and was automatically renewed on October 31, 2014 for an additional seven-year term. In exchange for Loral’s agreement to provide services under the Consulting Agreement, we paid Loral an annual fee of US\$5 million, payable quarterly in arrears on the last day of March, June, September and December of each year during the term of the Consulting Agreement. The consulting agreement has been terminated as a result of the completion of the Transaction. For more information, see Note 36 of our audited consolidated financial statements.

In May 2016, Loral, PSP and Telesat entered into an agreement which preserves the parties’ right to assert against one another legal claims relating to Telesat (the “Tolling Agreement”). The Tolling Agreement has been terminated as a result of the completion of the Transaction.

## NON-IFRS MEASURES

### *Adjusted EBITDA*

Adjusted EBITDA is a non-IFRS measure. The common definition of EBITDA is “Earnings Before Interest, Taxes, Depreciation and Amortization.” In evaluating financial performance, we use revenue and deduct certain operating expenses (including share-based compensation expense and unusual and non-recurring items, including restructuring related expenses) to obtain operating income before interest expense, taxes, depreciation and amortization (“Adjusted EBITDA”) and the Adjusted EBITDA margin (defined as the ratio of Adjusted EBITDA to revenue) as measures of our operating performance.

Adjusted EBITDA allows investors and us to compare our operating results with that of competitors exclusive of depreciation and amortization, interest and investment income, interest expense, taxes and certain other expenses. Financial results of competitors in the satellite services industry have significant variations that can result from timing of capital expenditures, the amount of intangible assets recorded, the differences in assets’ lives, the timing and amount of investments, the effects of other income (expense), and unusual and non-recurring items. The use of Adjusted EBITDA assists investors and us to compare operating results exclusive of these items. Competitors in the satellite services industry have significantly different capital structures. We believe the use of Adjusted EBITDA improves comparability of performance by excluding interest expense.

We believe the use of Adjusted EBITDA and the Adjusted EBITDA margin along with IFRS financial measures enhances the understanding of our operating results and is useful to investors and us in comparing performance with competitors, estimating enterprise value and making investment decisions. Adjusted EBITDA as used here may not be the same as similarly titled measures reported by competitors. Adjusted EBITDA should be used in conjunction with IFRS financial measures and is not presented as a substitute for cash flows from operations as a measure of our liquidity or as a substitute for net income as an indicator of our operating performance.

<b>(in millions of Canadian dollars)</b>	<b>Years ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income . . . . .	\$ 157.8	\$ 245.6
Tax expense (recovery) . . . . .	78.4	(4.4)
Loss on changes in fair value of financial instruments. . . . .	18.7	13.1
Gain on foreign exchange . . . . .	(27.5)	(47.6)
Interest and other income . . . . .	(3.4)	(5.2)
Interest expense. . . . .	188.0	203.8
Depreciation . . . . .	203.8	216.9
Amortization. . . . .	16.1	17.2
Other operating (gains) losses, net . . . . .	(107.6)	0.2
Non-recurring compensation expenses <sup>(1)</sup> . . . . .	5.4	1.3
Non-cash expense related to share-based compensation . . . . .	73.7	12.5
Adjusted EBITDA. . . . .	<u>\$ 603.3</u>	<u>\$ 653.4</u>
Revenue. . . . .	\$ 758.2	\$ 820.5
Adjusted EBITDA Margin . . . . .	79.6%	79.6%

(1) Includes severance payments, special compensation and benefits for executives and employees and one-time bonus as a result of the close of the Transaction.

Adjusted EBITDA for Telesat Corporation decreased by \$50.1 million for the year ended December 31, 2021, when compared to the prior year. The decrease was primarily due to an unfavorable foreign exchange impact on the conversion of U.S. dollar denominated revenue into the Canadian dollar equivalent, combined with a decrease in revenues, as discussed above, and higher compensation associated with increased hiring primarily to support the Telesat Lightspeed program. This was partially offset by the impact of the bad debt provision combined with higher capitalized engineering costs.

The difference in Adjusted EBITDA for Telesat Partnership LP would be an increase of \$1.2 million compared to the amount calculated for Telesat Corporation. This would result in an increase of the Adjusted EBITDA margin to 79.7%. All differences from Telesat Corporation relate to lower net income in Telesat Partnership LP.

### ***Consolidated EBITDA for Covenant Purposes***

Under the terms of the Credit Agreement for our Senior Secured Credit Facilities, we are required to comply with a senior secured leverage ratio maintenance covenant as well as with other financial ratio covenants that impact, among other items, our ability to incur debt and make dividend payments.

If our Revolving Credit Facility is drawn by more than 35% of the Credit Facility amount, our Credit Agreement requires us to comply with a first lien net leverage ratio of 5.75:1.00, tested quarterly, and failure to comply will result in an event of default. We refer to this first lien net leverage ratio as the Consolidated Total Secured Debt to Consolidated EBITDA for Covenant Purposes ratio.

Our Credit Agreement limits, among other items, our ability to incur debt and make dividend payments if the total leverage ratio is above 4.50:1.00, with certain exceptions. We refer to this total leverage ratio as the Consolidated Total Debt for Covenant Purposes to Consolidated EBITDA for the purposes of our Senior Secured Credit Facilities.

Our Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization for Covenant Purposes is defined as net income (loss) for Telesat and Restricted Subsidiaries plus interest expense, net of cash interest income earned on cash and cash equivalents, depreciation expense, amortization expense, extraordinary losses and unusual and non-recurring charges, non-cash charges, any expenses or charges incurred in connection with any issuance of debt, any impairment charges or asset write off, foreign withholding taxes paid or accrued, non-cash charges related to share-based compensation expense and consulting fees payable to Loral. Additional sums which may be added include projected cost savings from an acquisition and lost revenue which may have been earned by satellites that have been subject to an insured loss. Deductions which are made in calculating Consolidated EBITDA for Covenant Purposes include extraordinary, non-recurring gains and losses and non-cash gains and losses.

Further adjustments are made to account for income from Unrestricted Subsidiaries, and currency gains and losses (including non-cash gains or losses on derivative contracts). Unrestricted Subsidiaries are (a) any Subsidiary of Telesat that is formed or acquired after the closing date of the Credit Agreement, provided that such Subsidiary is designated as an Unrestricted Subsidiary, and (b) any Restricted Subsidiary subsequently re-designated as an Unrestricted Subsidiary.

Consolidated EBITDA for Covenant Purposes is not a presentation made in accordance with IFRS, is not a measure of financial condition or profitability, and should not be considered as an alternative to (1) net income (loss) determined in accordance with IFRS or (2) cash flows from operating activities determined in accordance with IFRS. Additionally, Consolidated EBITDA for Covenant Purposes is not intended to be a measure of free cash flow for management's discretionary use as it does not include certain cash requirements for such items as interest payments, tax payments and debt service requirements. We believe that the inclusion of Consolidated EBITDA for Covenant Purposes herein is appropriate to provide additional information concerning the calculation of the financial ratio maintenance covenant and other covenants on our Senior Secured Credit Facilities. Consolidated EBITDA for Covenant Purposes is a material component of these covenants. Non-compliance with the financial ratio maintenance covenant contained in our Senior Secured Credit Facilities could result in the requirement to immediately repay all amounts outstanding. This presentation of Consolidated EBITDA for Covenant Purposes is not comparable to other similarly titled measures of other companies because not all companies use identical calculations of EBITDA. We believe the disclosure of the calculation of Consolidated EBITDA for Covenant Purposes provides information that is useful to an investor's understanding of our liquidity and financial flexibility.

The following is a reconciliation of net income, which is an IFRS measure of our operating results, to Consolidated EBITDA for Covenant Purposes, as defined in the Credit Agreement and the calculation of the ratio of Consolidated Total Secured Debt to Consolidated EBITDA for Covenant Purposes as defined in the Credit Agreement. The terms and related calculations are defined in the Credit Agreement, a copy of which is publicly available at [www.sec.gov](http://www.sec.gov).

<b>(in \$ millions)</b>	<b>Year Ended December 31, 2021</b>
Net income	\$ 157.8
Impact of unrestricted subsidiaries	958.4
Consolidated income for Covenant Purposes	1,116.3
<i>Plus:</i>	
Income taxes (Note 1, Note 2)	437.8
Interest expense (Note 1)	163.3
Depreciation and amortization expense (Note 1)	218.9
Non-cash share-based compensation and pension expense	81.9
Debt issue costs	6.8
Other	
Impairment of intangible asset in unrestricted subsidiaries (Note 2)	(1,286.7)
Other	37.2
<i>Increased (decreased) by:</i>	
Non-cash losses on changes in fair value of financial instruments and swap obligations and cash losses on the value of swap obligations	18.7
Gains on disposal of assets	(108.5)
Non-cash gains resulting from changes in foreign exchange rates	(35.3)
<b>Consolidated EBITDA for Covenant Purposes</b>	<b>\$ 650.4</b>

Note 1: Tax, interest, depreciation and amortization expense for covenant purposes excludes certain specific expenses as defined in the Credit Agreement. As a result, these items in the covenant calculation do not reconcile to the financial statement line items.

Note 2: In order to facilitate the financing of Telesat LEO Inc., certain LEO-related assets previously owned by Telesat Canada and Telesat LEO Holdings Inc. were transferred at the end of 2020 to Telesat LEO Inc., an Unrestricted Subsidiary. In addition, C-band spectrum assets were transferred to Telesat Spectrum Corporation, another Unrestricted Subsidiary. At the time of the transfer and in accordance with Telesat's debt covenants, a third party valuation of the C-band assets was obtained. The value attributed to the Canadian C-band spectrum was C\$1.3 billion, net of tax of C\$0.4 billion. In 2021, the Government of Canada decided that it would not adopt Telesat's proposal to auction C-band spectrum for the roll-out of 5G wireless in Canada, and as a result, Telesat would not receive proceeds arising from the spectrum repurposing. Telesat has therefore written down (or reversed) the values assigned to the Canadian C-band spectrum assets in Telesat Spectrum Corporation. There are no impacts on the consolidated net income or total assets of Telesat as result of the write-down (or reversal) of the Canadian C-band spectrum in Telesat Spectrum Corporation as it eliminates upon consolidation.

Note 3: There are no differences in the Consolidated EBITDA for Covenant Purposes for Telesat Partnership LP as Telesat Partnership LP is considered an unrestricted subsidiary based upon the terms of the Credit Agreement.

### ***Consolidated Total Secured Debt and Consolidated Debt for Covenant Purposes***

Consolidated Total Debt for Covenant Purposes and Consolidated Total Secured Debt for Covenant Purposes are non-IFRS measures. We believe that the inclusion of Consolidated Total Debt for Covenant Purposes and Consolidated Total Secured Debt for Covenant Purposes herein are appropriate to provide additional information concerning the calculation of the financial ratio maintenance and other covenants under our Senior Secured Credit Facilities and provides information that is useful to an investor's understanding of our compliance with these financial covenants.

The following is a reconciliation of our Consolidated Total Debt for Covenant Purposes and Consolidated Total Secured Debt for Covenant Purposes to Indebtedness:

<b>(in \$ millions)</b>	<b>As at December 31, 2021</b>
<hr/>	
<b>U.S. dollar denominated debt</b>	
Term Loan B U.S. Facility (US\$) . . . . .	\$ 1,552.8
Senior Notes (US\$) . . . . .	550.0
Senior Secured Notes (US\$) . . . . .	400.0
2026 Senior Secured Notes (US\$) . . . . .	500.0
	<hr/>
	3,002.8
Foreign exchange adjustment . . . . .	791.8
Subtotal . . . . .	<hr/>
	3,794.7
Deferred financing costs and prepayment options . . . . .	(2.1)
<b>Indebtedness</b> . . . . .	<hr/> <b>\$ 3,792.6</b> <hr/>
<b>(in \$ millions)</b>	
<hr/>	
<b>Indebtedness</b> . . . . .	<b>\$ 3,792.6</b>
Adjustments for covenant purposes:	
Deferred financing costs and prepayment options . . . . .	2.1
Add: lease liabilities . . . . .	35.7
	<hr/>
<b>Consolidated Total Debt</b> . . . . .	<b>3,830.3</b>
Less: Cash and cash equivalents (max. US\$100 million) . . . . .	(126.4)
<b>Consolidated Total Debt for Covenant Purposes</b> . . . . .	<hr/> <b>\$ 3,704.0</b> <hr/>
<b>Consolidated Total Debt</b> . . . . .	<b>\$ 3,830.3</b>
Less: Unsecured debt (Senior Notes) . . . . .	(695.0)
<b>Consolidated Total Secured Debt</b> . . . . .	<hr/> <b>3,135.3</b>
Less: Cash and cash equivalents (max. US\$100 million) . . . . .	(126.4)
<b>Consolidated Total Secured Debt for Covenant Purposes</b> . . . . .	<hr/> <b>\$ 3,008.9</b> <hr/>

As at December 31, 2021, the Consolidated Total Debt for Covenant Purposes to Consolidated EBITDA ratio, for the purposes of our Senior Secured Credit Facilities was 5.70:1.00. The Consolidated Total Secured Debt to Consolidated EBITDA for Covenant Purposes ratio, for the purposes of our Senior Secured Credit Facilities, was 4.63:1.00.

The consolidated EBITDA for covenant purposes for the Senior Secured Credit Facilities for the year ended December 31, 2020 was \$695.5 million. Detailed information of the calculation is included in Item 5. Operating and Financial Review and Prospects — A. Operating results in the Telesat Canada Annual Report for the year December 31, 2020 on form 20-F filed with the SEC on March 4, 2021, which can be obtained on the SEC website at <http://www.sec.gov>.

As of the date hereof we are in compliance with our debt covenants.

### ***Condensed Consolidating Financial Information***

The condensed consolidating financial information reflects the investments, using the equity method of accounting, of Telesat in the Issuers, of the Issuers in their respective Guarantor and Non-Guarantor subsidiaries, and of the Guarantors in their Non-Guarantor subsidiaries.

Balances of Telesat Partnership are inclusive of balances associated with Telesat Partnership LP, Telesat CanHoldco Corporation, Telesat Can ULC, Loral Space & Communications Inc. and Loral Skynet Corporation.

In order to facilitate the financing of Telesat LEO Inc., certain LEO-related assets previously owned by Telesat Canada and Telesat LEO Holdings Inc. were transferred at the end of 2020 to Telesat LEO Inc., an Unrestricted Subsidiary. In addition, C-band spectrum assets were transferred to Telesat Spectrum Corporation, another Unrestricted Subsidiary. At the time of the transfer and in accordance with Telesat's debt covenants, a third party valuation of the C-band assets was obtained. The value attributed the Canadian C-band spectrum was C\$1.3 billion, net of tax of C\$0.4 billion. In 2021, the Government of Canada decided that it would not adopt Telesat's proposal to auction C-band spectrum for the roll-out of 5G wireless in Canada, and as a result, Telesat would not receive proceeds arising from the spectrum repurposing. Telesat has therefore written down (or reversed) the values assigned to the Canadian C-band spectrum assets in Telesat Spectrum Corporation. There are no impacts on the consolidated net income or total assets of Telesat as result of the write-down (or reversal) of the Canadian C-band spectrum in Telesat Spectrum Corporation as it eliminates upon consolidation.

**Condensed Consolidating Statements of Income (Loss)  
For the year ended December 31, 2021**

	Telesat Corporation	Telesat Partnership	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Revenue . . . . .	\$ —	\$ —	\$ —	\$ 671,525	\$ 425,303	\$ 8,157	\$ (346,773)	\$ 758,212
Operating expenses . . . . .	(1,246)	(385)	—	(464,914)	(84,607)	(29,675)	346,773	(234,054)
Depreciation . . . . .	—	—	—	(39,698)	(174,796)	(759)	11,481	(203,772)
Amortization . . . . .	—	—	—	(706)	(2,441)	(298)	(12,696)	(16,141)
Other operating losses (gains), net	—	(26)	—	(841)	20	(1,286,739)	1,395,201	107,615
Operating (loss) income . . . . .	(1,246)	(411)	—	165,366	163,479	(1,309,314)	1,393,986	411,860
Income (loss) from equity								
investments . . . . .	(899,792)	(899,068)	—	(783,936)	(935,294)	—	3,518,090	—
Interest expense . . . . .	—	(55)	—	(173,684)	(14,108)	(34)	(113)	(187,994)
Interest and other (expense)								
income . . . . .	—	(257)	—	46,226	299	1,100	(43,950)	3,418
Gain on change in fair value of								
financial instruments . . . . .	—	—	—	(18,684)	—	—	—	(18,684)
Gain (loss) on foreign exchange . .	—	—	—	9,471	26,857	(7,740)	(1,049)	27,539
Income (loss) before tax . . . . .	(901,038)	(899,791)	—	(755,241)	(758,767)	(1,315,988)	4,866,964	236,139
Tax expense . . . . .	—	—	—	(42,960)	(3,733)	359,463	(391,147)	(78,377)
Net income (loss) . . . . .	<u>\$ (901,038)</u>	<u>\$ (899,791)</u>	<u>\$ —</u>	<u>\$ (798,201)</u>	<u>\$ (762,500)</u>	<u>\$ (956,525)</u>	<u>\$ 4,475,817</u>	<u>\$ 157,762</u>

**Condensed Consolidating Statements of Comprehensive Income (Loss)  
For the year ended December 31, 2021**

	Telesat Corporation	Telesat Partnership	Telesat LLC	Telesat Canada	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
Net income (loss) . . . . .	<u>\$ (901,038)</u>	<u>\$ (899,791)</u>	<u>\$ —</u>	<u>\$ (798,201)</u>	<u>\$ (762,500)</u>	<u>\$ (956,525)</u>	<u>\$ 4,475,817</u>	<u>\$ 157,762</u>
Other comprehensive income								
(loss)								
Items that may be reclassified								
into profit or loss								
Foreign currency translation								
adjustments . . . . .	35	10	—	22,816	(31,091)	(8,178)	(1,136)	(17,544)
Other comprehensive loss								
from equity investments . . .	8,230	8,220	—	(39,269)	7,429	—	15,390	—
Items that will not be								
reclassified into profit or								
loss								
Actuarial gains on employee								
benefit plans . . . . .	—	816	—	54,596	10	—	—	55,422
Tax expense . . . . .	—	—	—	(14,424)	—	—	—	(14,424)
Other comprehensive income								
from equity investments . . .	40,998	40,182	—	10	—	—	(81,190)	—
Other comprehensive income								
(loss) . . . . .	<u>49,263</u>	<u>49,228</u>	<u>—</u>	<u>23,729</u>	<u>(23,652)</u>	<u>(8,178)</u>	<u>(66,936)</u>	<u>23,454</u>
Total comprehensive income								
(loss) . . . . .	<u>\$ (851,775)</u>	<u>\$ (850,563)</u>	<u>\$ —</u>	<u>\$ (774,472)</u>	<u>\$ (786,152)</u>	<u>\$ (964,703)</u>	<u>\$ 4,408,881</u>	<u>\$ 181,216</u>

**Condensed Consolidating Statements of Income (Loss)**  
**For the year ended December 31, 2020**

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Revenue . . . . .	\$ 695,948	\$ —	\$ 445,995	\$ 438	\$ (321,913)	\$ 820,468
Operating expenses . . . . .	(396,112)	—	(80,539)	(26,098)	321,875	(180,874)
Depreciation . . . . .	(35,134)	—	(175,904)	(314)	(5,533)	(216,885)
Amortization . . . . .	(1,039)	—	(3,183)	—	(12,973)	(17,195)
Other operating gains, net . . . . .	450,898	—	1,280,018	85,582	(1,816,713)	(215)
Operating income . . . . .	714,561	—	1,466,387	59,608	(1,835,257)	405,299
Income from equity investments . . . . .	1,116,730	—	2,171	—	(1,118,901)	—
Interest expense . . . . .	(187,040)	—	(16,524)	(39)	(157)	(203,760)
Interest and other income . . . . .	166,637	—	1,557	3,817	(166,815)	5,196
Loss on change in fair value of financial instruments . . . . .	(13,115)	—	—	—	—	(13,115)
Gain (loss) on foreign exchange . . . . .	49,135	—	(3,608)	2,074	4	47,605
Income before tax . . . . .	1,846,908	—	1,449,983	65,460	(3,121,126)	241,225
Tax expense . . . . .	(60,872)	—	(13,768)	(382,774)	461,767	4,353
Net income (loss) . . . . .	<u>\$ 1,786,036</u>	<u>\$ —</u>	<u>\$ 1,436,215</u>	<u>\$ (317,314)</u>	<u>\$ (2,659,359)</u>	<u>\$ 245,578</u>

**Condensed Consolidating Statements of Comprehensive Income (Loss)**  
**For the year ended December 31, 2020**

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Net income (loss) . . . . .	\$ 1,786,036	\$ —	\$ 1,436,215	\$ (317,314)	\$ (2,659,359)	\$ 245,578
Other comprehensive loss						
Items that may be reclassified into profit or loss						
Foreign currency translation adjustments . . . . .	—	—	(7,623)	(19,592)	(5,207)	(32,422)
Other loss income from equity investments . . . . .	(27,215)	—	(6,560)	—	33,775	—
Items that will not be reclassified into profit or loss						
Actuarial losses on employee benefit plans . . . . .	(13,076)	—	(617)	—	—	(13,693)
Tax recovery . . . . .	3,461	—	123	—	—	3,584
Other comprehensive loss income from equity investments . . . . .	(494)	—	—	—	494	—
Other comprehensive loss . . . . .	<u>(37,324)</u>	<u>—</u>	<u>(14,677)</u>	<u>(19,592)</u>	<u>29,062</u>	<u>(42,531)</u>
Total comprehensive income (loss) . . . . .	<u>\$ 1,748,712</u>	<u>\$ —</u>	<u>\$ 1,421,538</u>	<u>\$ (336,906)</u>	<u>\$ (2,630,297)</u>	<u>\$ 203,047</u>

**Condensed Consolidating Statements of Income (Loss)**  
**For the year ended December 31, 2019**

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Revenue . . . . .	\$ 797,198	\$ —	\$ 474,670	\$ —	\$ (360,975)	\$ 910,893
Operating expenses . . . . .	(429,936)	—	(88,762)	(7,677)	360,876	(165,499)
Depreciation . . . . .	(35,982)	—	(209,069)	—	2,085	(242,966)
Amortization . . . . .	(5,325)	—	(3,917)	—	(14,035)	(23,277)
Other operating losses, net . . . . .	(44)	—	(860)	—	42	(862)
Operating income (loss) . . . . .	325,911	—	172,062	(7,677)	(12,007)	478,289
Income (loss) from equity investments . . .	155,150	—	(1,676)	—	(153,474)	—
Interest expense . . . . .	(240,708)	—	(17,280)	(1)	(272)	(258,261)
Loss on financing . . . . .	(151,919)	—	—	—	—	(151,919)
Interest and other income . . . . .	64,845	—	3,508	5,997	(54,307)	20,043
Loss on change in fair value of financial instruments . . . . .	(49,672)	—	—	—	—	(49,672)
Gain (loss) on foreign exchange . . . . .	159,846	—	4,085	(73)	(18)	163,840
Income (loss) before tax . . . . .	263,453	—	160,699	(1,754)	(220,078)	202,320
Tax (expense) recovery . . . . .	(12,356)	—	(5,608)	137	2,705	(15,122)
Net income (loss) . . . . .	<u>\$ 251,097</u>	<u>\$ —</u>	<u>\$ 155,091</u>	<u>\$ (1,617)</u>	<u>\$ (217,373)</u>	<u>\$ 187,198</u>

**Condensed Consolidating Statements of Comprehensive Income (Loss)**  
**For the year ended December 31, 2019**

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Net income (loss) . . . . .	\$ 251,097	\$ —	\$ 155,091	\$ (1,617)	\$ (217,373)	\$ 187,198
Other comprehensive income (loss)						
Items that may be reclassified into profit or loss						
Foreign currency translation adjustments . . . . .	—	—	(26,701)	(19,185)	(4,579)	(50,465)
Other comprehensive loss from equity investments . . . . .	(45,886)	—	(974)	—	46,860	—
Items that will not be reclassified into profit or loss						
Actuarial gains (losses) on employee benefit plans . . . . .	1,792	—	(658)	—	—	1,134
Tax (expense) recovery . . . . .	(538)	—	135	—	—	(403)
Other comprehensive loss from equity investments . . . . .	(523)	—	—	—	523	—
Other comprehensive loss . . . . .	<u>(45,155)</u>	<u>—</u>	<u>(28,198)</u>	<u>(19,185)</u>	<u>42,804</u>	<u>(49,734)</u>
Total comprehensive income (loss) . . . . .	<u>\$ 205,942</u>	<u>\$ —</u>	<u>\$ 126,893</u>	<u>\$ (20,802)</u>	<u>\$ (174,569)</u>	<u>\$ 137,464</u>

**Condensed Consolidating Balance Sheets**  
**As at December 31, 2021**

	<u>Telesat Corporation</u>	<u>Telesat Partnership</u>	<u>Telesat LLC</u>	<u>Telesat Canada</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
<b>Assets</b>								
Cash and cash equivalent . . . . .	\$ 4	\$ 904	\$ —	\$ 368,778	\$ 101,335	\$ 978,572	\$ —	\$ 1,449,593
Trade and other receivables . . . . .	—	431	—	22,526	15,345	84,396	—	122,698
Other current financial assets . . . . .	—	385	—	—	87	389	—	861
Intercompany receivables . . . . .	—	—	—	199,717	14,510	1,100	(215,327)	—
Current income tax recoverable . . . . .	—	1,642	—	—	1,053	567	(43)	3,219
Prepaid expenses and other current assets . . . . .	3,291	73	—	6,977	2,355	28,386	(18)	41,064
<b>Total current assets</b> . . . . .	<b>\$ 3,295</b>	<b>\$ 3,435</b>	<b>\$ —</b>	<b>\$ 597,998</b>	<b>\$ 134,685</b>	<b>\$ 1,093,410</b>	<b>\$ (215,388)</b>	<b>\$ 1,617,435</b>
Satellites, property and other equipment . . . . .	—	—	—	134,441	863,600	384,078	49,656	1,431,775
Deferred tax assets . . . . .	—	—	—	—	2,768	—	43,419	46,187
Other long-term financial assets . . . . .	—	715	—	5,115	10,518	—	—	16,438
Long-term income tax recoverable . . . . .	—	—	—	12,277	—	—	—	12,277
Other long-term assets . . . . .	—	—	—	30,688	566	—	—	31,254
Intangible assets . . . . .	—	—	—	4,756	1,078,076	491,801	(810,555)	764,078
Investment in affiliates . . . . .	299,865	427,684	—	3,599,672	98,786	—	(4,426,007)	—
Goodwill . . . . .	—	—	—	549,162	—	—	1,897,441	2,446,603
<b>Total assets</b> . . . . .	<b>\$ 303,160</b>	<b>\$ 431,834</b>	<b>\$ —</b>	<b>\$ 4,934,109</b>	<b>\$ 2,188,999</b>	<b>\$ 1,969,289</b>	<b>\$ (3,461,434)</b>	<b>\$ 6,365,957</b>
<b>Liabilities</b>								
Trade and other payables . . . . .	\$ 868	\$ 315	\$ —	\$ 30,626	\$ 8,658	\$ 14,161	\$ —	\$ 54,628
Other current financial liabilities . . . . .	—	—	—	33,543	3,161	—	(57)	36,647
Intercompany payables . . . . .	3,648	64	—	53,035	143,289	15,291	(215,327)	—
Income taxes payable . . . . .	—	—	—	4,549	71	1,002	—	5,622
Other current liabilities . . . . .	—	—	—	62,703	6,665	15,715	(25)	85,058
Current indebtedness . . . . .	—	—	—	—	—	—	—	—
<b>Total current liabilities</b> . . . . .	<b>\$ 4,516</b>	<b>\$ 379</b>	<b>\$ —</b>	<b>\$ 184,456</b>	<b>\$ 161,844</b>	<b>\$ 46,169</b>	<b>\$ (215,409)</b>	<b>\$ 181,955</b>
Long-term indebtedness . . . . .	—	—	—	3,792,597	—	—	—	3,792,597
Deferred tax liabilities . . . . .	—	—	—	388,339	—	24,372	(116,393)	296,318
Other long-term financial liabilities . . . . .	—	183	—	5,797	17,833	—	22	23,835
Other long-term liabilities . . . . .	—	18,555	—	135,236	217,066	596	—	371,453
<b>Total liabilities</b> . . . . .	<b>4,516</b>	<b>19,117</b>	<b>—</b>	<b>4,506,425</b>	<b>396,743</b>	<b>71,137</b>	<b>(331,780)</b>	<b>4,666,158</b>
<b>Shareholders' equity</b> . . . . .	<b>298,644</b>	<b>412,717</b>	<b>—</b>	<b>427,684</b>	<b>1,792,256</b>	<b>1,898,152</b>	<b>(3,129,654)</b>	<b>1,699,799</b>
<b>Total liabilities and shareholders' equity</b> . . . . .	<b>\$ 303,160</b>	<b>\$ 431,834</b>	<b>\$ —</b>	<b>\$ 4,934,109</b>	<b>\$ 2,188,999</b>	<b>\$ 1,969,289</b>	<b>\$ (3,461,434)</b>	<b>\$ 6,365,957</b>

**Condensed Consolidating Balance Sheets**  
**As at December 31, 2020**

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
<b>Assets</b>						
Cash and cash equivalent . . . . .	\$ 69,159	\$ —	\$ 73,588	\$ 675,631	\$ —	\$ 818,378
Trade and other receivables . . . . .	22,382	—	26,561	2,985	—	51,928
Other current financial assets . . . . .	—	—	72	376	—	448
Intercompany receivables . . . . .	240,286	—	6,947	432	(247,665)	—
Prepaid expenses and other current assets . . . . .	6,960	—	5,152	10,795	(46)	22,861
<b>Total current assets</b> . . . . .	<u>338,787</u>	<u>—</u>	<u>112,320</u>	<u>690,219</u>	<u>(247,711)</u>	<u>893,615</u>
Satellites, property and other equipment . . . . .	167,411	—	1,039,982	72,616	38,517	1,318,526
Deferred tax assets . . . . .	—	—	3,476	—	76,436	79,912
Other long-term financial assets . . . . .	35,297	—	18,128	—	—	53,425
Other long-term assets . . . . .	9,205	—	717	—	—	9,922
Intangible assets . . . . .	2,713	—	1,081,809	1,883,426	(2,188,758)	779,190
Investment in affiliates . . . . .	4,032,858	—	1,471,307	—	(5,504,165)	—
Goodwill . . . . .	549,162	—	—	—	1,897,441	2,446,603
<b>Total assets</b> . . . . .	<u>\$ 5,135,433</u>	<u>\$ —</u>	<u>\$ 3,727,739</u>	<u>\$ 2,646,261</u>	<u>\$ (5,928,240)</u>	<u>\$ 5,581,193</u>
<b>Liabilities</b>						
Trade and other payables . . . . .	\$ 19,129	\$ —	\$ 6,763	\$ 4,199	\$ —	\$ 30,091
Other current financial liabilities . . . . .	34,014	—	1,925	—	(59)	35,880
Intercompany payables . . . . .	45,364	—	178,073	24,228	(247,665)	—
Other current liabilities . . . . .	74,479	—	7,230	14,484	(38)	96,155
Current indebtedness . . . . .	—	—	—	—	—	—
<b>Total current liabilities</b> . . . . .	<u>172,986</u>	<u>—</u>	<u>193,991</u>	<u>42,911</u>	<u>(247,762)</u>	<u>162,126</u>
Long-term indebtedness . . . . .	3,187,152	—	—	—	—	3,187,152
Deferred tax liabilities . . . . .	416,358	—	—	381,332	(471,797)	325,893
Other long-term financial liabilities . . . . .	1,916	—	19,458	—	14,125	35,499
Other long-term liabilities . . . . .	178,583	—	231,067	956	(19)	410,587
<b>Total liabilities</b> . . . . .	<u>3,956,995</u>	<u>—</u>	<u>444,516</u>	<u>425,199</u>	<u>(705,453)</u>	<u>4,121,257</u>
<b>Shareholders' equity</b> . . . . .	<u>1,178,438</u>	<u>—</u>	<u>3,283,223</u>	<u>2,221,062</u>	<u>(5,222,787)</u>	<u>1,459,936</u>
<b>Total liabilities and shareholders' equity</b> . . . . .	<u>\$ 5,135,433</u>	<u>\$ —</u>	<u>\$ 3,727,739</u>	<u>\$ 2,646,261</u>	<u>\$ (5,928,240)</u>	<u>\$ 5,581,193</u>

**Condensed Consolidating Statements of Cash Flows**  
**For the year ended December 31, 2021**

	<u>Telesat Corporation</u>	<u>Telesat Partnership</u>	<u>Telesat LLC</u>	<u>Telesat Canada</u>	<u>Guarantor subsidiaries</u>	<u>Non-guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
<b>Cash flows from (used in) operating activities</b>								
Net income (loss)	\$ (901,038)	\$ (899,791)	\$ —	\$ (798,201)	\$ (762,500)	\$ (956,525)	\$ 4,475,817	\$ 157,762
Adjustment to reconcile net income (loss) to cash flows from operating activities								
Depreciation	—	—	—	39,698	174,796	759	(11,481)	203,772
Amortization	—	—	—	706	2,441	298	12,696	16,141
Tax expense	—	—	—	42,960	3,733	(359,463)	391,147	78,377
Interest expense	—	55	—	173,684	14,108	34	113	187,994
Interest income	—	—	—	(2,181)	(978)	(1,233)	—	(4,392)
(Gain) loss on foreign exchange	—	—	—	(9,471)	(26,857)	7,740	1,049	(27,539)
Gain on change in fair value of financial instruments	—	—	—	18,684	—	—	—	18,684
Share-based compensation	—	—	—	73,698	25	—	—	73,723
(Income) loss from equity investments	899,792	899,068	—	783,936	935,294	—	(3,518,090)	—
Loss (gains) on disposal of assets	—	26	—	841	(20)	—	1	848
Deferred revenue amortization	—	—	—	(39,684)	(24,990)	(324)	—	(64,998)
Pension expense	—	74	—	8,059	—	—	—	8,133
C-band clearing proceeds	—	—	—	—	—	64,289	(107,149)	(42,860)
Impairment	—	—	—	—	—	1,286,739	(1,286,739)	—
Other	—	—	—	(2,531)	578	—	—	(1,953)
Income taxes paid, net of income taxes received	—	—	—	(90,882)	(2,564)	(796)	—	(94,242)
Interest paid, net of interest received	—	—	—	(155,027)	(643)	1,237	—	(154,433)
Operating assets and liabilities	1,250	(691)	—	58,568	(19,918)	(96,406)	(1,428)	(58,625)
<b>Net cash from (used in) operating activities</b>	<u>4</u>	<u>(1,259)</u>	<u>—</u>	<u>102,857</u>	<u>292,505</u>	<u>(53,651)</u>	<u>(44,064)</u>	<u>296,392</u>
<b>Cash flows used in investing activities</b>								
Satellite programs	—	—	—	—	—	(279,941)	—	(279,941)
Purchase of other property and equipment	—	—	—	(5,751)	(790)	(29,282)	1,203	(34,620)
Purchase of intangible assets	—	—	—	—	(73)	—	(1,089)	(1,162)
Return of capital to shareholder	—	—	—	215,967	—	—	(215,967)	—
Investment in affiliates	—	—	—	(641,800)	—	—	641,800	—
C-band clearing proceeds	—	—	—	—	—	42,860	—	42,860
<b>Net cash used in investing activities</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(431,584)</u>	<u>(863)</u>	<u>(266,393)</u>	<u>425,947</u>	<u>(272,863)</u>
<b>Cash flows from (used in) financing activities</b>								
Repayment of indebtedness	—	—	—	—	—	—	—	—
Proceeds from indebtedness	—	—	—	619,900	—	—	—	619,900
Payment of debt issue costs	—	—	—	(6,834)	—	—	—	(6,834)
Payment of principal on lease liabilities	—	—	—	(1,457)	(433)	(288)	—	(2,178)
Satellite performance incentive payments	—	—	—	(5,376)	(1,538)	—	—	(6,914)
Return of capital to shareholder	—	—	—	—	(215,967)	—	215,967	—
Initial costs from Transaction	—	1,260	—	—	—	—	—	1,260
Proceeds from exercise of stock options	—	—	—	16	—	—	—	16
Proceeds from issuance of share capital	—	—	—	—	—	641,800	(641,800)	—
Dividends paid on preferred shares	—	—	—	(10)	(43,950)	—	43,950	(10)
<b>Net cash from (used in) financing activities</b>	<u>—</u>	<u>1,260</u>	<u>—</u>	<u>606,239</u>	<u>(261,888)</u>	<u>641,512</u>	<u>(381,883)</u>	<u>605,240</u>
Effect of changes in exchange rate on cash and cash equivalent	—	—	—	22,107	(2,007)	(17,654)	—	2,446
Increase in cash and cash equivalents	4	1	—	299,619	27,747	303,844	—	631,215
Cash and cash equivalents, beginning of year	—	—	—	69,159	73,588	675,631	—	818,378
Cash and cash equivalents, end of year	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 368,778</u>	<u>\$ 101,335</u>	<u>\$ 979,475</u>	<u>\$ —</u>	<u>\$ 1,449,593</u>

**Condensed Consolidating Statements of Cash Flows**  
**For the year ended December 31, 2020**

	<u>Telesat Canada</u>	<u>Telesat LLC</u>	<u>Guarantor subsidiaries</u>	<u>Non- guarantor subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
<b>Cash flows from operating activities</b>						
Net income (loss) . . . . .	\$ 1,786,036	\$ —	\$ 1,436,215	\$ (317,314)	\$ (2,659,359)	\$ 245,578
Adjustment to reconcile net income (loss) to cash flows from operating activities						
Depreciation . . . . .	35,134	—	175,904	314	5,533	216,885
Amortization . . . . .	1,039	—	3,183	—	12,973	17,195
Tax expense . . . . .	60,872	—	13,768	382,774	(461,767)	(4,353)
Interest expense . . . . .	187,040	—	16,524	39	157	203,760
Interest income . . . . .	(2,734)	—	(1,210)	(3,724)	—	(7,668)
(Gain) loss on foreign exchange . . . . .	(49,135)	—	3,608	(2,074)	(4)	(47,605)
Loss on change in fair value of financial instruments . . . . .	13,115	—	—	—	—	13,115
Share-based compensation . . . . .	12,597	—	(97)	—	—	12,500
Loss from equity investments . . . . .	(1,116,730)	—	(2,171)	—	1,118,901	—
Gain on disposal of assets . . . . .	(450,898)	—	(1,280,018)	(85,582)	1,816,713	215
Deferred revenue amortization . . . . .	(47,149)	—	(26,979)	—	37	(74,091)
Pension expenses . . . . .	7,333	—	—	—	—	7,333
Other . . . . .	6,608	—	1,366	—	—	7,974
Income taxes paid, net of income taxes received . . . . .	(52,706)	—	(737)	—	—	(53,443)
Interest paid, net of interest received . . . . .	(183,820)	—	(819)	4,667	—	(179,972)
Operating assets and liabilities . . . . .	51,007	—	(59,575)	23,474	112	15,018
<b>Net cash from operating activities</b> . . . . .	<u>257,609</u>	<u>—</u>	<u>278,962</u>	<u>2,574</u>	<u>(166,704)</u>	<u>372,441</u>
<b>Cash flows used in investing activities</b>						
Satellite programs, including capitalized interest . . . . .	(1,715)	—	—	(74,187)	—	(75,902)
Purchase of other property and equipment . . . . .	(8,878)	—	(6,015)	(2,062)	(105)	(17,060)
Purchase of intangible assets . . . . .	—	—	(24)	—	(6)	(30)
Return of capital to shareholder . . . . .	235,894	—	—	—	(235,894)	—
Investment in affiliates . . . . .	(250,919)	—	(5)	—	250,924	—
<b>Net cash used in investing activities</b> . . . . .	<u>(25,618)</u>	<u>—</u>	<u>(6,044)</u>	<u>(76,249)</u>	<u>14,919</u>	<u>(92,992)</u>
<b>Cash flows (used in) from financing activities</b>						
Repayment of indebtedness . . . . .	(453,592)	—	—	—	—	(453,592)
Dividends paid . . . . .	(10)	—	(166,815)	—	166,815	(10)
Satellite performance incentive payments . . . . .	(7,536)	—	(1,495)	—	—	(9,031)
Return of capital to shareholder . . . . .	—	—	(235,894)	—	235,894	—
Payments of principal on lease liabilities . . . . .	(1,080)	—	(536)	(177)	—	(1,793)
Government grant received . . . . .	—	—	—	14,185	—	14,185
Proceeds from issuance of share capital . . . . .	—	—	—	250,924	(250,924)	—
<b>Net cash (used in) from financing activities</b> . . . . .	<u>(462,218)</u>	<u>—</u>	<u>(404,740)</u>	<u>264,932</u>	<u>151,785</u>	<u>(450,241)</u>
Effect of changes in exchange rate on cash and cash equivalent . . . . .	(22,621)	—	(4,801)	(10,630)	—	(38,052)
(Decrease) increase in cash and cash equivalents . . . . .	(252,848)	—	(136,623)	180,627	—	(208,844)
Cash and cash equivalents, beginning of year . . . . .	322,007	—	210,211	495,004	—	1,027,222
Cash and cash equivalents, end of year . . . . .	<u>\$ 69,159</u>	<u>\$ —</u>	<u>\$ 73,588</u>	<u>\$ 675,631</u>	<u>\$ —</u>	<u>\$ 818,378</u>

**Condensed Consolidating Statements of Cash Flows**  
**For the year ended December 31, 2019**

	Telesat Canada	Telesat LLC	Guarantor subsidiaries	Non- guarantor subsidiaries	Adjustments	Consolidated
<b>Cash flows from (used in) operating activities</b>						
Net income (loss) . . . . .	\$ 251,097	\$ —	\$ 155,091	\$ (1,617)	\$ (217,373)	\$ 187,198
Adjustment to reconcile net income (loss) to cash flows from operating activities						
Depreciation . . . . .	35,982	—	209,069	—	(2,085)	242,966
Amortization . . . . .	5,325	—	3,917	—	14,035	23,277
Tax expense (recovery) . . . . .	12,356	—	5,608	(137)	(2,705)	15,122
Interest expense . . . . .	240,708	—	17,280	1	272	258,261
Interest income . . . . .	(10,249)	—	(4,088)	(5,931)	—	(20,268)
(Gain) loss on foreign exchange . . . . .	(159,846)	—	(4,085)	73	18	(163,840)
Loss on change in fair value of financial instruments . . . . .	49,672	—	—	—	—	49,672
Share-based compensation . . . . .	15,861	—	174	—	—	16,035
(Income) loss from equity investments . . . . .	(155,150)	—	1,676	—	153,474	—
Loss on disposal of assets . . . . .	44	—	860	—	(42)	862
Loss on refinancing . . . . .	151,919	—	—	—	—	151,919
Deferred revenue amortization . . . . .	(83,326)	—	(23,330)	—	98	(106,558)
Pension expenses . . . . .	6,314	—	—	—	—	6,314
Other . . . . .	44	—	122	—	—	166
Income taxes paid, net of income taxes received . . . . .	(86,227)	—	(4,295)	(4,933)	—	(95,455)
Interest paid, net of interest received . . . . .	(183,591)	—	2,130	5,349	—	(176,112)
Operating assets and liabilities . . . . .	(19,555)	—	4,507	1,663	(557)	(13,942)
<b>Net cash from (used in) operating activities . . . . .</b>	<b>71,378</b>	<b>—</b>	<b>364,636</b>	<b>(5,532)</b>	<b>(54,865)</b>	<b>375,617</b>
<b>Cash flows used in investing activities</b>						
Satellite programs, including capitalized interest . . . . .	(3,668)	—	—	—	—	(3,668)
Purchase of other property and equipment . . . . .	(6,167)	—	(2,166)	(12)	—	(8,345)
Purchase of intangible assets . . . . .	—	—	(106)	(27,491)	—	(27,597)
Return of capital to shareholder . . . . .	260,850	—	—	—	(260,850)	—
Investment in affiliates . . . . .	(359,397)	—	—	—	359,397	—
<b>Net cash used in investing activities . . . . .</b>	<b>(108,382)</b>	<b>—</b>	<b>(2,272)</b>	<b>(27,503)</b>	<b>98,547</b>	<b>(39,610)</b>
<b>Cash flows (used in) from financing activities</b>						
Repayment of indebtedness . . . . .	(3,743,465)	—	—	—	—	(3,743,465)
Proceeds from indebtedness . . . . .	3,786,082	—	—	—	—	3,786,082
Payment of early redemption premium . . . . .	(43,940)	—	—	—	—	(43,940)
Payment of debt issue costs . . . . .	(28,082)	—	—	—	—	(28,082)
Dividends paid . . . . .	(20)	—	(53,386)	(1,479)	54,865	(20)
Satellite performance incentive payments . . . . .	(8,045)	—	(1,599)	—	—	(9,644)
Return of capital to shareholder . . . . .	—	—	(260,850)	—	260,850	—
Payments of principal on lease liabilities . . . . .	(219)	—	(1,033)	—	—	(1,252)
Proceeds from issuance of share capital . . . . .	—	—	—	359,397	(359,397)	—
<b>Net cash (used in) from financing activities . . . . .</b>	<b>(37,689)</b>	<b>—</b>	<b>(316,868)</b>	<b>357,918</b>	<b>(43,682)</b>	<b>(40,321)</b>
Effect of changes in exchange rate on cash and cash equivalent . . . . .	(9,884)	—	(10,337)	(16,676)	—	(36,897)
(Decrease) increase in cash and cash equivalents . . . . .	(84,577)	—	35,159	308,207	—	258,789
Cash and cash equivalents, beginning of year . . . . .	406,584	—	175,052	186,797	—	768,433
Cash and cash equivalents, end of year . . . . .	<u>\$ 322,007</u>	<u>\$ —</u>	<u>\$ 210,211</u>	<u>\$ 495,004</u>	<u>\$ —</u>	<u>\$ 1,027,222</u>

## CURRENT SHARE INFORMATION

The number of shares and stated value of the outstanding Class A common shares, Class B variable voting shares, and Class C fully voting shares and Class C limited voting shares (together, the “Class C shares”) as at December 31, 2021, were as follows:

	<u>Number of shares</u>	<u>Stated value</u>
Class A common shares and Class B variable voting shares . . . . .	11,907,246	\$ 36,501
Class C shares . . . . .	112,841	6,340
	<u>12,020,087</u>	<u>\$ 42,841</u>

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

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

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

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

The Class A, Class B and Class C LP Units have been classified as a financial liability on the financial statements of Telesat Partnership.

## CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the amounts of revenue and expenses reported for the year. Actual results could differ from these estimates under different assumptions and conditions. For more details on these estimates, refer to Note 5 of our audited consolidated financial statements.

### *Critical judgments in applying accounting policies*

#### *Deferred revenue*

Certain of our revenue agreements were noted to have a significant financing component. Judgment by management is required to determine the discount rate used in the significant financing component calculation. There were no new agreements entered into in 2021 which included a significant financing component.

#### *Lease Liability*

Judgment by management is required in the determination of the likelihood that the lease renewal periods will be exercised as well as the determination of the incremental borrowing rate. There were no new material lease agreements entered into in 2021.

#### *Uncertain income tax positions*

We operate in numerous jurisdictions and are subject to country-specific tax laws. We use significant judgment when determining the worldwide provision for tax, and estimate provisions for uncertain tax positions as the amounts expected to be paid based on a qualitative assessment of all relevant factors. In the assessment, we consider risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. We review the provisions at each balance sheet date.

## ***Critical accounting estimates and assumptions***

### *Derivative financial instruments measured at fair value*

Derivative financial assets and liabilities are measured at fair value. When quoted market values are unavailable for our financial instruments, and in the absence of an active market, we determine fair value for financial instruments based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or we make use of internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs. The determination of fair value is significantly impacted by the assumptions used for the amount and timing of estimated future cash flows and discount rates. As a result, the fair value of financial assets and liabilities, and the amount of gains or losses on changes in fair value recorded to net income could vary. The discount rates used to discount cash flows as at December 31, 2021 ranged from 0.08% to 1.37% while as at December 31, 2020 the discount rates ranged from 0.08% to 0.54%.

### *Impairment of goodwill*

Goodwill represented \$2,446.6 million of our total assets as at December 31, 2021. Determining whether goodwill is impaired using a quantitative approach requires an estimation of our value, which requires us to estimate the future cash flows expected to arise from operations and to make assumptions regarding economic factors, tax rates, and annual growth rates. Actual operating results and our related cash flows could differ from the estimates used for the impairment analysis. The discount rate utilized on the goodwill impairment assessment ranged from 7.5% to 17.5% in 2021 and 8.0% to 17.5% in 2020.

### *Impairment of intangible assets*

Intangible assets represented a significant portion of our total assets as at December 31, 2021. We test intangible assets for impairment annually or more frequently if indicators of impairment or reversal of a prior impairment loss exist. The quantitative impairment analysis requires us to estimate the future cash flows expected to arise from operations, and to make assumptions regarding economic factors, discount rates, tax rates, and annual growth rates. Significant judgments are made in establishing these assumptions. Actual operating results and our related cash flows could differ from the estimates used for the impairment analysis. The discount rate utilized on the intangible assets impairment assessment ranged from was 7.5% to 17.5% in 2021 and 8.0% to 17.5% in 2020.

### *Employee benefits*

The cost of defined benefit pension plans, other post-employment benefits, and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, future pension increases and return on plan assets. Due to the complexity of the valuation, the underlying assumptions, and its long-term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed annually. See Note 32 of our audited consolidated financial statements for a sensitivity analysis of the assumptions used in the actuarial valuation.

### *Share-based compensation*

The expense for stock options is based on the fair value of the awards granted using the Black-Scholes option pricing model. The Black-Scholes option pricing model includes estimates of the dividend yield, expected volatility, risk-free interest rate and the expected life in years. Any changes in these estimates may have a significant impact on the amounts reported. There have been no significant changes to these estimates during the year.

### *Determination of useful life of satellites and finite life intangible assets*

The estimated useful life and depreciation method for satellites and finite life intangible assets are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis. Any change in these estimates may have a significant impact on the amounts reported. There were no changes in the estimated useful lives of satellites and intangible assets during 2021.

## *Income taxes*

We assess the recoverability of deferred tax assets based upon an estimation of our projected taxable income using enacted or substantially enacted tax laws, and our ability to utilize future tax deductions before they expire. Actual results could differ from expectations.

## **ACCOUNTING STANDARDS**

### ***Future Changes in Accounting Policies***

#### *Amendments to IAS 1 and IFRS Practice Statement 2*

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

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

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

The changes will only impact the level of disclosures within our financial statements.

We are currently evaluating the impact of the amendment.

#### *Amendments to IAS 12*

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

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

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

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

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

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

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

We are currently evaluating the impact of the IFRIC interpretation.

There are no other new or amended standards determined to be applicable to us.