

CORPORATE PARTICIPANTS

Michael Bolitho

Director, Treasury and Risk Management

Daniel Goldberg

President and Chief Executive Officer

Andrew Browne

Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Walter Piecyk

LightShed Partners

Caleb Henry

Quilty Space

Arun Seshadri

BNP Paribas

Brandon Karsch

Kennedy Lewis Investment Management

David McFadgen

Cormark Securities

Matthew Lapidés

Abry Partners, LLC

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the conference call to report the Third Quarter 2023 Financial Results for Telesat.

Our speakers today will be Dan Goldberg, President, and Chief Executive Officer of Telesat, and Andrew Browne, Chief Financial Officer of Telesat.

I would now like to turn the meeting over to Mr. Michael Bolitho, Director of Treasury and Risk Management. Please go ahead, sir.

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

Thank you and good morning. This morning, we filed our quarterly report on Form 6-K with the SEC and on SEDAR.

Our remarks today may contain forward-looking statements. There are risks that Telesat's actual results may differ materially from the results contemplated by the forward-looking statements as a result of known and unknown risks and uncertainties. For a discussion of known risks, see Telesat's Annual and Quarterly Reports filed with the SEC. Telesat assumes no responsibility to update or revise these forward-looking statements.

I will now turn the call over to Dan Goldberg, Telesat's President and Chief Executive Officer.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Okay, thank you, Michael.

This morning, I'll share some thoughts on our financial results and give an update on the business. I'll then hand over to Andrew, who will speak to the numbers in detail, and then we'll open the call up to questions.

We've been executing well so far this year and are on track with the key financial, strategic, and operational objectives we've been focused on. We're tracking our guidance, received the final roughly US\$260 million of U.S. C-band clearing proceeds, and completed some meaningful additional debt repurchases in the quarter that we think will strengthen our financial position and create value for shareholders.

Obviously, a huge focus for us is executing on Telesat Lightspeed, our advanced broadband LEO network, and I'll give some updates on that.

Since sharing on our Q2 Call that we selected MDA as our prime contractor and are fully funded for the program, we've done a significant amount of work with MDA to advance the program, including further engagement with the supply chain. Both Telesat and MDA are ramping up their teams to execute Lightspeed, and I've been really pleased, though not surprised, by the extraordinarily capable people we're bringing on board and the really strong interest we're seeing from professionals throughout the industry to join us to work on this flagship program.

We also announced in the quarter another key Lightspeed contract, this one with SpaceX for 14 Falcon 9 rockets to launch the advanced satellites making up the Lightspeed network. I believe that SpaceX is the largest commercial launch contract.

Falcon 9 is the most reliable rocket out there, and SpaceX has a demonstrated high launch cadence that will go a long way toward ensuring that we bring Lightspeed to market, consistent with our schedule. They've been a great partner for Telesat on a number of our prior programs and we're very pleased to be working with them on Lightspeed.

Our other key focus is concluding our funding arrangements with our Canadian federal and provincial partners. We're fully engaged with them at this time and remain optimistic that we'll be able to reach financial close, consistent with the timeframe we share previously, which is to say later this year or early next year.

The Telesat Lightspeed program advances a wide range of important public policy goals, including bridging the digital divide, spurring advance manufacturing, IP development, exports and high quality jobs, as well as important climate and national security objectives. Our federal and provincial partners in Canada have been strong and consistent supporters of the Lightspeed program and we're grateful for that.

We remain hugely bullish about Telesat Lightspeed and are looking forward to sharing more detailed information with investors about our business plan and expectations. To that end, Andrew and I plan to get on the road to meet with investors in both the U.S. and Canada over the next couple of weeks. We're looking forward to it.

With that, I'll hand it over to Andrew, and then look forward to addressing any questions you may have.

Andrew Browne, Chief Financial Officer, Telesat Canada

Thank you, Dan. Good morning, everyone.

I would now like to focus on the highlights from this morning's press releases filings.

In the third quarter of 2023, Telesat reported revenues of \$175 million, Adjusted EBITDA of \$133 million, and for the nine months ended September 30, 2023, we generated cash from operations of \$156 million and we held \$1.8 billion of cash on the balance sheet.

In the third quarter of 2023 as compared to the same period in 2022, revenues decreased by \$5 million to \$175 million, operating expenses decreased by \$6 million to \$50 million, and Adjusted EBITDA decreased by \$4 million to \$133 million. The Adjusted EBITDA margin was 75.9 percent compared to 76 percent in 2022.

Between 2022 and 2023, changes in the U.S. dollar exchange rate had a positive impact of \$3 million on revenues, a negative impact of \$1 million on operating expenses, and a positive impact of \$2 million on Adjusted EBITDA. When adjusted for changes in foreign exchange rates, revenues decreased by \$8 million, operating expenses decreased by \$7 million, and Adjusted EBITDA decreased by \$7 million.

The revenue decrease for the quarter was mainly due to lower revenue with certain South American customers.

OpEx, the decrease in operating expenses is primarily due to lower noncash share-based comp, partially offset by higher costs associated with the procurement of third party satellite capacity required to support certain customers' networks that could no longer be supported on Anik F2 once they had commenced client operations.

Interest expense increased by \$11 million during the third quarter when compared to the same period in 2022. The change was due to an increase of interest rates on the U.S. Term Loan B facility, combined with a foreign exchange impact in U.S. dollar denominated interest expense. This was partially offset by the impact of the repurchase of notes in 2023, combined with the impact of the maturity of one of the interest rate swaps in September of 2022.

In the third quarter, we recorded a loss from foreign exchange of \$77 million, as compared to a loss of \$99 million in the second quarter of 2022. The loss of the three months ended September 30, 2023 was mainly the result of a stronger U.S. dollar to Canadian dollar, with the resulting unfavourable impact on the translation of our U.S. dollar denominated debt.

Our net loss for the third quarter of 2023 was \$3.3 million, compared to net loss of \$228.7 million in the prior year. The variation was principally due to the positive impact on the conversion of our U.S. dollar debt into Canadian dollars, and the gain on the repurchase of our debt.

Also to mention for the nine months ended September 30, 2023, our net income was \$545 million. The significant net income was primarily due to the U.S. C-band clearing proceeds recognized in the second quarter of 2023, combined with the year-to-date gain on the repurchase of our debt.

For the nine months ended September 30, 2023, the cash inflows from operating activities were \$156 million; the cash flows generated from investing activities were \$264 million. The cash flows generated from our investing activities was due to the proceeds received from Phase II C-band clearing, as we mentioned, and partially offset by capital expenditures.

In terms of capital expenditures incurred, they were primarily related to a Low Earth Orbit constellation, Telesat Lightspeed, and the newly acquired ANIK F4 satellite.

Turning to guidance, as you will also have noted in our earnings release this morning, we've maintained our previously provided revenue and Adjusted EBITDA 2023 guidance. The guidance assumes a Canadian dollar to U.S. dollar exchange rate of CAD\$1.25.

Telesat continues to expect its full-year 2022 revenues be between \$690 million and \$710 million. In terms of Adjusted EBITDA, Telesat continues to expect between \$500 million to \$515 million. In respect to capital expenditures, we continue to expect our 2023 cash flows used in investing activities to be in a range of \$175 million to \$225 million.

To meet our expected cash requirements for the next 12 months, including interest payments and capital expenditures, we have approximately \$1.8 billion of cash and short-term investments at the end of March, as well as approximately US\$200 million of borrowings available under our revolving credit facility. Approximately \$1.3 billion in cash was held in our unrestricted subsidiaries. In addition, we continue to generate a significant amount of cash from our ongoing operating activities.

At the end of the third quarter, leverage, as calculated under the terms of the amended senior secured credit facilities, was 5.46x to one. Telesat has complied with all the covenants in our credit agreement and indenture.

As Dan has indicated, in the third quarter and including the subsequent period, we have repurchased debt with a principal aggregate amount of US\$195.3 million at a cost of US\$137.4 million. Combining these repurchases with repurchases done in 2022, we have repurchased a total amount of US\$587 million dollars, at an aggregate cost of \$332.7 million. In addition, this also results in interest savings of approximately \$40 million annually.

Further, since the end of 2020, when Telesat repaid approximately US\$340 million of its Term Loan B, our overall debt has been reduced by approximately 28 percent. A reconciliation between our financial statements and financial covenant calculations is provided in the report we filed this morning. Our 6-K provides the unaudited interim condensed consolidated financial information in the MD&A. The non-guarantor subsidiaries shown are essentially the unrestricted subsidiaries with minor differences.

That concludes our prepared remarks for the call. Now, we'll be very happy to answer any questions you may have. With that, we'll now turn back to the Operator.

QUESTION AND ANSWER SESSION

Operator

Thank you. (Operator Instructions)

Our first question is from Water Piecyk from LightShed. Please go ahead.

Walter Piecyk, LightShed Partners

Thanks.

Just wanted to focus on the reaffirmation of guidance, I think as it relates to Capex. That would require, obviously, a pretty big step up in the fourth quarter.

Then, I also connect that question to OpEx. When I look at your SG&A and think about that, it didn't really move much sequentially. I guess the question is, is fourth quarter the quarter when we're going to start seeing some of these LEO project costs kick in? I think on a prior call I asked if anything—if OpEx costs are capitalized until the satellites are launched. I think the answer was no.

But if you can just refresh us on when those expenses are going to start to ramp up, and if they aren't, why would Capex guidance be maintained at—I think your guidance is \$175 million to \$225 million, which would imply a pretty big step up in the fourth quarter.

Andrew Browne, Chief Financial Officer, Telesat Canada

Walter, yes, this is Andrew. I think the (inaudible) in that is the timing when we will commence our program. We've made assumptions that we will commence in quarter four, and hence, we will see the additional Capex being spent in the quarter.

In terms of SG&A and OpEx, as you know, given our high margins, we really control that very, very closely. But also, we are preparing, as you will imagine, in terms of headcount and other resources, getting ready for the commencement of the program. That's why, historically, if you look at our SG&A, it's pretty well flat and very well-contained.

In terms of the capitalization of the OpEx, in our previous calls we said that that's not the case. There is some to do, with sort of...

Walter Piecyk, LightShed Partners

Right.

Andrew Browne, Chief Financial Officer, Telesat Canada

...engineering people involved, but once we get going, and we're very excited to get going, and hopefully that will be Q4, I think a lot of this will be more apparent.

Walter Piecyk, LightShed Partners

Got it. Can you give us any sense, at least on the OpEx side of things, because obviously Capex you've already guided to, how long it takes, how many quarters it takes to really get that engine going, in terms of expenses? How much of a vertical ramp are we going to see in SG&A in the upcoming quarters?

Andrew Browne, Chief Financial Officer, Telesat Canada

What I would say there, Walter, is that when we give our full-year numbers, I think we will give pretty comprehensive guidance, I think around LEO, about the steps in LEO and what our ramp will be in OpEx, in addition to GEO. I think we'll make it very clear, so it will be very obvious looking at both (phon) of our companies.

Walter Piecyk, LightShed Partners

Got it.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Maybe I'll just—hey, Walter, it's Dan.

Walter Piecyk, LightShed Partners

Hi.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Maybe I'll just add a couple things. One, we're ramping up now. I mean, I think I mentioned in my remarks, we're out there staffing up, as is MDA, so we're out there right now hiring a lot of people. Not everyone's on board at this point in time, but we've certainly had a lot of our offers accepted, so the team's ramping up really nicely.

As Andrew said, we'll give detailed guidance for 2024. A lot of the spending that we're doing, though, a lot of that's been capitalized. A lot of the engineers that we're hiring—and Andrew will go over all that, I know, when we give our guidance. But that's our expectation.

Andrew Browne, Chief Financial Officer, Telesat Canada

Yes, that's right.

Walter Piecyk, LightShed Partners

Since the last earnings call, has there been any alteration in how you're planning out the constellation itself?

Then similarly, have you seen any initial traction in getting additional capacity commitments ahead of the launch, and if not, what quarter do you think, or how much before the actual first sats go up in the air would you start to see additional revenue—or excuse me, capacity commitments?

Andrew Browne, Chief Financial Officer, Telesat Canada

On the first one, since we announced the deal with MDA two months ago, everything's—I mean, we kicked off—we're working hand-in-glove with MDA as we move the program forward. I mentioned that we're spending, and MDA is spending, a lot of time with the supply chain right now, and that all seems to be going well.

There hasn't been—I think you had asked, has there been any alterations or something in the plan? The answer there is no. Look, we've been working on this for a long time, so things are, I'd say pretty well set in terms of what the program looks like. That's all kicked off and going well.

Then as far as sort of backlog, I think we've said, we've already got order of magnitude around US\$500 million and committed backlog to the program. Our first launch is

mid-2026, and we do expect to be ramping backlog between now and then.

I think that, look, we're engaged with the customer community right now. There's a huge amount of interest in Lightspeed, and it's been gratifying to see that now that we've announced the program. I think that there will be things, customer commitments that we'll be able to announce over the course of next year. We're not giving any guidance about exactly what that looks like, but based on the discussions that we're having with folks, my expectation is that we'll be signing additional customer backlog commitments throughout the course of next year, and we'll update on that as go through.

Walter Piecyk, LightShed Partners

Mm-hmm, right, which you've said before. When you think about those conversations, are the verticals, the business verticals, the applications, different at all from what you were thinking about when you sized this market initially and you were looking at kind of the low hanging fruit, what do you think in terms of enterprise applications or otherwise, that people are going to gravitate to your constellation, in terms of some of these commitments that we may see next year?

Andrew Browne, Chief Financial Officer, Telesat Canada

No, I'd say—look, I mean, these are markets that were active every day. It's backhaul connectivity with mobile network operators and ISPs. It's providing capacity for maritime and aeronautical services, it's engaging with governments. Those are exactly the verticals that we've always expected Lightspeed to have a real competitive edge in. Nothing's changed there; that continues to be our expectation.

Yes, when we're announcing things between now and being in service, and again, my expectation is we'll have some commitments over the course of next year, we'll talk about where those are coming from. But those are the verticals that we expect to get really good traction in.

Walter Piecyk, LightShed Partners

The last question, I...

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Hey Walter, you're monopolizing our call. You've got one more.

Walter Piecyk, LightShed Partners

All right, I'll let you go to the next one then. I'll circle back in.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

All right.

Walter Piecyk, LightShed Partners

Thank you. Appreciate the answers.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

All right, Dan. See you.

Andrew Browne, Chief Financial Officer, Telesat Canada

Excellent.

Operator

Thank you.

Our following question is from Caleb Henry from Quilty Space. Please go ahead.

Caleb Henry, Quilty Space

Hey guys, a couple of questions, one about launch. I noticed there's 14 rockets from SpaceX, and each can carry up to 18 satellites each. Just kind of quick math there, it kind of equals 252 satellites, which is more than what's been ordered, currently planned. I was wondering if you can walk through the logic. I know it's up to 18 per mission, but what's the reason for having so many launches planned there?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Caleb, thanks.

Listen, we've worked with SpaceX for a long time, we've got a good relationship with SpaceX. By committing to the number of launches that we did, we think that we've been able to get kind of an overall compelling case in terms of just the overall value proposition for the launch capacity that we've lined up. As you know, our expectation—we have rights from MDA to add more satellites over time. We've said that, to the extent that we do that, it's all going to be demand-driven.

SpaceX has been very constructive in terms of working with us to position the timing of the rockets when we think we need them, so that's really what it is. It was a function of the good commercial terms that we have with SpaceX to provide those rockets, wanting the certainty, in terms of our ability to expand the constellation over time, and then having a constructive launch partner that allows us to line up those rockets, kind of consistent with what we're seeing in the market and our commercial plans.

Caleb Henry, Quilty Space

Okay, thanks. I appreciate it.

I didn't see segment numbers from you guys this quarter. If that's something you're still sharing, can you break out revenue in terms of Broadcast, Enterprise, anything else?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes. I mean, for sure, it's in the 6-K.

Caleb Henry, Quilty Space

Oh, okay. My apologies.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes. Order of magnitude, I'm looking at my colleagues, 48 percent Broadcast, 48 percent Enterprise, and sort of 2 percent Other. But I'm staring at my colleagues. Did I nail that?

Andrew Browne, Chief Financial Officer, Telesat Canada

Yes.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Okay, so there you go. But it'll be in the 6-K as well.

Caleb Henry, Quilty Space

Okay, thanks.

Then, it looks like Telesat reporting a bit of unexpected gross margins for this quarter. Just wondering if that's something that you would expect to see sustained, or if that's going to change, kind of on the assumption that more third party capacity will be needed to bridge the gap between now and Lightspeed?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Maybe I'll take the first crack at that and then Andrew can talk about it. We are, as always, really focused on managing our cost structure as tightly as we can. I think as a result, we've always had industry-leading operating margins, but there are headwinds for the business. We renewed with Bell on Nimiq 4; that would've been in early October. But as we've said, it was at a lower rate than what the old rate was, and so there will be some kind of revenue headwinds as we head into 2024.

The beauty of a fixed cost business is, when you're ramping revenues up, you can grow your operating margins nicely. Sadly, the converse is true as well, when you're facing some of these revenue headwinds and you're facing revenue declines, you can't really reduce your cost structure in a proportionate way. I'd say on balance, heading into next year, that there's definitely going to be some downward pressure on operating margins. We'll just do the best job we can, as we always do, in trying to manage through that, in terms of being as disciplined as we can around the cost structure.

Andrew Browne, Chief Financial Officer, Telesat Canada

No, that's right, Dan. Just to add that, indeed, our margins are probably one of the highest in the industry. Our previous comments around OpEx and Capex investments into LEO, obviously when we start full blast with our program next year, then of course we will see

that investment coming through if both Capex, and indeed, in better operating expenses.

Caleb Henry, Quilty Space

Okay. Thanks so much, guys.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Thank you.

Operator

Thank you.

Our following question is from Arun Seshadri from BNP Paribas. Please go ahead.

Arun Seshadri, BNP Paribas

Yes, hi, thanks for taking my questions.

First, just wanted to confirm the cash balances; I think you said \$1.8 billion total with \$1.5 billion in the restricted group. The assumption there is that the C-band cash inflow just went into the unrestricted group. Do you expect to fund more in the near-term from the restricted group into the unrestricted entities?

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

Okay, so it's Michael Bolitho. Yes, the C-band proceeds, we said we had \$1.3 billion in cash in the unrestricted entities. The C-band proceeds went to the unrestricted entities, and we've been fairly consistent, certainly, in our discussions with investors. There is still a little bit of money to be funded to the unrestricted entities from the restricted group. The general basket of US\$150 million is available to fund that.

Arun Seshadri, BNP Paribas

Got it. Thank you, Michael.

Then, as far as the additional funding, the vendor financing and the government contributions, is there any update in terms of the terms of the Canada and the

Quebec funding, and any updates in terms of the vendor financing and the smaller bits of additional financing that were required?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

We don't have any updates on the terms yet; when that's all nailed down, we'll share more information about it. We are, as we said at the outset of the call, making good progress, I think, with the government partners, federal and provincial, to move the funding forward. We had said before that funding was subject to the government completing confirmatory diligence and putting definitive agreements in place. From where I sit, that all seems to be going well and moving in the right direction.

Our expectation is that we'll reach financial close either late this year or sometime early next year. At that point, we'll be able to share more information about the funding terms and whatnot. But I'd note also, and it's probably a sign of our confidence that we're going to get there in the near-term, we're moving out on the program. That's why Capex is ramping in Q4, that's why we've been ramping the hiring of all the people that we've been doing. We're moving out. But again, we'll share more specifics about the financing once it's all wrapped up.

Arun Seshadri, BNP Paribas

Got it. Thanks, Dan.

Then as far as the buybacks, nice to see them continue this quarter and after the quarter. Just two questions there; do you expect to continue to do buybacks with the cash that sits in the restricted group? In other words, any thoughts around other users of cash, number one?

Then number two, I assume, as usual, that the choices on what you bought back were primarily governed by liquidity in the appropriate instruments, if you could confirm that as well?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes. I mean, Andrew, if you want, I'll take the first shot at it.

Andrew Browne, Chief Financial Officer, Telesat Canada

Go ahead.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

I mean, consistent with things we've said before, there is cash that has been building up in the restricted group, and we always try to make use of that cash in a way that we think strengthens the business. Over the past few quarters, we have used a considerable amount of it to repurchase our debt, and we think that's been the right thing to do.

But equally, we're open-minded about other uses for that cash if it would strengthen the business, including looking at other satellite programs, particularly GEO programs that would be accretive to the business. We've looked at a number of opportunities to do that. To-date, we haven't closed a business case. We've always said we're never going to invest a nickel in Capex if we're not persuaded that we have a compelling business plan and can achieve the kinds of returns that our shareholders expect. I guess, a long way to say that we will be open-minded about additional debt repurchases going forward, but equally, we'll evaluate other ways to use that cash that can strengthen the business.

Then as far as what we've bought, it's a range of different considerations. You mentioned liquidity, that's certainly one. We noted that we bought some of the Term Loan B back over the last quarter, certainly because that's sort of a more expensive part of the outstanding debt that's out there right now, so that's obviously a consideration. It's a range of different variables that we think about when we do engage in those debt repurchases, and I'd say we're just kind of pragmatic about all that.

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

Yes, absolutely, Dan. I mean, just to add a couple of comments, as Dan had said, our business, our margins are so high, which means we generate very, very good amounts of cash and we will do going forward. We assess our liquidity needs, cash balances and requirements, and then, indeed, as you see, we've bought back \$587 million face value of bonds, which is pretty attractive, and that's a good use of cash.

I simply would add that, since December 2020, we've reduced our overall debt by about 28 percent that we kind of mentioned. But indeed, we're very focused.

Arun Seshadri, BNP Paribas

Got it. Thank you.

Last question for me, is this really, in terms of capacity deals, in the works? Are there any new deals that you're kind of working on, either from a geographic standpoint or a specific business standpoint to add to the capacity commitments that you already have on Lightspeed? Thanks.

Andrew Browne, Chief Financial Officer, Telesat Canada

Yes, thanks for the question.

I wouldn't note anything in particular, but just suffice it to say, we're engaged with customers in each of the verticals that we're focused on, in pretty much every region of the world. The benefit of being an existing operator is that we're already doing business in virtually every country in the world; we have regular engagement with the key satellite users in all those different verticals, so there's no one that I would highlight.

Again, as we sign material deals, we'll announce them, and then we'll talk about them on the calls that we do. Folks will have good visibility into that.

Arun Seshadri, BNP Paribas

Thank you.

Operator

Thank you.

The following question is from Brandon Karsch from Kennedy Lewis. Please go ahead.

Brandon Karsch, Kennedy Lewis Investment Management

Hi, thanks for taking the questions.

Just turning back to guidance here; if I back out the implied Q4 revenue from what you've done year-to-date, it looks like a pretty steep decline here. I know there was some noise in Q4 last year from some nonrecurring equipment sales. Is the rest of the delta just the Bell Canada renewal, or is there anything else I'm missing, or should I view this guidance as conservative at this point?

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It looks like a pretty big step down even from the recent run rate.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes, I'm trying to—the decline was what, year-over-year it's 4 percent on the quarter. Year-to-date, it's 5 percent top line, adjusted for FX. Certainly, declines would be driven by the renewal with Bell. There was that.

We noted that there was some softness in Latin America that we experienced over the quarter, and I would say kind of throughout the first three quarters of this year. But anyway, those would be the things that have acted as a headwind, and that I think, as I mentioned, will carry on into next year, given the timing of the Bell renewal and the like.

Andrew Browne, Chief Financial Officer, Telesat Canada

I would just add, in terms of the OpEx in quarter four, as to our earlier comment, that as we continue to ramp, we will anticipate sort of a higher run rate of OpEx coming in quarter four. Hence, that's part of the equation also.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes, and then maybe—one other colleague has just flagged for me. I guess in Q4 last year, we recognized a one-time with DARPA. This is the U.S. government research lab that we've been winning different projects for, for LEO-related activities. I think we had said at the time we had called it out, that there's other work that we're doing with DARPA, but that kind of revenue opportunity is lumpier in nature. I think we even called out the exact amount, because I think we're required to. It was...

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

Twenty-five million.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes, I mean, it's significant. It was \$25 million in the quarter, so certainly that would be a big contributor if

you're trying to do the math on the guidance and extrapolate from that.

Brandon Karsch, Kennedy Lewis Investment Management

Yes, I had been adjusting that out of my number and it still looked like a somewhat meaningful decline, which is why I was asking. But I think you've answered my question there.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes. Well, then it would be mostly the Bell renewal.

Andrew Browne, Chief Financial Officer, Telesat Canada

Yes, and as we've said, the provision for OpEx as well, as we said, for Lightspeed.

Brandon Karsch, Kennedy Lewis Investment Management

Okay. Then on the Enterprise side, could you provide a little bit more colour on some of the softness in Latin America, as well as just a general update on the GEO side for Enterprise?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes, I mean, LATAM, it's been—I mean, like all these things, it's sort of contract by contract that comes up for renewal. I think the biggest softness that we had in LATAM over the quarter was one particular contract in Peru, if memory serves. It had been a longstanding contract of ours that came up for renewal. Some of that moved to one of our competitors, something that we expected would be coming. It was a customer that had already made a commitment to a new satellite that was coming on the market. Once that new satellite came online, they migrated traffic off of us over to them, so there was that.

Then beyond that, I'd say, just taking a step back more broadly, the market's competitive. For sure, it's been competitive for some years now, but it continues to be a competitive market in the Enterprise segment. We're certainly starting to see the impact of Starlink coming into

the market. The reality is, Enterprise users like the value proposition and the performance advantages that you get from Low Earth Orbit satellite constellations, which is why we're so bullish around our Lightspeed constellation.

But I'd say that, yes, the Enterprise segment remains competitive, and I'd say increasingly, Starlink is featuring into that.

Brandon Karsch, Kennedy Lewis Investment Management

Okay, that's helpful. Then just one last one, following up on Starlink; previously that they'd be more of a consumer use case but have been pressed up and moving more into the enterprise space, have you seen a meaningful pickup in competitive intensity just from their pivot into more of the enterprise use cases?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

I'd say we see it mostly at this point in time in the maritime space. They've been pretty successful in attracting some of the cruise line requirements and some of the other maritime shipping requirements. I'd say it's most evident there.

We knew, and we know that we'll be competing with Starlink for some of the enterprise activities. But I'd say, if I had to highlight any particular area, it's been more there. We've said before, for Lightspeed our focus is on enterprise and government services. A lot of what Starlink's doing right now is on the consumer side, and I think that they're getting good traction on the consumer side. But that's not an area that we're focusing on with Lightspeed, or really, that we focus on with our existing business.

Brandon Karsch, Kennedy Lewis Investment Management

Thank you for all that.

Operator

Thank you.

The following question is from David McFadgen from Cormark Securities. Please go ahead.

David McFadgen, Cormark Securities

Oh, yes, hi. Thank you.

Just a question on Lightspeed and the funding; when I read the press release it says that it's fully funded, however subject to concluding definitive funding agreements through global service delivery. Is this just nailing down your contract funding with the Canadian provincial governments, or does this also entail someone else?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

It is in the main funding arrangements with the federal and provincial partners here in Canada.

David McFadgen, Cormark Securities

Okay, and...

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

I mean, we've said that, in the aggregate, is about US\$2 billion worth of funding. We've got \$1.6 billion that Telesat's contributing, so that's exactly what it is. We had flagged that back in August when we announced the contract with MDA.

David McFadgen, Cormark Securities

Right. When you're talking through global service delivery, is this meaning your commitment to provide connectivity in the areas that they want? Is that what that means?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

I don't know exactly the words that you're focused on, but I think what we've said is, with the \$1.6 billion that Telesat's contributing, the US\$2 billion in federal and provincial government funding, that gives us sufficient capital to launch the first 156 satellites, plus all the other Capex in terms of the rockets, the ground infrastructure and the other capital investments that we need to make. That gives us full global coverage and a very capable system.

Then, we've noted that we'll be launching another 42 satellites to bring us to 198 satellites. Those final 42 satellites will get funded with the cash flows that the constellation is generating. That's the plan.

David McFadgen, Cormark Securities

Yes. When you talked about closing with the government maybe later this year or early next year, what does closing mean? Does that mean that they've entered into a commitment to fund at certain dates based on certain milestones, or does that mean they're actually going to give you the cash right away?

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Yes, I mean, that all—once we're closed off with the government, we'll provide more details about exactly all the mechanics around the financing. But yes, what that means is that the government, the federal and our provincial partners, will have committed to the funding that we need so that we can pay MDA, that we can pay SpaceX and our other vendors. It'll be—yes, I mean, we'll close our financing. Those funds will be available for us to make the payments that we need to make.

David McFadgen, Cormark Securities

Okay. All right, thank you.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Okay, thank you.

Operator

Thank you. (Operator Instructions)

Our following question is from Matt Lapidès from Abry Partners. Please go ahead.

Matthew Lapidès, Abry Partners, LLC

Hey guys. Thanks for all the colour here.

A couple clarifying ones for me. So, the C-band proceeds which went into the unrestricted group, can you just

clarify whether or not that used any of the \$150 million general basket that's available in the credit agreement, or is the \$150 million what's available today after those proceeds were moved to the unrestricted entity?

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

No, Matt. The C-band assets were in an unrestricted sub and have been for...

Matthew Lapidès, Abry Partners, LLC

Oh.

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

...a couple years. The \$150 million didn't have anything to do with the \$150 million. The \$150 million is available.

Matthew Lapidès, Abry Partners, LLC

Oh, got it, got it. Appreciate the clarification. Then, can you just remind us, you mentioned some interest rate hedges rolling off last year; what the current hedge position, both on interest rates and FX looks like for the business?

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

Sure. Effectively, Matt, with that balance of cash, the cash balances, which obviously, the rates weren't on that flow, had a spread, a negative spread to the base rate, but they flowed. Effectively, from a floating interest rate exposure viewpoint, we're hedged, or close enough to it that we don't need any hedges in place. We have not hedged the foreign exchange in a number of years.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Again, there's kind of a natural hedge...

Matthew Lapidès, Abry Partners, LLC

Mm-hmm.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

...with our business, because we receive...

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

Yes, and...

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

...a mix of U.S. and Canadian dollars.

Michael Bolitho, Director, Treasury and Risk Management, Telesat Canada

Yes, that's right, and then the last thing I would add there is we hold most of our cash balance in U.S. dollars, not Canadian.

Matthew Lapidés, Abry Partners, LLC

Got it. Okay, thanks, guys. Appreciate the clarifications. That's it for me.

Operator

Thank you. We have no further registered at this time. I would now like to turn the meeting back over to Mr. Goldberg.

Daniel Goldberg, President and Chief Executive Officer, Telesat Canada

Okay, Operator. Thank you, and thank you all for joining us this morning. We look forward to speaking again when we release our Q4 and full-year numbers. Thank you very much.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.