
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-14180

Loral Space & Communications Inc.

(Exact name of registrant as specified in its charter)

Jurisdiction of incorporation: Delaware
IRS employer identification number: 87-0748324
600 Fifth Avenue,
New York, New York 10020
Telephone: (212) 697-1105

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Voting Common stock, \$.01 par value	LORL	Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Act) Yes No

As of November 1, 2021, 21,427,078 shares of the registrant’s voting common stock and 9,505,673 shares of the registrant’s non-voting common stock were outstanding.

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For the quarterly period ended September 30, 2021

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30,	December 31,
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,986	\$ 31,631
Income tax refund receivable	1,299	1,228
Other current assets	1,194	1,232
Total current assets	22,479	34,091
Right-of-use asset	159	342
Investments in affiliates	241,499	192,664
Deferred tax assets	29,280	27,339
Other assets	31	33
Total assets	<u>\$ 293,448</u>	<u>\$ 254,469</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued employment costs	\$ 9,759	\$ 2,839
Other current liabilities	2,534	2,002
Total current liabilities	12,293	4,841
Pension and other post-retirement liabilities	19,214	20,181
Other liabilities	20,667	19,914
Total liabilities	52,174	44,936
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized	—	—
Series A junior participating preferred stock, \$0.01 par value, 50,000 shares authorized, no shares issued and outstanding	—	—
Series B preferred stock, \$0.01 par value, 5 shares authorized, 5 issued and outstanding	—	—
Common Stock:		
Voting common stock, \$0.01 par value; 50,000,000 shares authorized, 21,581,572 issued	216	216
Non-voting common stock, \$0.01 par value; 20,000,000 shares authorized, 9,505,673 issued and outstanding	95	95
Paid-in capital	1,019,988	1,019,988
Treasury stock (at cost), 154,494 shares of voting common stock	(9,592)	(9,592)
Accumulated deficit	(702,203)	(729,202)
Accumulated other comprehensive loss	(67,230)	(71,972)
Total shareholders' equity	241,274	209,533
Total liabilities and shareholders' equity	<u>\$ 293,448</u>	<u>\$ 254,469</u>

See notes to condensed consolidated financial statements

LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
General and administrative expenses	\$ (8,745)	\$ (1,725)	\$ (12,374)	\$ (5,174)
Recovery of affiliate doubtful receivable	—	5,854	—	5,854
Operating (loss) income	(8,745)	4,129	(12,374)	680
Interest and investment income	2	16	5	1,045
Interest expense	(8)	(9)	(19)	(20)
Other expense	(2,362)	(2,300)	(6,834)	(6,440)
(Loss) income before income taxes and equity in net (loss) income of affiliates	(11,113)	1,836	(19,222)	(4,735)
Income tax benefit (provision)	829	(309)	1,252	(956)
(Loss) income before equity in net (loss) income of affiliates	(10,284)	1,527	(17,970)	(5,691)
Equity in net (loss) income of affiliates	(14,924)	49,645	44,969	9,086
Net (loss) income	(25,208)	51,172	26,999	3,395
Other comprehensive income (loss), net of tax	8,343	(7,220)	4,742	6,891
Comprehensive (loss) income	\$ (16,865)	\$ 43,952	\$ 31,741	\$ 10,286
Net (loss) income per share:				
Basic	\$ (0.81)	\$ 1.65	\$ 0.87	\$ 0.11
Diluted	\$ (0.81)	\$ 1.64	\$ 0.83	\$ 0.11
Weighted average common shares outstanding:				
Basic	30,933	30,933	30,933	30,933
Diluted	30,933	31,026	31,032	31,017

See notes to condensed consolidated financial statements

LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock Voting		Common Stock Non-Voting		Paid-In Capital	Treasury Stock Voting		Accumulated Deficit	Accumulated Other Comprehensive Loss	Shareholders' Equity
	Shares Issued	Amount	Shares Issued	Amount		Shares	Amount			
Balance, January 1, 2020	21,582	\$ 216	9,506	\$ 95	\$ 1,019,988	154	\$ (9,592)	\$ (605,766)	\$ (54,914)	\$ 350,027
Net loss								(47,777)		
Other comprehensive income									14,111	
Comprehensive loss										(33,666)
Common dividend paid (\$5.50 per share)								(170,130)		(170,130)
Balance, June 30, 2020	21,582	216	9,506	95	1,019,988	154	(9,592)	(823,673)	(40,803)	146,231
Net income								51,172		
Other comprehensive loss									(7,220)	
Comprehensive income										43,952
Balance, September 30, 2020	21,582	216	9,506	95	1,019,988	154	(9,592)	(772,501)	(48,023)	190,183
Net income								89,698		
Other comprehensive loss									(23,949)	
Comprehensive income								(46,399)		65,749
Common dividend paid (\$1.50 per share)										(46,399)
Balance, December 31, 2020	21,582	216	9,506	95	1,019,988	154	(9,592)	(729,202)	(71,972)	209,533
Net income								52,207		
Other comprehensive loss									(3,601)	
Comprehensive income										48,606
Balance, June 30, 2021	21,582	216	9,506	95	1,019,988	154	(9,592)	(676,995)	(75,573)	258,139
Net loss								(25,208)		
Other comprehensive income									8,343	
Comprehensive loss										(16,865)
Balance, Sept 30, 2021	21,582	\$ 216	9,506	\$ 95	\$ 1,019,988	154	\$ (9,592)	\$ (702,203)	\$ (67,230)	\$ 241,274

See notes to condensed consolidated financial statements

LORAL SPACE & COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2021	2020
Operating activities:		
Net income	\$ 26,999	\$ 3,395
Adjustments to reconcile net income to net cash used in operating activities		
Non-cash operating items (Note 2)	(46,042)	(14,231)
Changes in operating assets and liabilities:		
Other current assets	38	6,010
Accrued employment costs and other current liabilities	7,645	(117)
Income tax refund receivable, net of payable	(72)	(945)
Pension and other post-retirement liabilities	(966)	(1,833)
Other liabilities	753	2,170
Net cash used in operating activities	<u>(11,645)</u>	<u>(5,551)</u>
Financing activities:		
Dividend paid	—	(170,130)
Net cash used in financing activities	<u>—</u>	<u>(170,130)</u>
Cash, cash equivalents and restricted cash — period decrease	(11,645)	(175,681)
Cash, cash equivalents and restricted cash (Note 2) — beginning of year	31,935	259,371
Cash, cash equivalents and restricted cash (Note 2) — end of period	<u>\$ 20,290</u>	<u>\$ 83,690</u>

See notes to condensed consolidated financial statements

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Principal Business

Loral Space & Communications Inc., together with its subsidiaries (“Loral,” the “Company,” “we,” “our” and “us”) is a leading satellite communications company engaged, through our ownership interests in affiliates, in satellite-based communications services.

On November 23, 2020, Loral entered into a Transaction Agreement and Plan of Merger (as it may be amended from time to time, the “Transaction Agreement”) with Telesat Canada, a Canadian corporation (“Telesat”), Telesat Partnership LP, a limited partnership formed under the laws of Ontario, Canada (“Telesat Partnership”), 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 Corporation”), Telesat CanHold Corporation, a corporation incorporated under the laws of British Columbia, Canada and wholly owned subsidiary of Telesat Partnership (“Telesat CanHoldco”), Lion Combination Sub Corporation, a Delaware corporation and wholly owned subsidiary of the Company (“Merger Sub”), Public Sector Pension Investment Board, a Canadian Crown corporation (“PSP”), and Red Isle Private Investments Inc., a Canadian corporation and wholly owned subsidiary of PSP (“Red Isle”), under which Merger Sub will merge with and into Loral, with Loral surviving the merger as a wholly owned subsidiary of Telesat Partnership (the “Merger”), and Loral stockholders receiving common shares of Telesat Corporation and/or units of Telesat Partnership that will be exchangeable for common shares of Telesat Corporation (the “Transaction”).

The Transaction Agreement contains a number of customary conditions that must be fulfilled to complete the Transaction, including (i) approval of (A) a majority of the outstanding Loral voting common stock and (B) a majority of the outstanding Loral voting common stock not held by MHR Fund Management LLC (“MHR”), PSP, any other party to the Transaction Agreement or certain of their respective affiliates; (ii) the parties having obtained certain regulatory consents and approvals; (iii) no legal proceedings having been commenced that would enjoin or prohibit the consummation of the Transaction; (iv) the listing of the Class A and Class B shares of Telesat Corporation on a U.S. securities exchange; (v) no “Material Adverse Effect” (as defined in the Transaction Agreement) having occurred; (vi) Telesat remaining in good standing with respect to its material debt obligations; (vii) the accuracy of certain representations (subject to certain qualifications as to materiality) and material performance of certain covenants by the parties, subject to specified exceptions; (viii) effectiveness of a registration statement on Form F-4 in connection with the Transaction (the “Registration Statement”) and the issuance of a receipt for each of the Canadian preliminary and final prospectuses in respect of the Transaction; (ix) no U.S., Canadian or Spanish governmental agency having commenced civil or criminal proceeding against Loral alleging that any member of the “Loral Group” has criminally violated any law, and no member of the “Loral Group” having been indicted or convicted for, or pled nolo contendere to, any such alleged criminal violation; (x) Loral remaining solvent and not having entered into any bankruptcy or related proceeding; and (xi) the delivery by the parties of certain closing deliverables. If the parties have confirmed that all the conditions are satisfied or waived (other than those conditions that by their terms are to be satisfied at the closing of the Transaction (the “Closing”), but which conditions are capable of being satisfied at the Closing), then PSP and Loral will each have the right to extend the Closing for any number of periods of up to 30 days each and no longer than 120 days in the aggregate, from the date on which the Closing otherwise would have occurred. If the Closing is extended, the Closing will occur on the first two consecutive business days commencing on the fifth business day after the expiration of the final extension period on which the conditions are satisfied or waived (other than the conditions (i) with respect to no “Material Adverse Effect” (as defined in the Transaction Agreement) having occurred, (ii) that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at the Closing and (iii) if PSP extends the Closing, with respect to a civil or criminal legal proceeding alleging that Loral or any of its subsidiaries (excluding XTAR, LLC (“XTAR”) and Globalstar de Mexico, S. de R.L. de C.V. (“GdM”) and their subsidiaries), has criminally violated a law).

On August 6, 2021, Loral was notified that the applications filed with the Federal Communications Commission (the “FCC”) for the transfer of control of Telesat’s and XTAR’s FCC licenses in connection with the Transaction had been approved. The FCC’s approval is conditioned on Telesat’s and certain of its subsidiaries’ compliance with a Letter of Agreement entered into with the Department of Justice (the “DOJ”) to address certain national security and law enforcement risks identified by the DOJ and certain Executive Branch agencies.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On August 23, 2021, at a reconvened special meeting of stockholders of the Company, Loral stockholders approved the Transaction and related proposals. In addition, on August 23, 2021, Loral was notified by the Committee on Foreign Investment in the United States (“CFIUS”) that CFIUS had concluded its review of the Transaction and had determined that there were no unresolved national security concerns.

As of the date hereof, consummation of the Closing remains subject to the satisfaction or waiver of certain conditions, including the issuance by the applicable Canadian securities regulator of a receipt for the Canadian prospectus in respect of the Transaction and the listing of the Class A common shares and Class B variable voting shares of Telesat Corporation on a U.S. securities exchange. Telesat has informed the parties to the Transaction Agreement that it expects to satisfy those conditions later this month. Accordingly, the parties currently expect that the two-day Closing provided for in the Transaction Agreement will occur on November 18, 2021 and November 19, 2021, subject to the satisfaction or waiver of all of the conditions to Closing, and Loral has announced that the election deadline for election by stockholders of the Transaction consideration is 5:00 p.m. New York City time on November 15, 2021.

Under the terms of the Transaction Agreement, each of Loral and PSP has the right to terminate the Transaction Agreement after the Outside Date (defined as the date that is twelve months following November 23, 2020 subject to certain extension rights as specified in the Transaction Agreement) if the Closing has not occurred by the proposed termination date. Because there can be no assurance that the Closing will occur when currently expected, the parties to the Transaction Agreement and the parties to the Voting Support Agreement, dated as of November 23, 2020, by and among Telesat, Loral, PSP and certain affiliates of MHR Fund Management LLC party thereto executed on November 3, 2021 a waiver, waiving, among other things, until December 23, 2021, their rights to terminate the Transaction Agreement as a result of the Closing not having occurred prior to the Outside Date. The foregoing description of the waiver is not complete and is qualified in its entirety by reference to the waiver, a copy of which is filed as Exhibit 10.1 to this Report.

Upon satisfaction of the terms and subject to the conditions set forth in the Transaction Agreement, the Transaction will result in the current stockholders of Loral, PSP and the other shareholders in Telesat (principally current or former management of Telesat) owning approximately the same percentage of equity in Telesat indirectly through Telesat Corporation and/or Telesat Partnership as they currently hold (indirectly in the case of Loral stockholders and PSP) in Telesat, Telesat Corporation becoming the publicly traded general partner of Telesat Partnership and Telesat Partnership indirectly owning all of the economic interests in Telesat, except to the extent that the other shareholders in Telesat elect to retain their direct interest in Telesat.

The Transaction Agreement provides certain termination rights for both Loral and PSP and further provides that, in certain circumstances, Loral may be required to pay to Red Isle a termination fee of \$6.55 million or \$22.91 million or to pay to PSP a “breach” fee of \$40.0 million, in each case as provided in the Transaction Agreement.

Expenses related to the Transaction included in other expense in our statements of operations were \$2.3 million and \$2.2 million for the three months ended September 30, 2021 and 2020, respectively, and \$6.6 million and \$6.0 million for the nine months ended September 30, 2021 and 2020, respectively.

Description of Business

Loral has one operating segment consisting of satellite-based communications services. Loral participates in satellite services operations primarily through its ownership interest in Telesat, a leading global satellite operator. Loral holds a 62.6% economic interest and a 32.6% voting interest in Telesat. We use the equity method of accounting for our ownership interest in Telesat (see Note 5).

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Telesat owns and leases a satellite fleet that operates in geostationary earth orbit approximately 22,000 miles above the equator. In this orbit, satellites remain in a fixed position relative to points on the earth's surface and provide reliable, high-bandwidth services anywhere in their coverage areas, serving as the backbone for many forms of telecommunications. Telesat is also developing Telesat Lightspeed, a global constellation of low earth orbit ("LEO") satellites. LEO satellites operate in a circular orbit around the earth with an altitude typically between 500 and 870 miles. Unlike geostationary orbit satellites that operate in a fixed orbital location above the equator, LEO satellites travel around the earth at high velocities requiring antennas on the ground to track their movement. LEO satellite systems have the potential to offer a number of advantages over geostationary orbit satellites to meet growing requirements for broadband services, both consumer and commercial, by providing increased data speeds and capacity, global coverage, and latency on par with, or potentially better than, terrestrial services.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") and, in our opinion, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations, financial position and cash flows as of the balance sheet dates presented and for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to SEC rules. We believe that the disclosures made are adequate to keep the information presented from being misleading. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2020 balance sheet has been derived from the audited consolidated financial statements at that date. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our latest Annual Report on Form 10-K filed with the SEC.

Investments in Affiliates

Our ownership interest in Telesat is accounted for using the equity method of accounting under U.S. GAAP. Telesat's financial statements are prepared in accordance with international financial reporting standards ("IFRS"). To allow our reporting of our investment in Telesat under U.S. GAAP, Telesat provides us with a reconciliation of its financial statements from IFRS to U.S. GAAP. Income and losses of Telesat are recorded based on our economic interest. The contribution of Loral Skynet, a wholly owned subsidiary of Loral prior to its contribution to Telesat in 2007, was recorded by Loral at the historical book value of our retained interest combined with the gain recognized on the contribution. However, the contribution was recorded by Telesat at fair value. Accordingly, the amortization of Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities acquired by Telesat in 2007 is proportionately eliminated in determining our share of the net income of Telesat. Our equity in net income or loss of Telesat also reflects amortization of profits eliminated, to the extent of our economic interest in Telesat, on satellites we constructed for Telesat while we owned Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc.) ("SSL") and on Loral's sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related assets. Non-refundable cash distributions received from Telesat in excess of our initial investment and our share of cumulative equity in comprehensive income of Telesat, net of cash distributions received in prior periods, are recorded as equity in net income of Telesat ("Excess Cash Distribution") since we have no obligation to provide future financial support to Telesat. After receiving an Excess Cash Distribution, we do not record additional equity in net income of Telesat until our share of Telesat's future net income exceeds the Excess Cash Distribution. Equity in losses of affiliates is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist. We had no guarantees or other funding obligations for our equity method investments as of September 30, 2021 and December 31, 2020. We use the nature of distribution approach to classify distributions from equity method investments on the statements of cash flows. The Company monitors its equity method investments for factors indicating other-than-temporary impairment. An impairment loss is recognized when there has been a loss in value of the affiliate that is other-than-temporary.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of income (loss) reported for the period. Actual results could materially differ from estimates.

Significant estimates also included the allowances for doubtful accounts, income taxes, including the valuation of deferred tax assets, the fair value of liabilities indemnified, the dilutive effect of Telesat stock options (see Note 10) and our pension liabilities.

Cash, Cash Equivalents and Restricted Cash

As of September 30, 2021, the Company had \$20.0 million of cash and cash equivalents. Cash and cash equivalents include liquid investments, primarily money market funds, with maturities of less than 90 days at the time of purchase. Management determines the appropriate classification of its investments at the time of purchase and at each balance sheet date.

On April 30, 2020, the Company's Board of Directors declared a special dividend of \$5.50 per share for an aggregate dividend of approximately \$170.1 million. The special dividend was paid on May 28, 2020 to holders of record of Loral voting and non-voting common stock as of the close of business on May 14, 2020.

On November 23, 2020, the Company's Board of Directors declared a special dividend of \$1.50 per share for an aggregate dividend of approximately \$46.4 million. The special dividend was paid on December 17, 2020 to holders of record of Loral voting and non-voting common stock as of the close of business on December 4, 2020.

As of September 30, 2021 and December 31, 2020, the Company had restricted cash of \$0.3 million, representing the amount pledged as collateral to the issuer of a standby letter of credit (the "LC"). The LC, which expires in February 2022, has been provided as a guaranty to the lessor of our corporate offices.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheet to the condensed consolidated statement of cash flows (in thousands):

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 19,986	\$ 31,631
Restricted cash included in other current assets	304	304
Cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 20,290</u>	<u>\$ 31,935</u>

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and receivables. Our cash and cash equivalents are maintained with high-credit-quality financial institutions. As of September 30, 2021 and December 31, 2020, our cash and cash equivalents were invested primarily in two liquid government AAA money market funds. Such funds are not insured by the Federal Deposit Insurance Corporation. The dispersion across funds reduces the exposure of a default at any one fund. As a result, management believes that its potential credit risks are minimal.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fair Value Measurements

U.S. GAAP defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. U.S. GAAP also establishes a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1: Inputs represent a fair value that is derived from unadjusted quoted prices for identical assets or liabilities traded in active markets at the measurement date.

Level 2: Inputs represent a fair value that is derived from quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities, and pricing inputs, other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Assets and Liabilities Measured at Fair Value

The following table presents our assets and liabilities measured at fair value on a recurring and non-recurring basis (in thousands):

	September 30, 2021			December 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<u>Assets</u>						
Cash and cash equivalents:						
Money market funds	\$ 18,170	\$ —	\$ —	\$ 29,166	\$ —	\$ —
Other current assets:						
Indemnification - Sale of SSL	—	—	598	—	—	598
<u>Liabilities</u>						
Other liabilities:						
Indemnification - Globalstar do Brasil S.A.	\$ —	\$ —	\$ 145	\$ —	\$ —	\$ 145

The carrying amount of money market funds approximates fair value as of each reporting date because of the short maturity of those instruments.

The Company did not have any non-financial assets or non-financial liabilities that were recognized or disclosed at fair value as of September 30, 2021 and December 31, 2020.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

We review the carrying values of our equity method investments when events and circumstances warrant and consider all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of our investments are determined based on valuation techniques using the best information available and may include quoted market prices, market comparables and discounted cash flow projections. An impairment charge is recorded when the carrying amount of the investment exceeds its current fair value and is determined to be other-than-temporary.

The asset resulting from the indemnification of SSL is for certain pre-closing taxes and reflects the excess of payments since inception over refunds and the estimated liability, which was originally determined using the fair value objective approach. The estimated liability for indemnifications relating to Globalstar do Brasil S.A. ("GdB"), originally determined using expected value analysis, is net of payments since inception.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Contingencies

Contingencies by their nature relate to uncertainties that require management to exercise judgment both in assessing the likelihood that a liability has been incurred as well as in estimating the amount of potential loss, if any. We accrue for costs relating to litigation, claims and other contingent matters when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Actual amounts paid may differ from amounts estimated, and such differences will be charged to operations in the period in which the final determination of the liability is made.

Income Taxes

Loral and its subsidiaries are subject to U.S. federal, state and local income taxation on their worldwide income and foreign taxation on certain income from sources outside the United States. Telesat is subject to tax in Canada and other jurisdictions, and Loral will provide in each period any additional U.S. current and deferred tax required on actual or deemed distributions from Telesat, including Global Intangible Low Taxed Income ("GILTI"). Deferred income taxes reflect the future tax effect of temporary differences between the carrying amount of assets and liabilities for financial and income tax reporting and are measured by applying anticipated statutory tax rates in effect for the year during which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent it is more likely than not that the deferred tax assets will not be realized.

The tax benefit of an uncertain tax position ("UTP") taken or expected to be taken in income tax returns is recognized only if it is "more likely than not" to be sustained on examination by the taxing authorities, based on its technical merits as of the reporting date. The tax benefit recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income taxes in income tax expense on a quarterly basis.

The unrecognized tax benefit of a UTP is recognized in the period when the UTP is effectively settled. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position would be sustained upon examination.

Earnings per Share

Basic earnings per share are computed based upon the weighted average number of shares of voting and non-voting common stock outstanding during each period. Shares of non-voting common stock are in all respects identical to and treated equally with shares of voting common stock except for the absence of voting rights (other than as provided in Loral's Amended and Restated Certificate of Incorporation which was ratified by Loral's stockholders on May 19, 2009). Diluted earnings per share are based on the weighted average number of shares of voting and non-voting common stock outstanding during each period, adjusted for the effect of unconverted restricted stock units. For diluted earnings per share, earnings are adjusted for the dilutive effect of Telesat stock options and restricted share units.

Recent Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. ASU 2019-12 is expected to reduce the cost and complexity related to accounting for income taxes. The new guidance removes certain exceptions to the general principles in Accounting Standards Codification 740 and improves how financial statement preparers will apply certain income tax-related guidance. The ASU is part of the FASB's simplification initiative to make narrow-scope improvements to accounting standards through a series of short-term projects. The new guidance, effective for the Company on January 1, 2021, did not have a material impact on our condensed consolidated financial statements.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Additional Cash Flow Information

The following represents non-cash activities and supplemental information to the condensed consolidated statements of cash flows (in thousands):

	Nine Months Ended	
	September 30,	
	2021	2020
Non-cash operating items:		
Equity in net income of affiliates	\$ (44,969)	\$ (9,086)
Deferred taxes	(2,175)	(253)
Depreciation	2	3
Right-of-use asset, net of lease liability	(10)	(4)
Recovery of affiliate doubtful receivable	—	(5,854)
Amortization of prior service credit and actuarial loss	1,110	963
Net non-cash operating items	<u>\$ (46,042)</u>	<u>\$ (14,231)</u>
Supplemental information:		
Interest paid	\$ 19	\$ 20
Income tax refunds	\$ 2	\$ 178
Income tax payments	<u>\$ 242</u>	<u>\$ 190</u>

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, are as follows (in thousands):

	Pension and Other Post-retirement Benefits	Equity in Telesat-related Other Comprehensive Loss	Accumulated Other Comprehensive Loss
Balance, January 1, 2020	\$ (16,167)	\$ (38,747)	\$ (54,914)
Other comprehensive loss before reclassification	(3,852)	(14,232)	(18,084)
Amounts reclassified from accumulated other comprehensive loss	1,026	—	1,026
Net current-period other comprehensive loss	(2,826)	(14,232)	(17,058)
Balance, December 31, 2020	(18,993)	(52,979)	(71,972)
Other comprehensive income before reclassification	—	3,864	3,864
Amounts reclassified from accumulated other comprehensive loss	878	—	878
Net current-period other comprehensive income	878	3,864	4,742
Balance, September 30, 2021	\$ (18,115)	\$ (49,115)	\$ (67,230)

The components of other comprehensive income (loss) and related tax effects are as follows (in thousands):

	Three Months Ended September 30,					
	2021			2020		
	Before-Tax Amount	Tax Provision	Net-of-Tax Amount	Before-Tax Amount	Tax (Provision) Benefit	Net-of-Tax Amount
Amortization of prior service credits and net actuarial loss	\$ 370 (a)	\$ (76)	\$ 294	\$ 321 (a)	\$ (68)	\$ 253
Equity in Telesat-related other comprehensive income (loss)	8,052	(3)	8,049	(7,477)	4	(7,473)
Other comprehensive income (loss)	\$ 8,422	\$ (79)	\$ 8,343	\$ (7,156)	\$ (64)	\$ (7,220)

	Nine Months Ended September 30,					
	2021			2020		
	Before-Tax Amount	Tax Provision	Net-of-Tax Amount	Before-Tax Amount	Tax Provision	Net-of-Tax Amount
Amortization of prior service credits and net actuarial loss	\$ 1,110 (a)	\$ (232)	\$ 878	\$ 963 (a)	\$ (202)	\$ 761
Equity in Telesat-related other comprehensive income	3,866	(2)	3,864	6,132	(2)	6,130
Other comprehensive income	\$ 4,976	\$ (234)	\$ 4,742	\$ 7,095	\$ (204)	\$ 6,891

(a) Reclassifications are included in other expense.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Other Current Assets

Other current assets consists of (in thousands):

	September 30, 2021	December 31, 2020
Restricted cash (see Note 2)	\$ 304	\$ 304
Indemnification receivable from SSL for pre-closing taxes (see Note 13)	598	598
Due from affiliates	17	88
Prepaid expenses	275	240
Other	—	2
	<u>\$ 1,194</u>	<u>\$ 1,232</u>

5. Investments in Affiliates

Investments in affiliates consist of (in thousands):

	September 30, 2021	December 31, 2020
Telesat	\$ 241,499	\$ 192,664

Equity in net (loss) income of affiliates consists of (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Telesat	\$ (14,924)	\$ 49,645	\$ 44,969	\$ 9,086

Telesat

As of September 30, 2021 and December 31, 2020, we held a 62.6% economic interest and a 32.6% voting interest in Telesat. We use the equity method of accounting for our majority economic interest in Telesat because we own 32.6% of the voting stock and do not exercise control by other means to satisfy the U.S. GAAP requirement for treatment as a consolidated subsidiary. We have also concluded that Telesat is not a variable interest entity for which we are the primary beneficiary. Loral's equity in net income or loss of Telesat is based on our proportionate share of Telesat's results in accordance with U.S. GAAP and in U.S. dollars. Our proportionate share of Telesat's net income or loss is based on our economic interest as our holdings consist of common stock and non-voting participating preferred shares that have all the rights of common stock with respect to dividends, return of capital and surplus distributions, but have no voting rights.

In addition to recording our share of equity in net income of Telesat, we also recorded our share of equity in other comprehensive income of Telesat of \$3.9 million for the nine months ended September 30, 2021.

The ability of Telesat to pay dividends or certain other restricted payments in cash to Loral is governed by applicable covenants in Telesat's debt and shareholder agreements. Telesat's credit agreement governing its senior secured credit facilities limits, among other items, Telesat's ability to incur debt and make dividend payments if the total leverage ratio ("Total Leverage Ratio") is above 4.50:1.00, with certain exceptions. As of September 30, 2021, Telesat's Total Leverage Ratio was 5.60:1.00. Telesat was permitted, however, to pay annual consulting fees of \$5.0 million to Loral in cash under a consulting agreement which expired in October 2021 (see Note 14).

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

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Interest on the 5.625% Senior Secured Notes will be payable on June 1 and December 1 of each year, commencing on December 1, 2021, to holders of record on the immediately preceding May 15 or November 15, as the case may be.

The 5.625% Senior Secured Notes indenture includes covenants and terms that restrict Telesat’s 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 5.625% Senior Secured Notes, without penalty, before December 6, 2022, in each case subject to exceptions provided in the 5.625% Senior Secured Notes indenture.

In April 2021, Telesat cancelled 6,197,776 issued and outstanding vested and unvested stock options.

In April 2021, Telesat approved the adoption of a restricted share unit (“Telesat RSU”) plan. A total of 3,660,000 non-voting participating preferred shares are reserved for issuance upon vesting of the Telesat RSUs awarded under the Telesat RSU plan, provided that the aggregate number of non-voting participating preferred shares issuable under the Telesat RSU plan (and under all other share compensation arrangements) does not exceed 10% of the total number of non-voting participating preferred shares outstanding from time to time (on a non-diluted basis).

In April 2021, 3,530,000 Telesat RSUs were granted under the Telesat RSU plan with 130,000 Telesat RSUs remaining available for grant under the Telesat RSU plan.

The following table presents summary financial data for Telesat in accordance with U.S. GAAP as of September 30, 2021 and December 31, 2020 and for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	September 30,		December 31,	
	2021		2020	
Balance Sheet Data:				
Current assets	\$	1,304,567	\$	703,210
Total assets		4,501,504		3,943,875
Current liabilities		150,873		129,849
Long-term debt		2,979,716		2,483,256
Total liabilities		3,597,358		3,140,747
Shareholders’ equity		904,146		803,128
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Statement of Operations Data:				
Revenues	\$ 153,334	\$ 152,081	\$ 457,052	\$ 460,407
Operating expenses	(33,099)	(32,325)	(115,594)	(101,106)
Depreciation and amortization	(43,410)	(44,888)	(131,977)	(133,336)
Other operating expense	(23)	(26)	(587)	(182)
Operating income	76,802	74,842	208,894	225,783
Interest expense	(40,501)	(37,715)	(111,517)	(115,947)
Foreign exchange (loss) gain	(55,138)	48,943	908	(74,387)
Gain (loss) on financial instruments	3,955	246	7,749	(11,643)
Other (loss) income	(88)	527	(1,164)	4,865
Income tax provision	(10,590)	(9,053)	(38,273)	(18,509)
Net (loss) income	<u>\$ (25,560)</u>	<u>\$ 77,790</u>	<u>\$ 66,597</u>	<u>\$ 10,162</u>

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other

We own 56% of the ordinary membership interests of XTAR, a joint venture between us and Hisdesat Servicios Estrategicos, S.A. (“Hisdesat”) of Spain. Hisdesat owns the remaining 44% of the ordinary membership interests and all of XTAR’s Class A membership interests, which have liquidation priority over the ordinary membership interests. We account for our ownership interest in XTAR under the equity method of accounting because we do not control certain of its significant operating decisions. We have also concluded that XTAR is not a variable interest entity for which we are the primary beneficiary. As of September 30, 2021 and December 31, 2020, the carrying value of our investment in XTAR was zero. Beginning January 1, 2016, we discontinued providing for our allocated share of XTAR’s net losses as our investment was reduced to zero and we have no commitment to provide further financial support to XTAR.

Prior to July 1, 2020, XTAR owned and operated an X-band satellite, XTAR–EUR (the “Satellite”) located at the 29° E.L. orbital slot (the “Orbital Slot”). In addition, prior to July 1, 2020, XTAR leased from Hisdesat 7.2 72MHz X-band transponders on the Spainsat satellite located at 30° W.L. (the “Transponder Lease”). On July 1, 2020, Loral, XTAR and Hisdesat restructured their relationship, including, among other things, the following: (i) Hisdesat purchased the Satellite and certain assets related to operation of the Satellite (the “Purchased Assets”) from XTAR; (ii) XTAR’s agreement with Hisdesat to operate the Satellite at the Orbital Slot was terminated and the rights and licenses to operate the Satellite at the Orbital Slot reverted to Hisdesat; (iii) the Transponder Lease was terminated; (iv) XTAR and Hisdesat entered into an agreement under which XTAR will continue to market and sell capacity on the Satellite and on the Spainsat satellite; (v) XTAR and Loral terminated the management agreement between them (the “Loral Management Agreement”) under which, until December 31, 2013, XTAR was charged a quarterly management fee for services provided by Loral; and (vi) Loral granted to Hisdesat an option to acquire for nominal consideration, subject to receipt of all required regulatory approvals, Loral’s membership interests in XTAR. As of the date of this report, Hisdesat has not exercised this option. On July 2, 2020, Loral received from XTAR \$5.9 million from the proceeds of the sale of the Purchased Assets in full and final settlement of the past due receivable outstanding of \$6.6 million under the Loral Management Agreement.

As of September 30, 2021 and December 31, 2020, the Company also held an indirect ownership interest in GdM which currently serves as the exclusive service provider for Globalstar service in Mexico. The Company accounts for this ownership interest using the equity method of accounting. As of September 30, 2021 and December 31, 2020, the carrying value of this investment was zero. Loral has written-off its investment in this company and has no future funding requirements relating to this investment. Accordingly, there is no requirement for us to provide for our allocated share of GdM’s net losses. GdM is currently in the process of dissolution and liquidation in Mexico, and Loral believes that it will not have any liability associated with GdM upon completion of this process.

6. Other Current Liabilities

Other current liabilities consist of (in thousands):

	September 30, 2021	December 31, 2020
Operating lease liability	\$ 152	\$ 345
Due to affiliate	106	98
Accrued professional fees	1,850	1,287
Pension and other post-retirement liabilities	83	82
Accrued liabilities	343	190
	<u>\$ 2,534</u>	<u>\$ 2,002</u>

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Income Taxes

The following summarizes our income tax benefit (provision) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Current income tax provision	\$ (294)	\$ (262)	\$ (923)	\$ (1,209)
Deferred income tax benefit (provision)	1,123	(47)	2,175	253
Income tax benefit (provision)	\$ 829	\$ (309)	\$ 1,252	\$ (956)

For the nine month periods ended September 30, 2021 and 2020, our income tax benefit (provision) is computed by applying an expected effective annual tax rate against the pre-tax results for each period (after adjusting for certain tax items that are discrete to each period). For the three month periods ended September 30, 2021 and 2020, this amount is then reduced by the tax (provision) benefit recorded for the six months ended June 30, 2021 and 2020. The current income tax provision for each period includes our anticipated income tax liability related to GILTI from Telesat and our provision for UTPs. After utilizing our net operating loss (“NOL”) carryforwards and allowable tax credits, federal income tax on GILTI from Telesat was zero for each period. The deferred income tax benefit (provision) for each period includes the impact of equity in net (loss) income of affiliates from our condensed consolidated statement of operations and the periodic effect of our accounting for GILTI. For the three and nine months ended September 30, 2020, the Coronavirus Aid, Relief, and Economic Security Act, which was signed into law on March 27, 2020, provided a deferred income tax benefit of \$2.2 million and \$5.7 million, respectively. Since our deferred tax assets related to the investment in Telesat will be realized from the future recognition of GILTI, the federal portion of these deferred tax assets was valued at zero as of September 30, 2021 and December 31, 2020.

To the extent that profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, we would generate sufficient taxable income from the appreciated value of our Telesat investment, subject to the provisions of the Transaction Agreement, in order to prevent federal NOLs from expiring and realize the benefit of all remaining deferred tax assets.

The following summarizes amounts for UTPs included in our income tax benefit (provision) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Current provision for UTPs	\$ (257)	\$ (244)	\$ (753)	\$ (1,052)
Deferred benefit for UTPs	52	50	115	222
Tax provision for UTPs	\$ (205)	\$ (194)	\$ (638)	\$ (830)

As of September 30, 2021, we had unrecognized tax benefits relating to UTPs of \$43 million. The Company recognizes interest and penalties related to income taxes in income tax expense on a quarterly basis. As of September 30, 2021, we have accrued no penalties and approximately \$4.1 million for the potential payment of tax-related interest.

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2014. Earlier years related to certain foreign jurisdictions remain subject to examination. To the extent allowed by law, the tax authorities may have the right to examine prior periods where NOLs were generated and carried forward, and make adjustments up to the amount of the NOL carryforward. While we intend to contest any future tax assessments for uncertain tax positions, no assurance can be provided that we would ultimately prevail. In October 2021, the statute of limitations for assessment of additional tax expired with regard to certain UTPs, which is expected to result in a reduction to our unrecognized tax benefits of approximately \$16.4 million. Pursuant to the purchase agreement for the sale of SSL, we are obligated to indemnify SSL for certain taxes related to periods prior to the closing of the transaction.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of September 30, 2021, if our positions are sustained by the taxing authorities, the Company's income tax provision would be reduced by approximately \$9.1 million. Other than as described above, we anticipate no other significant changes to our unrecognized tax benefits during the next twelve months.

8. Other Liabilities

Other liabilities consist of (in thousands):

	September 30, 2021	December 31, 2020
Indemnification liabilities - other (see Note 13)	\$ 145	\$ 145
Liabilities for uncertain tax positions	20,522	19,769
	<u>\$ 20,667</u>	<u>\$ 19,914</u>

9. Stock-Based Compensation

Stock Plans

The Loral amended and restated 2005 stock incentive plan (the "Stock Incentive Plan") which allowed for the grant of several forms of stock-based compensation awards including stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other stock-based awards, had a ten-year term and has expired. As of September 30, 2021 and 2020, outstanding and unconverted restricted stock units ("RSUs") were 98,917 and 92,857, respectively, that are vested and do not expire.

We paid special dividends of \$5.50 per share in the second quarter of 2020 (see Note 2) and \$1.50 per share in the fourth quarter of 2020 for an aggregate dividend amount of \$216.5 million. In accordance with Loral's Stock Incentive Plan, an equitable adjustment was made to outstanding stock-based awards to reflect the cash dividend. As a result, RSUs outstanding under the Stock Incentive Plan increased by 17,595 during the second quarter of 2020 and by 6,060 during the fourth quarter of 2020.

10. Earnings Per Share

Telesat has awarded employee stock options, which, if exercised, would result in dilution of Loral's economic ownership interest in Telesat from 62.6% to approximately 61.1%.

The following table presents the dilutive impact of Telesat stock options on Loral's reported net income for the purpose of computing diluted earnings per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income — basic	\$ 51,172	\$ 26,999	\$ 3,395	\$ 3,395
Less: Adjustment for dilutive effect of Telesat stock options	(257)	(1,129)	(46)	(46)
Net income — diluted	<u>\$ 50,915</u>	<u>\$ 25,870</u>	<u>\$ 3,349</u>	<u>\$ 3,349</u>

Telesat stock options are excluded from the calculation of diluted loss per share for the three months ended September 30, 2021 as the effect would be antidilutive.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Basic income per share is computed based upon the weighted average number of share of voting and non-voting common stock outstanding. The following is the computation of common shares outstanding for diluted earnings per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Weighted average common shares outstanding	30,933	30,933	30,933	30,933
Unconverted restricted stock units	93	99	99	84
Common shares outstanding for diluted earnings per share	<u>31,026</u>	<u>31,032</u>	<u>31,032</u>	<u>31,017</u>

For the three months ended September 30, 2021, the following unconverted restricted stock units are excluded from the calculation of diluted loss per share as the effect would have been antidilutive (in thousands):

	Three Months Ended September 30, 2021
Unconverted restricted stock units	<u>99</u>

11. Pensions and Other Employee Benefit Plans

The following tables provide the components of net periodic cost for our qualified retirement plan (the “Pension Benefits”) and health care and life insurance benefits for retired employees and dependents (the “Other Benefits”) for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Pension Benefits Three Months Ended September 30,		Other Benefits Three Months Ended September 30,	
	2021	2020	2021	2020
	Service cost ⁽¹⁾	\$ 176	\$ 176	\$ —
Interest cost ⁽²⁾	377	441	3	4
Expected return on plan assets ⁽²⁾	(684)	(663)	—	—
Amortization of net actuarial loss (gain) ⁽²⁾	370	322	—	(1)
Net periodic cost	<u>\$ 239</u>	<u>\$ 276</u>	<u>\$ 3</u>	<u>\$ 3</u>

	Pension Benefits Nine Months Ended September 30,		Other Benefits Nine Months Ended September 30,	
	2021	2020	2021	2020
	Service cost ⁽¹⁾	\$ 528	\$ 528	\$ —
Interest cost ⁽²⁾	1,130	1,324	9	12
Expected return on plan assets ⁽²⁾	(2,051)	(1,989)	—	—
Amortization of net actuarial loss (gain) ⁽²⁾	1,110	966	—	(3)
Net periodic cost	<u>\$ 717</u>	<u>\$ 829</u>	<u>\$ 9</u>	<u>\$ 9</u>

(1) Included in general and administrative expenses.

(2) Included in other expense.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Financial Instruments, Derivative Instruments and Hedging

Financial Instruments

The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments.

Foreign Currency

We are subject to the risks associated with fluctuations in foreign currency exchange rates. To limit this foreign exchange rate exposure, we attempt to denominate all contracts in U.S. dollars. Where appropriate, derivatives are used to minimize the risk of foreign exchange rate fluctuations to operating results and cash flows. We do not use derivative instruments for trading or speculative purposes.

Derivatives and Hedging Transactions

There were no derivative instruments as of September 30, 2021 and December 31, 2020.

13. Commitments and Contingencies

Financial Matters

In connection with the Closing, the employment of each Loral employee will be terminated. For the three months ended September 30, 2021, we charged approximately \$7.2 million to general and administrative expenses, mainly for severance and related costs, and expect to make cash payments to the terminated employees at the Closing.

In 2012, we sold our former subsidiary, SSL, to MDA Communications Holdings, Inc., a subsidiary of Maxar Technologies Inc. (formerly known as MacDonald, Dettwiler and Associates Ltd.) (“MDA”). Under the terms of the purchase agreement, we are obligated to indemnify MDA and its affiliates from liabilities with respect to certain pre-closing taxes. Our condensed consolidated balance sheets include an indemnification refund receivable of \$0.6 million as of September 30, 2021 and December 31, 2020. Certain tax assessments against SSL for 2007 to 2010 have been settled, resulting in our having received during the second and third quarters of 2019 refunds of prior indemnification payments totaling \$1.8 million. The remaining receivable as of September 30, 2021 represents payments to date over the estimated fair value of the remaining liability for our indemnification of SSL pre-closing taxes where the final amounts have not yet been determined. Where appropriate, we intend vigorously to contest the underlying tax assessments, but there can be no assurance that we will be successful. Although no assurance can be provided, we do not believe that these tax-related matters will have a material adverse effect on our financial position or results of operations.

In connection with the sale in 2008 by Loral and certain of its subsidiaries and DASA Globalstar LLC to Globalstar Inc. of their respective interests in GdB, the Globalstar Brazilian service provider, Loral agreed to indemnify Globalstar Inc. and GdB for certain GdB pre-closing liabilities, primarily related to Brazilian taxes. Our condensed consolidated balance sheets include liabilities of \$0.1 million as of September 30, 2021 and December 31, 2020 for indemnification liabilities relating to the sale of GdB.

See Note 14 — Related Party Transactions — *Transactions with Affiliates* — *Telesat* for commitments and contingencies relating to our agreement to indemnify Telesat for certain liabilities.

Lease Arrangements

We lease a facility and certain equipment under agreements expiring at various dates. We may renew, extend or modify the lease covering our facilities as needed. In March 2021, the operating lease for our corporate offices was modified by extending the lease expiration date from June 30, 2021 to December 31, 2021 and decreasing the rent for the extension period. The facility lease modification was accounted for by remeasuring the lease liability and adjusting the carrying amount of the right-of-use asset by the amount of the remeasurement of the lease liability as of March 31, 2021. We have no sublease income in any of the periods presented.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Lease costs expensed for the three and nine months ended September 30, 2021 and 2020 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Rent Expense	\$ 160	\$ 174	\$ 494	\$ 521

Lease payments for the nine months ended September 30, 2021 were \$0.5 million. The remaining lease term as of September 30, 2021 is three months and we used a discount rate of 7.5% to compute the lease liability. The right-of-use asset is being amortized over the life of the lease.

The following is a reconciliation of the lease liability to future lease payments as of September 30, 2021 (in thousands):

Operating lease payments - (October 1, 2021 to December 31, 2021)	153
Less: Future interest	1
Operating lease liability	<u>\$ 152</u>

Amounts recognized in Balance Sheet

Other current liabilities	<u>\$ 152</u>
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Legal Proceedings

Litigation Related to the Transaction

Southern District of New York Litigation. On May 5, 2021, Guy Coffman filed a complaint (Civil Action No. 1:21-cv-04007, the “Coffman Complaint”) in the United States District Court for the Southern District of New York against Loral and the members of the Loral Board (the “Individual Defendants”). Also on May 5, 2021, Shiva Stein filed a complaint (Civil Action No. 1:21-cv-04018, the “Stein Complaint”) in the United States District Court for the Southern District of New York against Loral and the Individual Defendants. On May 7, 2021, Julia Marshall filed a complaint (Civil Action No. 1:21-cv-04128, the “Marshall Complaint”) in the United States District Court for the Southern District of New York against Loral, the Individual Defendants and Merger Sub (collectively, the “Loral Defendants”); the Marshall Complaint also named as defendants Telesat, Telesat Corporation, Telesat Partnership and Telesat CanHoldco (together, the “Telesat Defendants”) and PSP and Red Isle (the “PSP Defendants” and, together with the Loral Defendants and the Telesat Defendants, the “SDNY Defendants”). On June 18, 2021, Anthony Morgan filed a complaint (Civil Action No. 1:21-cv-05385, the “Morgan Complaint” and, together with the Coffman Complaint, the Stein Complaint and the Marshall Complaint, the “SDNY Complaints”) in the United States District Court for the Southern District of New York against Loral and the Individual Defendants.

The SDNY Complaints alleged, among other things, that the Registration Statement on Form F-4 filed on April 26, 2021 with the SEC by Telesat Corporation and Telesat Partnership, and, in the case of the Morgan Complaint, such Registration Statement as amended by Amendment No. 1 thereto filed with the SEC by Telesat Corporation and Telesat Partnership on May 28, 2021 (the “2021 Registration Statement”) contained materially incomplete and misleading information. The SDNY Complaints sought, among other things, to enjoin the SDNY Defendants from proceeding with, consummating or closing the Transaction, unless and until the SDNY Defendants disclosed the material information that plaintiffs claimed had been omitted from the 2021 Registration Statement; awarding plaintiffs the costs and disbursements of their actions, including reasonable attorneys’ and expert fees and expenses; and such other and further equitable relief as the court may deem just and proper.

None of the Complaints were served on the SDNY Defendants. The Stein Complaint was voluntarily dismissed on July 8, 2021; the Morgan Complaint was voluntarily dismissed on August 3, 2021; the Coffman complaint was voluntarily dismissed on August 24, 2021; and the Marshall complaint was voluntarily dismissed on August 31, 2021.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Delaware Class Action Litigation. On June 21, 2021, Mcbreakley Pluviose filed a class action complaint (Civil Action No. 2021-0541-LWW, the “Pluviose Complaint”) in the Court of Chancery of the State of Delaware against Loral, the Individual Defendants, MHR and MHR Holdings LLC (collectively, the “Class Action Defendants”). On July 13, 2021, Diana Butchko filed a class action complaint (Civil Action No. 2021-0597-LWW, the “Butchko Complaint,” and, together with the Pluviose Complaint, the “Delaware Complaints”) in the Court of Chancery of the State of Delaware against the Class Action Defendants.

The Delaware Complaints alleged, among other things, that the Transaction is substantively and procedurally unfair to Loral’s public stockholders. Each of the Delaware Complaints sought, among other things, a judgment declaring that the Transaction violated Section 203 of the Delaware General Corporation Law (the “DGCL”) and that Loral’s shareholder rights plan was unenforceable; converting into non-voting shares of Telesat Corporation the shares that Dr. Rachesky and MHR receive in the Transaction in exchange for their shares of Loral non-voting common stock; finding the Individual Defendants, and Dr. Rachesky and MHR as controlling stockholders, liable for breaching their fiduciary duties owed to plaintiff and the class; enjoining the Loral stockholder vote on the Transaction unless and until it is subject to a vote under DGCL Section 203; and awarding to plaintiff and the class, damages, together with pre-and post-judgment interest, costs, expenses and disbursements of the action, including all reasonable attorneys’, accountants’ and experts’ fees, and such other relief as the court deems just and equitable.

On July 15, 2021, plaintiffs in the above-described Delaware lawsuits, with court approval, voluntarily dismissed their lawsuits.

Other and Routine Litigation

Other than as set forth above, we are not currently subject to any legal proceedings that, if decided adversely, could have a material adverse effect on our financial position or results of operations. In the future, however, we may become subject to legal proceedings and claims, either asserted or unasserted, that may arise in the ordinary course of business or otherwise.

14. Related Party Transactions

MHR Fund Management LLC

Mark H. Rachesky, President and Chief Investment Officer of MHR, and Janet T. Yeung, a principal and the General Counsel of MHR, are members of Loral’s board of directors.

Various funds affiliated with MHR and Dr. Rachesky held, as of September 30, 2021 and December 31, 2020, approximately 39.9% of the outstanding voting common stock and 58.4% of the combined outstanding voting and non-voting common stock of Loral.

Transactions with Affiliates

Telesat

Transaction Agreement. On November 23, 2020, Loral entered into the Transaction Agreement with Telesat, Telesat Partnership, Telesat Corporation, Telesat CanHoldco, Merger Sub, PSP and Red Isle, under which Merger Sub will merge with and into Loral, with Loral surviving the Merger as a wholly owned subsidiary of Telesat Partnership, and Loral stockholders receiving common shares of Telesat Corporation and/or units of Telesat Partnership that will be exchangeable for common shares of Telesat Corporation following the expiration of a six-month lock-up period.

On June 24, 2021, pursuant to Section 12.8 of the Transaction Agreement, Loral, with the approval of the special committee of the board of directors of Loral, entered into Amendment No. 1 to the Transaction Agreement (“Amendment No. 1”) with the parties thereto, that replaced all references to Colin Watson in the Transaction Agreement with references to Clare Copeland, the transferee of the Transit Director Voting Preferred Shares (as defined in the Transaction Agreement) formerly held by the estate of Colin Watson.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Under the terms of the Transaction Agreement, each of Loral and PSP has the right to terminate the Transaction Agreement after the Outside Date (defined as the date that is twelve months following November 23, 2020 subject to certain extension rights as specified in the Transaction Agreement) if the Closing has not occurred by the proposed termination date. Because there can be no assurance that the Closing will occur when currently expected, the parties to the Transaction Agreement and the parties to the Voting Support Agreement, dated as of November 23, 2020, by and among Telesat, Loral, PSP and certain affiliates of MHR Fund Management LLC party thereto executed on November 3, 2021 a waiver, waiving, among other things, until December 23, 2021, their rights to terminate the Transaction Agreement as a result of the Closing not having occurred prior to the Outside Date. The foregoing description of the waiver is not complete and is qualified in its entirety by reference to the waiver, a copy of which is filed as Exhibit 10.1 to this Report.

Upon satisfaction of the terms and subject to the conditions set forth in the Transaction Agreement, the Transaction will result in the current stockholders of Loral, PSP and the other shareholders in Telesat (principally current or former management of Telesat) owning approximately the same percentage of equity in Telesat indirectly through Telesat Corporation and/or Telesat Partnership as they currently hold (indirectly in the case of Loral stockholders and PSP) in Telesat, Telesat Corporation becoming the publicly traded general partner of Telesat Partnership and Telesat Partnership indirectly owning all of the economic interests in Telesat, except to the extent that the other shareholders in Telesat elect to retain their direct interest in Telesat.

The Transaction Agreement provides for certain economic adjustments and contractual protections with respect to Loral's assets and liabilities other than its indirect interest in Telesat. These include among others:

- *One Time Payment.* To compensate PSP and Red Isle for certain tax inefficiencies for PSP and Red Isle related to the structure of the Transaction, Loral will make a payment of \$7 million to Red Isle, subject to the extent of Loral's available cash; however, if such payment is less than \$7 million due to a lack of available cash, Telesat Partnership will be required to pay the balance of such unpaid amount to Red Isle no later than 35 trading days following consummation of the Transaction.
- *Absolute Indemnities.* Loral, Telesat Corporation and Telesat CanHoldco will indemnify PSP for PSP's *pro rata* share of costs relating to: (a) certain losses and litigation proceedings related to the Transaction, (b) certain out-of-pocket expenses of Loral after the Closing and (c) certain tax matters. This indemnification will be (i) independent of the accuracy of the underlying representations and warranties, (ii) in the case of the tax indemnification, subject to a cap of \$50 million and (iii) subject to additional, customary limitations.

The Transaction Agreement also provides certain termination rights for both Loral and PSP and further provides that, in certain circumstances, Loral may be required to pay to Red Isle a termination fee of \$6.55 million or \$22.91 million or to pay to PSP a "breach" fee of \$40.0 million in each case as provided in the Transaction Agreement.

In connection with the Transaction, Loral entered into the following agreements with related parties or their subsidiaries:

Subscription Agreement for Series B Preferred Stock. In connection with the Transaction, Loral issued to Telesat Partnership five shares of Series B Preferred Stock pursuant to the terms of a subscription agreement entered into between Loral and Telesat Partnership. Such shares of Series B Preferred Stock will remain outstanding following the Merger and will give Telesat Partnership the right to vote such shares once there is no Loral common stock outstanding.

Full and Final Release and Amendment of Tolling Agreement. Loral has asserted certain claims against PSP arising out of PSP's actions in certain previous transaction processes relating to Telesat. PSP has asserted various counterclaims and Loral, PSP and Telesat have entered into a series of tolling agreements preventing those claims from being terminated due to the passing of the statute of limitations while negotiating the Transaction Agreement. In connection with the signing of the Transaction Agreement, the parties entered into a mutual release that will release those claims on the first to occur of the closing of the Transaction or the termination of the Transaction Agreement due to Loral's material breach.

Standstill Agreement. Loral and MHR have entered into a standstill agreement (the "MHR Standstill Agreement") prohibiting MHR and its affiliates from, subject to the terms thereof, acquiring more than an additional 6% of the outstanding Voting Common Stock prior to the conclusion of the Loral stockholder meeting to be held to approve the Transaction. The MHR Standstill Agreement will terminate immediately upon the first to occur of the conclusion of the Loral stockholder meeting and termination of the Transaction Agreement.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On June 24, 2021, pursuant to Section 12.8 of the Transaction Agreement, Loral (with the approval of the special committee of the board of directors of Loral) and PSP entered into a consent letter agreement with and at the request of Telesat granting a limited waiver of Telesat Corporation's obligations under Section 8.8(b) of the Transaction Agreement such that (a) Telesat Corporation or any of its subsidiaries may propose the issuance or sale of shares of capital stock or other equity interests of Telesat Corporation or any of its subsidiaries in connection with any private investment the purpose of which is to finance Telesat Lightspeed and (b) Telesat Corporation may privately propose the issuance or sale of shares of capital stock or other equity interests of Telesat Corporation in connection with an underwritten public offering to potential underwriters, applicable regulators and to Loral and PSP, and may furnish a registration statement on Form F-1 and amendments thereto on a confidential basis to the SEC and deliver corresponding documents to applicable Canadian securities regulators in connection with an underwritten offering of securities; provided that Telesat Corporation does not publicly file such registration statement or publicly announce its intention to conduct such offering (except to generally disclose its intention to conduct such an offering pursuant to disclosure to be included in Telesat Corporation's and Telesat Partnership's registration statement on Form F-4 filed with the SEC and reasonably acceptable to Loral and PSP); provided, in each case, that such consent does not extend to the authorization or issuance of such shares of capital stock or other equity interests.

Ownership Interest. As described in Note 5, we own a 62.6% economic interest and a 32.6% voting interest in Telesat and account for our ownership interest under the equity method of accounting.

Shareholders Agreement. In connection with the acquisition of our ownership interest in Telesat (which we refer to as the Telesat transaction), Loral and certain of its subsidiaries, our Canadian co-owner, PSP and one of its subsidiaries, Telesat and MHR entered into a Shareholders Agreement (the "Shareholders Agreement"). The Shareholders Agreement provides for, among other things, the manner in which the affairs of Telesat and its subsidiaries will be conducted and the relationships among the parties thereto and future shareholders of Telesat. The Shareholders Agreement also contains an agreement by Loral not to engage in a competing satellite communications business and agreements by the parties to the Shareholders Agreement not to solicit employees of Telesat or any of its subsidiaries. Additionally, the Shareholders Agreement details the matters requiring the approval of the shareholders of Telesat (including veto rights for Loral over certain extraordinary actions) and provides for preemptive rights for certain shareholders upon the issuance of certain capital shares of Telesat. The Shareholders Agreement also (i) restricts the ability of holders of certain shares of Telesat to transfer such shares unless certain conditions are met or approval of the transfer is granted by the directors of Telesat, (ii) provides for a right of first offer to certain Telesat shareholders if a holder of equity shares of Telesat wishes to sell any such shares to a third party and (iii) provides for, in certain circumstances, tag-along rights in favor of shareholders that are not affiliated with Loral if Loral sells equity shares and drag-along rights in favor of Loral in case Loral or its affiliate enters into an agreement to sell all of its Telesat equity securities.

Under the Shareholders Agreement, in the event that, except in certain limited circumstances, either (i) ownership or control, directly or indirectly, by Dr. Rachesky of Loral's voting stock falls below certain levels other than in connection with certain specified circumstances, including an acquisition by a Strategic Competitor (as defined in the Shareholders Agreement) or (ii) there is a change in the composition of a majority of the members of the Loral Board of Directors over a consecutive two-year period without the approval of the incumbent directors, Loral will lose its veto rights relating to certain extraordinary actions by Telesat and its subsidiaries. In addition, after either of these events, PSP will have certain rights to enable it to exit from its investment in Telesat, including a right to cause Telesat to conduct an initial public offering in which PSP's shares would be the first shares offered or, if no such offering has occurred within one year due to a lack of cooperation from Loral or Telesat, to cause the sale of Telesat and to drag along the other shareholders in such sale, subject to Loral's right to call PSP's shares at fair market value.

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Shareholders Agreement provides for a board of directors of Telesat consisting of 10 directors, three nominated by Loral, three nominated by PSP and four independent directors to be selected by a nominating committee comprised of one PSP nominee, one nominee of Loral and one of the independent directors then in office. Each party to the Shareholders Agreement is obligated to vote all of its Telesat shares for the election of the directors nominated by the nominating committee. Pursuant to action by the board of directors taken on October 31, 2007, Dr. Rachesky, who is non-executive Chairman of the Board of Directors of Loral, was appointed non-executive Chairman of the board of directors of Telesat. In addition, Michael B. Targoff, Loral's Vice Chairman, serves on the board of directors of Telesat.

Consulting Services Agreement. On October 31, 2007, Loral and Telesat entered into a consulting services agreement (the "Consulting Agreement"). Pursuant to the terms of the Consulting Agreement, Loral provided to Telesat certain non-exclusive consulting services in relation to the business of Loral Skynet which was transferred to Telesat as part of the Telesat transaction as well as with respect to certain aspects of the satellite communications business of Telesat. The Consulting Agreement had an initial term of seven-years. Upon expiration of the initial term on October 31, 2014, the Consulting Agreement was automatically renewed for the additional seven-year term which expired on October 31, 2021. In exchange for Loral's services under the Consulting Agreement, Telesat paid Loral an annual fee of \$5.0 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. Our general and administrative expenses are net of income related to the Consulting Agreement of \$1.25 million for each of the three-month periods ended September 30, 2021 and 2020 and \$3.8 million for each of the nine-month periods ended September 30, 2021 and 2020. For each of the nine-month periods ended September 30, 2021 and 2020, Loral received payments in cash from Telesat, net of withholding taxes, of \$3.6 million for consulting fees.

Tax Indemnification. In connection with the acquisition of our ownership interest in Telesat in 2007, Loral retained the benefit of tax recoveries related to the transferred assets and indemnified Telesat ("Telesat Indemnification") for certain liabilities, including Loral Skynet's tax liabilities arising prior to January 1, 2007. The Telesat Indemnification includes certain tax disputes currently under review in various jurisdictions including Brazil. The Brazilian tax authorities challenged Loral Skynet's historical characterization of its revenue generated in Brazil for the years 2003 to 2006. Telesat received and challenged, on Loral Skynet's behalf, tax assessments from Brazil totaling approximately \$0.6 million. The Company believes that Loral Skynet's filing position will ultimately be sustained requiring no payment under the Telesat Indemnification. There can be no assurance that there will be no future claims under the Telesat Indemnification related to tax disputes.

Administrative Fee. Loral's employees and retirees participate in certain welfare plans sponsored or managed by Telesat. Loral pays Telesat an annual administrative fee of \$0.1 million and reimburses Telesat for the plan costs attributable to Loral participants. The amount due to Telesat as of September 30, 2021 and December 31, 2020 was \$0.1 million.

Grant Agreements. Loral, along with Telesat, PSP and 4440480 Canada Inc., an indirect wholly-owned subsidiary of Loral (the "Special Purchaser"), has entered into (i) a stock option grant agreement dated November 18, 2013 with respect to shares in Telesat with Telesat President and CEO, Daniel Goldberg (the "Goldberg Stock Option Grant Agreement"); (ii) an award agreement for Telesat restricted share units dated November 28, 2018 with Mr. Goldberg (the "Goldberg RSU Grant Agreement"); and (iii) restricted share unit grant agreements dated April 23, 2021 with respect to shares in Telesat (the "2021 RSU Grant Agreements" and, together with the Goldberg RSU Grant Agreement, the "RSU Grant Agreements") with the following executives of Telesat: Mr. Goldberg, Andrew Browne, Telesat Chief Financial Officer, Erwin Hudson, Telesat Vice President, LEO, and Michael Schwartz, Telesat Senior Vice President, Corporate and Business Development (each a "Participant" and collectively, the "Participants").

The Goldberg Stock Option Grant Agreement documents a grant to Mr. Goldberg of Telesat stock options (including tandem SAR rights) and provides for certain rights, obligations and restrictions related to such stock options, which include, among other things: (w) the possible obligation of the Special Purchaser to purchase the shares in the place of Telesat should Telesat be prohibited by applicable law or under the terms of any credit agreement applicable to Telesat from purchasing such shares, or otherwise default on such purchase obligation, pursuant to the terms of the Goldberg Stock Option Grant Agreement; (x) the obligation of the Special Purchaser to purchase shares upon exercise by Telesat of its call right under Telesat's Management Stock Incentive Plan in the event of Mr. Goldberg's termination of employment; (y) the right of Mr. Goldberg to require the Special Purchaser or Loral to purchase a portion of the shares in Telesat owned by him in the event of exercise after termination of employment to cover taxes that are greater than the minimum withholding amount; and (z) the right of Mr. Goldberg to require

LORAL SPACE & COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Telesat to cause the Special Purchaser or Loral to purchase a portion of the shares in Telesat owned by him, or that are issuable to him under Telesat's Management Stock Incentive Plan at the relevant time, in the event that more than 90% of Loral's common stock is acquired by an unaffiliated third party that does not also purchase all of PSP's and its affiliates' interest in Telesat. Under an option cancellation agreement between Telesat and Mr. Goldberg, 220,000 options under the Goldberg Stock Option Agreement were cancelled, with the balance of the options under that agreement remaining outstanding.

The Goldberg RSU Grant Agreement documents a grant to Mr. Goldberg of restricted stock units with respect to shares in Telesat and provides for certain rights, obligations and restrictions related to such restricted stock units, which include, among other things: (x) the possible obligation of the Special Purchaser to purchase the shares in the place of Telesat should Telesat be prohibited by applicable law or under the terms of any credit agreement applicable to Telesat from purchasing such shares, or otherwise default on such purchase obligation, pursuant to the terms of the Goldberg RSU Grant Agreement; and (y) the obligation of the Special Purchaser to purchase shares upon exercise by Telesat of its call right under Telesat's Management Stock Incentive Plan in the event of the termination of Mr. Goldberg's employment.

The 2021 RSU Grant Agreements document grants to the Participants of restricted share units with respect to shares in Telesat and provide for certain rights, obligations and restrictions related to such restricted share units, which include, among other things, the obligation of the Special Purchaser, prior to the occurrence of the Transaction, to purchase Telesat shares upon exercise by Telesat of its call right under Telesat's Restricted Share Unit Plan in the event of the termination of a Participant's employment.

The Goldberg Stock Option Grant Agreement and the RSU Grant Agreements further provide that, in the event the Special Purchaser is required to purchase Telesat shares pursuant to such agreements, such shares, together with the obligation to pay for such shares, shall be transferred to a subsidiary of the Special Purchaser, which subsidiary shall be wound up into Telesat, with Telesat agreeing to the acquisition of such subsidiary by Telesat from the Special Purchaser for nominal consideration and with the purchase price for the shares being paid by Telesat within ten (10) business days after completion of the winding-up of such subsidiary into Telesat.

Other than the stock options that remain outstanding under the Goldberg Stock Option Grant Agreement as discussed above, stock options to purchase shares in Telesat previously granted by Telesat to certain Telesat executives (Messrs. Goldberg, Browne, Hudson and Schwartz) and a former Telesat executive (Mr. Cayouette) under stock option grant agreements among Telesat, such Telesat executives or former executive, PSP, Loral and the Special Purchaser have been either exercised for Telesat shares or cancelled, and, accordingly, neither Loral nor the Special Purchaser has any further obligations under those agreements.

Other

We own 56% of the ordinary membership interests of XTAR, a joint venture between Loral and Hisdesat and account for our investment in XTAR under the equity method of accounting. On July 1, 2020, Loral, XTAR and Hisdesat restructured their relationship (see Note 5). As part of the restructuring, XTAR and Loral terminated the Loral Management Agreement pursuant to which Loral provided general and specific services of a technical, financial and administrative nature to XTAR. For the services provided by Loral, XTAR, until December 31, 2013, was charged a quarterly management fee equal to 3.7% of XTAR's quarterly gross revenues. Amounts due to Loral at the time of the restructuring, primarily due to the Loral Management Agreement, were \$6.6 million and we had an allowance of \$6.6 million against these receivables. On July 2, 2020, Loral received from XTAR \$5.9 million in full and final settlement of the past due receivable outstanding of \$6.6 million under the Loral Management Agreement. As of December 31, 2020, Loral had a receivable of \$0.1 million from XTAR.

Consulting Agreement

On December 14, 2012, Loral entered into a consulting agreement with Michael B. Targoff, Vice Chairman of the Company and former Chief Executive Officer and President. Pursuant to this agreement, Mr. Targoff is engaged as a part-time consultant to the Board to assist the Board with respect to the oversight of strategic matters relating to Telesat and XTAR. Under the agreement, Mr. Targoff receives consulting fees of \$120,000 per month and reimburses the Company for certain expenses. For each of the three and nine month periods ended September 30, 2021 and 2020, Mr. Targoff earned consulting fees of \$360,000 and \$1,080,000, respectively, and reimbursed Loral net expenses of \$11,250 and \$33,750, respectively.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements (the “financial statements”) included in Item 1 and our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

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Loral Space & Communications Inc., a Delaware corporation, together with its subsidiaries (“Loral,” the “Company,” “we,” “our,” and “us”) is a leading satellite communications company engaged, through our ownership interests in affiliates, in satellite-based communications services.

Disclosure Regarding Forward-Looking Statements

Except for the historical information contained in the following discussion and analysis, the matters discussed below are not historical facts, but are “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition, we or our representatives have made and may continue to make forward-looking statements, orally or in writing, in other contexts. These forward-looking statements can be identified by the use of words such as “believes,” “expects,” “plans,” “may,” “will,” “would,” “could,” “should,” “anticipates,” “estimates,” “project,” “intend” or “outlook” or other variations of these words. These statements, including without limitation, those relating to Telesat, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or quantify. Actual events or results may differ materially as a result of a wide variety of factors and conditions, many of which are beyond our control. For a detailed discussion of these and other factors and conditions, please refer to the Commitments and Contingencies section below and to our other periodic reports filed with the SEC. We operate in an industry sector in which the value of securities may be volatile and may be influenced by economic and other factors beyond our control. We undertake no obligation to update any forward-looking statements.

Overview

On November 23, 2020, Loral entered into a Transaction Agreement and Plan of Merger (as it may be amended from time to time, the “Transaction Agreement”) with Telesat Canada, a Canadian corporation (“Telesat”), Telesat Partnership LP, a limited partnership formed under the laws of Ontario, Canada (“Telesat Partnership”), 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 Corporation”), Telesat CanHold Corporation, a corporation incorporated under the laws of British Columbia, Canada and wholly owned subsidiary of Telesat Partnership (“Telesat CanHoldco”), Lion Combination Sub Corporation, a Delaware corporation and wholly owned subsidiary of the Company (“Merger Sub”), Public Sector Pension Investment Board, a Canadian Crown corporation (“PSP”), and Red Isle Private Investments Inc., a Canadian corporation and wholly owned subsidiary of PSP (“Red Isle”), under which Merger Sub will merge with and into Loral, with Loral surviving the merger as a wholly owned subsidiary of Telesat Partnership (the “Merger”), and Loral stockholders receiving common shares of Telesat Corporation and/or units of Telesat Partnership that will be exchangeable for common shares of Telesat Corporation following the expiration of a six-month lock-up period (the “Transaction”).

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The Transaction Agreement contains a number of customary conditions that must be fulfilled to complete the Transaction, including (i) approval of (A) a majority of the outstanding Loral voting common stock and (B) a majority of the outstanding Loral voting common stock not held by MHR Fund Management LLC (“MHR”), PSP, any other party to the Transaction Agreement or certain of their respective affiliates; (ii) the parties having obtained certain regulatory consents and approvals; (iii) no legal proceedings having been commenced that would enjoin or prohibit the consummation of the Transaction; (iv) the listing of the Class A and Class B shares of Telesat Corporation on a U.S. securities exchange; (v) no “Material Adverse Effect” (as defined in the Transaction Agreement) having occurred; (vi) Telesat remaining in good standing with respect to its material debt obligations; (vii) the accuracy of certain representations (subject to certain qualifications as to materiality) and material performance of certain covenants by the parties, subject to specified exceptions; (viii) effectiveness of a registration statement on Form F-4 in connection with the Transaction (the “Registration Statement”) and the issuance of a receipt for each of the Canadian preliminary and final prospectuses in respect of the Transaction; (ix) no U.S., Canadian or Spanish governmental agency having commenced civil or criminal proceeding against Loral alleging that any member of the “Loral Group” has criminally violated any law, and no member of the “Loral Group” having been indicted or convicted for, or pled nolo contendere to, any such alleged criminal violation; (x) Loral remaining solvent and not having entered into any bankruptcy or related proceeding; and (xi) the delivery by the parties of certain closing deliverables. If the parties have confirmed that all the conditions are satisfied or waived (other than those conditions that by their terms are to be satisfied at the closing of the Transaction (the “Closing”), but which conditions are capable of being satisfied at the Closing), then PSP and Loral will each have the right to extend the Closing for any number of periods of up to 30 days each and no longer than 120 days in the aggregate, from the date on which the Closing otherwise would have occurred. If the Closing is extended, the Closing will occur on the first two consecutive business days commencing on the fifth business day after the expiration of the final extension period on which the conditions are satisfied or waived (other than the conditions (i) with respect to no “Material Adverse Effect” (as defined in the Transaction Agreement) having occurred, (ii) that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at the Closing and (iii) if PSP extends the Closing, with respect to a civil or criminal legal proceeding alleging that Loral or any of its subsidiaries (excluding XTAR, LLC (“XTAR”) and Globalstar de Mexico, S. de R.L. de C.V. (“GdM”) and their subsidiaries), has criminally violated a law).

On August 6, 2021, Loral was notified that the applications filed with the Federal Communications Commission (the “FCC”) for the transfer of control of Telesat’s and XTAR’s FCC licenses in connection with the Transaction had been approved. The FCC’s approval is conditioned on Telesat’s and certain of its subsidiaries’ compliance with a Letter of Agreement entered into with the Department of Justice (the “DOJ”) to address certain national security and law enforcement risks identified by the DOJ and certain Executive Branch agencies.

On August 23, 2021, at a reconvened special meeting of stockholders of the Company, Loral stockholders approved the Transaction and related proposals. In addition, on August 23, 2021, Loral was notified by the Committee on Foreign Investment in the United States (“CFIUS”) that CFIUS had concluded its review of the Transaction and had determined that there were no unresolved national security concerns.

As of the date hereof, consummation of the Closing remains subject to the satisfaction or waiver of certain conditions, including the issuance by the applicable Canadian securities regulator of a receipt for the Canadian prospectus in respect of the Transaction and the listing of the Class A common shares and Class B variable voting shares of Telesat Corporation on a U.S. securities exchange. Telesat has informed the parties to the Transaction Agreement that it expects to satisfy those conditions later this month. Accordingly, the parties currently expect that the two-day Closing provided for in the Transaction Agreement will occur on November 18, 2021 and November 19, 2021, subject to the satisfaction or waiver of all of the conditions to Closing, and Loral has announced that the election deadline for election by stockholders of the Transaction consideration is 5:00 p.m. New York City time on November 15, 2021.

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Under the terms of the Transaction Agreement, each of Loral and PSP has the right to terminate the Transaction Agreement after the Outside Date (defined as the date that is twelve months following November 23, 2020 subject to certain extension rights as specified in the Transaction Agreement) if the Closing has not occurred by the proposed termination date. Because there can be no assurance that the Closing will occur when currently expected, the parties to the Transaction Agreement and the parties to the Voting Support Agreement, dated as of November 23, 2020, by and among Telesat, Loral, PSP and certain affiliates of MHR Fund Management LLC party thereto executed on November 3, 2021 a waiver, waiving, among other things, until December 23, 2021, their rights to terminate the Transaction Agreement as a result of the Closing not having occurred prior to the Outside Date. The foregoing description of the waiver is not complete and is qualified in its entirety by reference to the waiver, a copy of which is filed as Exhibit 10.1 to this Report.

Upon satisfaction of the terms and subject to the conditions set forth in the Transaction Agreement, the Transaction will result in the current stockholders of Loral, PSP and the other shareholders in Telesat (principally current or former management of Telesat) owning approximately the same percentage of equity in Telesat indirectly through Telesat Corporation and/or Telesat Partnership as they currently hold (indirectly in the case of Loral stockholders and PSP) in Telesat, Telesat Corporation becoming the publicly traded general partner of Telesat Partnership and Telesat Partnership indirectly owning all of the economic interests in Telesat, except to the extent that the other shareholders in Telesat elect to retain their direct interest in Telesat.

The Transaction Agreement provides certain termination rights for both Loral and PSP and further provides that, in certain circumstances, Loral may be required to pay to Red Isle a termination fee of \$6.55 million or \$22.91 million or to pay to PSP a “breach” fee of \$40 million, in each case as provided in the Transaction Agreement.

Description of Business

Loral has one operating segment consisting of satellite-based communications services. Loral participates in satellite services operations primarily through its ownership interest in Telesat, a leading global satellite operator. Telesat provides its satellite and communication services from a fleet of geostationary satellites that occupy Canadian and other orbital locations. Telesat is also developing a planned global constellation of low earth orbit (“LEO”) satellites known as “Telesat Lightspeed.” Loral holds a 62.6% economic interest and a 32.6% voting interest in Telesat as of September 30, 2021.

Telesat’s GEO Satellite Business

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. Telesat has been able to generate a large contractual revenue backlog by entering into long-term contracts with some of its customers, in some cases for all or substantially all of a satellite’s orbital maneuver life. Historically, this has resulted in revenue from the satellite services business being fairly predictable.

As of September 30, 2021, Telesat provided satellite services to customers from its fleet of 15 geostationary satellites, as well as the Canadian payload on the ViaSat-1 satellite. Telesat also manages the operations of additional satellites for third parties. As of September 30, 2021, Telesat’s contracted backlog from its geostationary satellite business was approximately \$1.8 billion.

Telesat Lightspeed

Telesat has commenced the development of what it believes will be the world’s most advanced constellation of LEO satellites and integrated terrestrial infrastructure, called “Telesat Lightspeed” – a platform designed to revolutionize the provision of global broadband connectivity. In January 2018, Telesat’s 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. Telesat also installed ground infrastructure at its 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 continues to advance its Telesat Lightspeed plans:

Government Grant

In May 2019, Telesat entered into an agreement with the government of Canada pursuant to which the government of Canada will contribute up to CAD 85 million through July 31, 2023 to support the development of the Telesat Lightspeed constellation. In return for the grant, Telesat made a number of commitments to the government of Canada, including commitments to conduct over CAD 200 million of research and development activities in Canada as well as to expand Telesat's Canadian workforce. As of September 30, 2021, Telesat claimed CAD 27.4 million against the government grant and incurred CAD 277.3 million in connection with this program.

During the nine months ended September 30, 2021, Telesat claimed CAD 10.4 million against the government grant and incurred CAD 142.6 million in connection with this program.

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 LEO satellite network, Telesat Lightspeed. Under this CAD 109 million, five-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. The transaction is subject to the entering into of a further, definitive agreement.

On August 12, 2021, Telesat announced that it expects to receive a \$1.44 billion investment from the Government of Canada to support Telesat Lightspeed. Under the terms of the agreement, the Government of Canada would provide a loan of CAD 790 million and make a CAD 650 million preferred equity investment in Telesat Lightspeed. In return, Telesat will commit to make certain minimum capital and operating expenditures in Canada in connection with the program and, in addition, to create hundreds of Canadian high-quality, full-time jobs and co-ops and provide academic scholarships. 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 entering into of further, definitive agreements.

Thales Alenia Space ("TAS"), Telesat's proposed primary vendor for the Lightspeed program, has advised Telesat that global supply chain constraints on the availability of certain components required for the development and construction of Telesat's Lightspeed constellation are likely to extend the expected construction timeline and delay entry into service of the Lightspeed constellation. Telesat is working with TAS to assess the impact of, and potential mitigants to, these supply chain issues. This development has delayed Telesat's ability to finalize financing agreements with certain export credit agencies, which may also negatively impact the timeline.

Telesat Outlook

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

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

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Telesat believes that it is well positioned to serve its customers and the markets in which it participates. Telesat actively pursues 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. However, while Telesat regularly pursues these opportunities, it does not procure additional or replacement satellites until it believes there is a demonstrated need and a sound business plan for such satellite capacity.

In 2021, Telesat remains focused on increasing utilization of its existing satellites, the development of the Telesat Lightspeed constellation and identifying and pursuing opportunities to invest in other expansion of satellite capacity, all while maintaining operating discipline.

Telesat's operating results are subject to fluctuations as a result of exchange rate variations. For the nine months ended September 30, 2021, approximately 53.1% of Telesat's revenues, 33.8% of its operating expenses, 100% of its interest expense and a significant portion of its capital expenditures were denominated in U.S. dollars. The most significant impact of variations in the exchange rate is on the U.S. dollar denominated indebtedness and cash and short-term investments. As of September 30, 2021, Telesat's U.S. dollar denominated debt totaled \$3.0 billion. As of September 30, 2021, a five percent increase (decrease) in the Canadian dollar against the U.S. dollar on financial assets and liabilities would have increased (decreased) Telesat's net income by approximately \$116.4 million. This analysis assumes all other variables, in particular interest rates, remain constant.

In connection with the acquisition of our ownership interest in Telesat in 2007, Loral has agreed that, subject to certain exceptions described in the Shareholders Agreement, for so long as Loral has an interest in Telesat, it will not compete in the business of leasing, selling or otherwise furnishing fixed satellite service, broadcast satellite service or audio and video broadcast direct to home service using transponder capacity in the C-band, Ku-band and Ka-band (including in each case extended band) frequencies and the business of providing end-to-end data solutions on networks comprised of earth terminals, space segment, and, where appropriate, networking hubs.

Other

We own 56% of the ordinary membership interests of XTAR, a joint venture between us and Hisdesat Servicios Estrategicos, S.A. ("Hisdesat") of Spain. Hisdesat owns the remaining 44% of the ordinary membership interests and all of XTAR's Class A membership interests, which have liquidation priority over the ordinary membership interests. Prior to July 1, 2020, XTAR owned and operated an X-band satellite, XTAR-EUR (the "Satellite") located at the 29° E.L. orbital slot (the "Orbital Slot"). In addition, prior to July 1, 2020, XTAR leased from Hisdesat 7.2 72MHz X-band transponders on the Spainsat satellite located at 30° W.L. (the "Transponder Lease"). For services provided by Loral, XTAR, until December 31, 2013, was charged a quarterly management fee under a management agreement with Loral (the "Loral Management Agreement").

On July 1, 2020, Loral, XTAR and Hisdesat restructured their relationship, including, among other things, the following: (i) Hisdesat purchased the Satellite and certain assets related to operation of the Satellite (the "Purchased Assets") from XTAR; (ii) XTAR's agreement with Hisdesat to operate the Satellite at the Orbital Slot was terminated and the rights and licenses to operate the Satellite at the Orbital Slot reverted to Hisdesat; (iii) the Transponder Lease was terminated; (iv) XTAR and Hisdesat entered into an agreement under which XTAR will continue to market and sell capacity on the Satellite and on the Spainsat satellite; (v) XTAR and Loral terminated the Loral Management Agreement; and (vi) Loral granted to Hisdesat an option to acquire for nominal consideration, subject to receipt of all required regulatory approvals, Loral's membership interests in XTAR. As of the date of this report, Hisdesat has not exercised this option. On July 2, 2020, Loral received from XTAR \$5.9 million from the proceeds of the sale of the Purchased Assets in full and final settlement of the past due receivable outstanding of \$6.6 million under the Loral Management Agreement.

COVID-19

On March 11, 2020, the World Health Organization designated the COVID-19 coronavirus as a global pandemic. Various policies and initiatives have been implemented worldwide to reduce the global transmission of COVID-19, including the promotion of social distancing and the adoption of remote working policies. The COVID 19 pandemic has had a limited impact on our ability to operate our business.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act was signed into law, and on April 24, 2020, the Paycheck Protection Program and Healthcare Enhancement Act was signed into law (collectively, the “COVID-19 Acts”) The COVID-19 Acts provided substantial stimulus and assistance packages intended to address the impact of the COVID-19 pandemic, including tax relief and government loans, grants and investments. The COVID-19 Acts reduced our income tax provision for the three and nine months ended September 30, 2020 by approximately \$2.2 million and \$5.7 million, respectively. We continue to monitor any other effects that may result from the COVID-19 Acts.

Consolidated Operating Results

See *Critical Accounting Matters* in our latest Annual Report on Form 10-K filed with the SEC and Note 2 to the financial statements.

Changes in Critical Accounting Policies — There have been no changes in our critical accounting policies during the nine months ended September 30, 2021.

Three Months Ended September 30, 2021 Compared with Three Months Ended September 30, 2020

The following compares our consolidated results for the three months ended September 30, 2021 and 2020 as presented in our financial statements:

Operating (loss) income

	Three Months Ended September 30,	
	2021	2020
	(In thousands)	
General and administrative expenses	\$ (8,745)	\$ (1,725)
Recovery of affiliate doubtful receivable	—	5,854
Operating (loss) income	\$ (8,745)	\$ 4,129

General and administrative expenses increased by \$7.0 million for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020, primarily due to a \$7.2 million severance and related expense in connection with the termination of the employment of each Loral employee at Closing. For the three months ended September 30, 2020, we had operating income of \$4.1 million primarily due to the receipt of \$5.9 million from XTAR in full and final settlement of the past due receivable outstanding of \$6.6 million under the Loral Management Agreement.

Other Expense

	Three Months Ended September 30,	
	2021	2020
	(In thousands)	
Other expense	\$ 2,362	\$ 2,300

For the three months ended September 30, 2021 and 2020, other expense primarily includes Transaction related expenses.

Income Tax Benefit (Provision)

	Three Months Ended September 30,	
	2021	2020
	(In thousands)	
Income tax benefit (provision)	\$ 829	\$ (309)

For the three months ended September 30, our income tax provision is summarized as follows: (i) for 2021, we recorded a current provision of \$0.3 million and a deferred tax benefit of \$1.1 million, resulting in a net tax benefit of \$0.8 million and (ii) for 2020, we recorded a current provision of \$0.3 million and an insignificant deferred tax provision, resulting in a net tax provision of \$0.3 million. Our deferred income tax provision for 2020 included a benefit of \$2.2 million from the COVID-19 Acts.

Our income tax provision for each period is computed by applying an expected effective annual tax rate against the pre-tax results for the nine month periods ended September 30, 2021 and 2020 (after adjusting for certain tax items that are discrete to each period). This amount is then reduced by the tax benefit (provision) recorded for the six months ended June 30, 2021 and 2020. The current income tax provision for each period includes our anticipated income tax liability related to Global Intangible Low Taxed Income (“GILTI”) from Telesat and our provision for uncertain tax positions (“UTPs”). After utilizing our net operating loss (“NOL”) carryforwards and allowable tax credits, federal income tax on GILTI from Telesat was zero for each period. The deferred income tax benefit (provision) for each period includes the impact of equity in net (loss) income of affiliates from our condensed consolidated statement of operations and the periodic effect of our accounting for GILTI. Since our deferred tax assets related to the investment in Telesat will be realized from the future recognition of GILTI, the federal portion of these deferred tax assets was valued at zero as of September 30, 2021 and December 31, 2020.

To the extent that profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, we would generate sufficient taxable income from the appreciated value of our Telesat investment, subject to the provisions of the Transaction Agreement, in order to prevent federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets.

Equity in Net (Loss) Income of Affiliates

	Three Months Ended September 30,	
	2021	2020
	(In thousands)	
Telesat	\$ (14,924)	\$ 49,645

As of September 30, 2021, we held a 62.6% economic interest and a 32.6% voting interest in Telesat. Loral’s equity in net (loss) income of Telesat is based on our proportionate share of Telesat’s results in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and in U.S. dollars. The amortization of Telesat fair value adjustments applicable to the Loral Skynet assets and liabilities acquired by Telesat in 2007 is proportionately eliminated in determining our share of the net income of Telesat. Our equity in net income of Telesat also reflects amortization of profits eliminated, to the extent of our economic interest in Telesat, on satellites we constructed for Telesat while we owned Space Systems/Loral, LLC (formerly known as Space Systems/Loral, Inc.) (“SSL”) and on Loral’s sale to Telesat in April 2011 of its portion of the payload on the ViaSat-1 satellite and related assets.

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Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars and U.S. dollars for the three months ended September 30, 2021 and 2020 follows (in thousands):

	Three Months Ended		Three Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	193,110	202,830	153,334	152,081
Operating expenses	(41,735)	(43,088)	(33,099)	(32,325)
Depreciation and amortization	(54,679)	(59,884)	(43,410)	(44,888)
Other operating expense	(30)	(34)	(23)	(26)
Operating income	96,666	99,824	76,802	74,842
Interest expense	(50,981)	(50,288)	(40,501)	(37,715)
Foreign exchange (loss) gain	(68,965)	66,909	(55,138)	48,943
Gain on financial instruments	4,970	419	3,955	246
Other (loss) income	(112)	678	(88)	527
Income tax provision	(13,356)	(12,140)	(10,590)	(9,053)
Net (loss) income	(31,778)	105,402	(25,560)	77,790
Average exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.2597	1.3345		

Telesat's revenue increased by \$1.3 million for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020 due primarily to an increase in enterprise revenue associated with short-term services provided to another satellite operator and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenue, partially offset by a slight reduction in service for a North American DTH customer and lower consulting activities. The foreign exchange rate change increased Telesat's revenue by \$3.9 million for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Telesat's operating expenses increased by \$0.8 million for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020 primarily due to higher share-based compensation expense, higher consulting costs principally associated with a contract with the U.S. government, a higher provision for bad debt expense and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses, partially offset by higher capitalized engineering costs and lower professional fees. The foreign exchange rate change increased Telesat's operating expenses by \$1.2 million for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Nine Months Ended September 30, 2021 Compared with Nine Months Ended September 30, 2020

The following compares our consolidated results for the nine months ended September 30, 2021 and 2020 as presented in our financial statements:

Operating (loss) income

	Nine Months Ended September 30,	
	2021	2020
	(In thousands)	
General and administrative expenses	\$ (12,374)	\$ (5,174)
Recovery of affiliate doubtful receivable	—	5,854
Operating (loss) income	\$ (12,374)	\$ 680

General and administrative expenses increased by \$7.2 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, primarily due to a \$7.2 million severance and related expense in connection with the termination of the employment of each Loral employee at Closing. For the nine months ended September 30, 2020, we had operating income of \$0.7 million primarily due to the receipt of \$5.9 million from XTAR in full and final settlement of the past due receivable outstanding of \$6.6 million under the Loral Management Agreement.

Interest and Investment Income

	Nine Months Ended September 30,	
	2021	2020
	(In thousands)	
Interest and investment income	\$ 5	\$ 1,045

Interest and investment income decreased by \$1.0 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 due to the lower cash balance resulting primarily from payment of cash dividends of \$170.1 million and \$46.4 million in May 2020 and December 2020, respectively, and lower interest rates earned on the cash balance during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Other Expense

	Nine Months Ended September 30,	
	2021	2020
	(In thousands)	
Other expense	\$ 6,834	\$ 6,440

For the nine months ended September 30, 2021 and 2020, other expense primarily includes Transaction related expenses.

Income Tax Benefit (Provision)

	Nine Months Ended September 30,	
	2021	2020
	(In thousands)	
Income tax benefit (provision)	\$ 1,252	\$ (956)

For the nine months ended September 30, our income tax benefit (provision) is summarized as follows: (i) for 2021, we recorded a current provision of \$0.9 million and a deferred tax benefit of \$2.2 million, resulting in a net tax benefit of \$1.3 million and (ii) for 2020, we recorded a current provision of \$1.2 million and a deferred tax benefit of \$0.2 million, resulting in a net tax provision of \$1.0 million. Our deferred income tax benefit for 2020 included a benefit of \$5.7 million from the COVID-19 Acts.

Our income tax benefit (provision) for each period is computed by applying an expected effective annual tax rate against the pre-tax results for the nine month periods ended September 30, 2021 and 2020 (after adjusting for certain tax items that are discrete to each period). The current income tax provision for each period includes our anticipated income tax liability related to GILTI from Telesat and our provision for UTPs. After utilizing our NOL carryforwards and allowable tax credits, federal income tax on GILTI from Telesat was zero for each period. The deferred income tax benefit for each period includes the impact of equity in net (loss) income of affiliates from our condensed consolidated statement of operations and the periodic effect of our accounting for GILTI. Since our deferred tax assets related to the investment in Telesat will be realized from the future recognition of GILTI, the federal portion of these deferred tax assets was valued at zero as of September 30, 2021 and December 31, 2020.

In October 2021, the statute of limitations for assessment of additional tax expired with regard to certain UTPs, which is expected to result in a reduction to our income tax provision for the fourth quarter of approximately \$19.7 million.

To the extent that profitability from operations is not sufficient to realize the benefit from our remaining net deferred tax assets, we would generate sufficient taxable income from the appreciated value of our Telesat investment, subject to the provisions of the Transaction Agreement, in order to prevent federal net operating losses from expiring and realize the benefit of all remaining deferred tax assets

Equity in Net Income of Affiliates

	Nine Months Ended September 30,	
	2021	2020
	(In thousands)	
Telesat	\$ 44,969	\$ 9,086

The following is a reconciliation of the changes in our investment in Telesat for the nine months ended September 30, 2021:

	Nine Months Ended September 30, 2021	
	(In thousands)	
Balance, January 1, 2021		\$ 192,664
Components of equity in net income of Telesat:		
Equity in net income of Telesat	\$ 41,713	
Eliminations of affiliate transactions and related amortization	3,256	44,969
Equity in Telesat-related other comprehensive income		3,866
Balance, September 30, 2021		\$ 241,499

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Summary financial information for Telesat in accordance with U.S. GAAP and in Canadian dollars and U.S. dollars as of September 30, 2021 and December 31, 2020 and for the nine months ended September 30, 2021 and 2020 follows (in thousands):

	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
	(In Canadian dollars)		(In U.S. dollars)	
Balance Sheet Data:				
Current assets	1,654,493	894,835	1,304,567	703,210
Total assets	5,708,944	5,018,579	4,501,504	3,943,875
Current liabilities	191,342	165,233	150,873	129,849
Long-term debt	3,778,967	3,159,944	2,979,716	2,483,256
Total liabilities	4,562,279	3,996,600	3,597,358	3,140,747
Shareholders' equity	1,146,665	1,021,979	904,146	803,128
Period end exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.2680	1.2725		

	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(In Canadian dollars)		(In U.S. dollars)	
Statement of Operations Data:				
Revenues	573,005	620,890	457,052	460,407
Operating expenses	(144,920)	(136,347)	(115,594)	(101,106)
Depreciation and amortization	(165,460)	(179,812)	(131,977)	(133,336)
Other operating expense	(735)	(246)	(587)	(182)
Operating income	261,890	304,485	208,894	225,783
Interest expense	(139,809)	(156,363)	(111,517)	(115,947)
Foreign exchange gain (loss)	1,138	(100,315)	908	(74,387)
Gain (loss) on financial instruments	9,715	(15,701)	7,749	(11,643)
Other (loss) income	(1,460)	6,558	(1,164)	4,865
Income tax provision	(47,982)	(24,961)	(38,273)	(18,509)
Net income	83,492	13,703	66,597	10,162
Average exchange rate for translating Canadian dollars to U.S. dollars (1 U.S. dollar equals)	1.2542	1.3495		

Telesat's revenue decreased by \$3.4 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 due primarily to decreases from the COVID-19 pandemic combined with the termination or reduction of service for certain other enterprise customers, a slight reduction in service for a North American DTH customer and lower consulting activities, partially offset by an increase in enterprise revenue associated with short-term services provided to another satellite operator and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated revenue. The foreign exchange rate change increased Telesat's revenue by \$15.1 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

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Telesat's operating expenses increased by \$14.5 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 primarily due to higher share-based compensation expense, higher wages primarily associated with the hiring of additional employees to support the Telesat Lightspeed program, higher consulting costs principally associated with a contract with the U.S. government and the impact of the change in the U.S. dollar/Canadian dollar exchange rate on Canadian dollar denominated expenses, partially offset by higher capitalized engineering costs, reversal of a bad debt provision that was recorded during the nine months ended September 30, 2020 and lower professional fees. The foreign exchange rate change increased Telesat's operating expenses by \$5.4 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Backlog

Telesat's backlog as of September 30, 2021 and December 31, 2020 was \$1.8 billion and \$2.1 billion, respectively.

Liquidity and Capital Resources

Loral

As described above, Loral's principal asset is a 62.6% economic interest in Telesat. The operations of Telesat are not consolidated but are presented using the equity method of accounting. Loral has no debt. Telesat has third party debt with financial institutions. Cash is maintained at Loral and Telesat to support the operating needs of each respective entity. The ability of Telesat to pay dividends or certain other restricted payments as well as consulting fees in cash to Loral is governed by applicable covenants relating to its debt and its shareholder agreement.

Cash and Available Credit

At September 30, 2021, Loral had \$20.0 million of cash and cash equivalents and no debt. The Company's cash and cash equivalents as of September 30, 2021 decreased by \$11.6 million from December 31, 2020 due primarily to corporate expenses of \$4.7 million adjusted for changes in working capital and net of consulting fees from Telesat, payments of \$6.3 million related to strategic initiatives and pension and other post-retirement funding of \$0.6 million. A discussion of cash changes by activity is set forth in the sections "Net Cash Used in Operating Activities" and "Net Cash Used in Financing Activities."

Loral did not have a credit facility as of September 30, 2021 and December 31, 2020.

Cash Management

We have a cash management investment program that seeks a competitive return while maintaining a conservative risk profile. Our cash management investment policy establishes what we believe to be conservative guidelines relating to the investment of surplus cash. The policy allows us to invest in commercial paper, money market funds and other similar short-term investments but does not permit us to engage in speculative or leveraged transactions, nor does it permit us to hold or issue financial instruments for trading purposes. The cash management investment policy was designed to preserve capital and safeguard principal, to meet all of our liquidity requirements and to provide a competitive rate of return for similar risk categories of investment. The policy addresses dealer qualifications, lists approved securities, establishes minimum acceptable credit ratings, sets concentration limits, defines a maturity structure, requires all firms to safe keep securities on our behalf, requires certain mandatory reporting activity and discusses review of the portfolio. We operate the cash management investment program under the guidelines of our investment policy and continuously monitor the investments to avoid risks.

We currently invest our cash primarily in two liquid government AAA money market funds. The dispersion across funds reduces the exposure of a default at any one fund.

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Liquidity

We believe that our cash and cash equivalents will be sufficient to fund projected expenditures for the next 12 months or until the Closing of the Transaction, if sooner. We expect that our major cash outlays during the next 12 months will include general corporate expenses net of consulting fees from Telesat and costs associated with completing the Transaction, including employee severance costs and professional fees. Loral receives consulting fees from Telesat of \$1.25 million per quarter under a consulting agreement which expired on October 31, 2021.

Under the terms of the Transaction Agreement, Loral is required to make a \$7 million payment to Red Isle at Closing. Telesat Corporation is obligated to make this payment as well as costs associated with completing the Transaction if Loral does not have sufficient cash at Closing.

Risks to Cash Flow

In 2012, we sold our former subsidiary, SSL, to MDA. Under the terms of the purchase agreement, we are obligated to indemnify MDA from liabilities with respect to certain pre-closing taxes the total amount of which has not yet been determined. Where appropriate, we intend vigorously to contest the underlying tax assessments, but there can be no assurance that we will be successful. Although no assurance can be provided, we do not believe that these tax-related matters will have a material adverse effect on our financial position or results of operations.

Telesat

Cash and Available Credit

As of September 30, 2021, Telesat had CAD 1.56 billion of cash and short-term investments as well as approximately \$200 million of borrowing availability under its revolving credit facility.

Liquidity

A large portion of Telesat's 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. Telesat believes its cash and short-term investments as of September 30, 2021, cash flows from operating activities, and drawings on the revolving credit facility under its senior secured credit facilities will be adequate to meet Telesat's expected cash requirements for at least the next 12 months for activities in the normal course of business, including required interest and principal payments on debt and Telesat's capital requirements. This includes the commitments Telesat has made to date for the Telesat Lightspeed program, but does not include the capital that would be required to complete construction of the constellation.

The construction of any satellite replacement or expansion program will require significant capital expenditures, and in particular Telesat currently estimates that its planned Telesat Lightspeed constellation will require a capital investment of approximately \$5 billion for satellites, launch vehicles, insurance and related ground systems. Cash required for any future satellite programs may be funded from a range of sources including: cash and short-term investments; cash flow from operating activities; cash flow from customer prepayments; through borrowings on the revolving credit facility under Telesat's 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 Telesat's senior secured credit facilities, reinvest the proceeds in replacement satellites or pay down indebtedness under Telesat's senior secured credit facilities. Telesat's ability to access these sources of funding, however, is not guaranteed, and therefore, Telesat may not be able to fully fund additional replacement or new satellite programs.

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Debt

Telesat’s debt as of September 30, 2021 and December 31, 2020 was as follows:

	<u>Maturity</u>	<u>Currency</u>	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
(In thousands)				
Senior Secured Credit Facilities:				
Revolving credit facility	December 2024	USD or CAD equivalent	\$ —	\$ —
Term Loan B - U.S. facility	December 2026	USD	1,552,815	1,552,815
6.5% Senior notes	October 2027	USD	550,000	550,000
5.625% Senior secured notes	December 2026	USD	500,000	—
4.875% Senior secured notes	June 2027	USD	400,000	400,000
			<u>3,002,815</u>	<u>2,502,815</u>
Deferred financing costs and prepayment options			(1,779)	1,824
Total debt under international financial reporting standards			<u>3,001,036</u>	<u>2,504,639</u>
U.S. GAAP adjustments			(21,320)	(21,383)
Total debt under U.S. GAAP			<u>2,979,716</u>	<u>2,483,256</u>
Current portion			—	—
Long term portion			<u>\$ 2,979,716</u>	<u>\$ 2,483,256</u>

As of September 30, 2021, Telesat was in compliance with the financial covenants of its senior secured credit facilities, the indenture governing its 4.875% Senior Secured Notes, the indenture governing its 5.625% Senior Secured Notes and the indenture governing its senior notes.

Senior Secured Credit Facilities

The obligations under Telesat’s 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 its subsidiaries (the “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 Telesat to repay a portion of the outstanding principal under its senior secured credit facilities prior to the stated maturity.

Telesat’s senior secured credit facilities are comprised of the following facilities:

i — Revolving Credit Facility

Telesat’s revolving credit facility (“Revolving Facility”) is a \$200 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 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. Telesat’s 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 of September 30, 2021, other than CAD 0.2 million in drawings related to letters of credit, there were no borrowings under this facility.

ii — Term Loan B — U.S. Facility

Telesat's term loan B — U.S. facility ("U.S. TLB Facility") is a \$1,908.5 million facility maturing in December 2026. As of September 30, 2021, \$1,552.8 million of this facility was outstanding, which represents the full amount available. The borrowings under Telesat's 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, Telesat made a \$341.4 million prepayment on its outstanding term loans under its U.S. TLB Facility. The mandatory principal repayments on Telesat's 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

Telesat has senior secured notes, in the amount of \$400.0 million, which bear interest at an annual rate of 4.875% and are due in June 2027 (the "4.875% Senior Secured Notes"). The 4.875% Senior Secured Notes indenture includes covenants or terms that restrict Telesat's 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 its 4.875% Senior Secured Notes, without penalty, before December 1, 2024, in each case subject to exceptions provided in the 4.875% Senior Secured Notes indenture.

On April 27, 2021, Telesat issued senior secured notes in the amount of \$500 million at an annual rate of 5.625%, which are due in December 2026 (the "5.625% Senior Secured Notes"). The 5.625% Senior Secured Notes indenture includes covenants and terms that restrict Telesat's 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 5.625% Senior Secured Notes, without penalty, before December 6, 2022, in each case subject to exceptions provided in the 5.625% Senior Secured Notes indenture. Telesat incurred debt issuance costs of CAD 6.8 million in connection with the issuance of the 5.625% Senior Secured Notes.

Senior Notes

Telesat's senior notes, in the amount of \$550 million, bear interest at an annual rate of 6.5% and are due in October 2027. They include covenants or terms that restrict Telesat's 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 its senior notes, without penalty, before October 15, 2024, in each case subject to exceptions provided in the senior notes indenture.

Debt Service Cost

The interest expense on Telesat's senior secured credit facilities, senior notes, 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, is expected to be approximately CAD 162.4 million.

Derivatives

Telesat uses, from time to time, interest rate and currency derivatives to manage its exposure to changes in interest rates and foreign exchange rates.

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As of September 30, 2021, Telesat had one outstanding interest rate swap which hedges the interest rate risk on \$450 million of U.S. denominated Term Loan B borrowings. The contract, which matures in September 2022, is at a fixed interest rate of 2.04%, excluding applicable margin. As of September 30, 2021, the fair value of the interest rate swap was a liability of \$5.8 million.

Telesat also has foreign currency embedded derivatives in its purchase contracts with suppliers and sales contracts with customers as a result of some of these contracts being denominated in a currency other than the functional currency of the substantial parties to the respective contract. The fair value of these foreign currency embedded derivatives as of September 30, 2021 was a net liability of \$6.7 million.

Capital Expenditures

Telesat has entered into contracts for the development of Telesat Lightspeed constellation and other capital expenditures. The outstanding commitments associated with these contracts were approximately CAD 181.3 million as of September 30, 2021. 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 the revolving credit facility.

Statements of Cash Flows

Net Cash Used in Operating Activities

Net cash used in operating activities was \$11.6 million for the nine months ended September 30, 2021, consisting primarily of a \$19.0 million cash use attributable to net income adjusted for non-cash operating items and a \$1.0 million decrease in pension and other post-retirement liabilities, partially offset by a \$7.6 million increase in accrued employment costs and other current liabilities primarily due to the accrual of \$7.2 million in severance and related costs payable to Loral employees upon termination of their employment at Closing and a \$0.8 million increase in other liabilities.

Net cash used in operating activities was \$5.6 million for the nine months ended September 30, 2020, consisting primarily of a \$10.8 million cash use attributable to net income adjusted for non-cash operating items and a \$0.9 million decrease in income taxes payable, net of refunds receivable, and a \$1.8 million decrease in pension and other post-retirement liabilities, partially offset by a receipt of \$5.9 million from XTAR for a past due receivable and a \$2.2 million increase in other liabilities.

Net Cash Used in Financing Activities

Net cash used in financing activities was \$170.1 million for the nine months ended September 30, 2020 attributable to the payment of a cash dividend to common shareholders in May 2020.

Affiliate Matters

Loral has made certain investments in joint ventures in the satellite services business that are accounted for under the equity method of accounting (see Note 5 to our financial statements for further information on affiliate matters).

Commitments and Contingencies

Our business and operations are subject to a number of significant risks, the most significant of which are summarized in Part II, Item 1A — Risk Factors and also in Note 13 to our condensed consolidated financial statements.

Other Matters

Recent Accounting Pronouncements

There are no accounting pronouncements that have been issued but not yet adopted that we believe will have a significant impact on our financial statements.

Item 4. *Disclosure Controls and Procedures*

- (a) *Disclosure Controls and Procedures.* Our president and our chief financial officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2021, have concluded that our disclosure controls and procedures were effective and designed to ensure that information relating to Loral and its consolidated subsidiaries required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.
- (b) *Internal control over financial reporting.* There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.
OTHER INFORMATION

Item 1. *Legal Proceedings*

We discuss certain legal proceedings pending against the Company in the notes to our financial statements and refer you to that discussion for important information concerning those legal proceedings, including the basis for such actions and relief sought. See Note 13 to our financial statements for this discussion.

Item 1A. *Risk Factors*

Our business and operations are subject to a significant number of risks. The most significant of these risks are summarized in, and the reader's attention is directed to, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2020, the Risk Factors in our Proxy Statement dated June 30, 2021 and Item 1A. Risk Factors in our Quarterly Reports on Form 10-Q for the three months ended March 31, 2021 and June 30, 2021.

The risks described in our Annual Report on Form 10-K, our Proxy Statement dated June 30, 2021 and our Quarterly Reports on Form 10-Q are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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Item 6. Exhibits

The following exhibits are filed as part of this report:

- [10.1](#) — [Waiver to Integration Agreement dated November 3, 2021 by and among Loral Space & Communications Inc., Telesat Canada, Telesat Corporation, Telesat Partnership LP, Telesat CanHold Corporation, Lion Combination Sub Corporation, Public Sector Pension Investment Board, Red Isle Private Investments Inc. and certain other persons affiliated with MHR Fund Management LLC whose names appear on the signature pages thereto.](#)
- [31.1](#) — [Certification of President pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002](#)
- [31.2](#) — [Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002](#)
- [32.1](#) — [Certification of President pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002](#)
- [32.2](#) — [Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002](#)
- [99.1](#) — [Summary of Terms and Conditions for Proposed Investment in Telesat Lightspeed LEO Project dated August 11, 2021 among Telesat LEO Inc., Telesat Canada, Telesat Corporation and Her Majesty in Right of Canada, as represented by the Minister of Industry](#)(1)
- 101.INS — Inline XBRL Instance Document
- 101.SCH — Inline XBRL Taxonomy Extension Schema Document
- 101.CAL — Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF — Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB — Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE — Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 — The cover page for the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 has been formatted in Inline XBRL.

- (1) Incorporated by reference from the Report of Foreign Issuer on Form 6-K filed by Telesat Canada on August 12, 2021

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant

LORAL SPACE & COMMUNICATIONS INC.

/s/ JOHN CAPOGROSSI

John Capogrossi
*Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer) and Registrant's Authorized
Officer*

Date: November 9, 2021

EXECUTION VERSION

WAIVER TO
INTEGRATION AGREEMENT

This waiver to Integration Agreement (this "Waiver"), is entered into as of November 3, 2021, by and among Telesat Canada, a corporation incorporated under the laws of Canada ("Transit"), Telesat Corporation, a corporation incorporated under the laws of British Columbia ("Topco"), Telesat Partnership LP, a limited partnership organized under the laws of Ontario ("Canadian LP"), Telesat CanHold Corporation, a corporation incorporated under the laws of British Columbia ("CanHoldco"), Loral Space & Communications Inc., a Delaware corporation ("Leo"), Lion Combination Sub Corporation, a Delaware corporation ("Merger Sub"), Public Sector Pension Investment Board, a Canadian Crown corporation incorporated under the laws of Canada ("Polaris"), Red Isle Private Investments Inc., a corporation incorporated under the laws of Canada ("Rover"), and the other persons whose names appear on the signature pages hereto (the "MHR Parties", and together with Transit, Topco, Canadian LP, CanHoldco, Leo, Merger Sub, Polaris and Rover, the "Parties"). Capitalized terms used but not defined herein shall have the meanings set forth in the Integration Agreement (as defined below).

WHEREAS, Transit, Topco, Canadian LP, CanHoldco, Leo, Merger Sub, Polaris and Rover are parties to that certain Transaction Agreement and Plan of Merger, dated as of November 23, 2020 (as amended by letter agreement dated March 8, 2021 and amendment no. 1 dated June 24, 2021, the "Integration Agreement");

WHEREAS, Transit, Polaris and the MHR Parties are parties to that certain Voting Support Agreement, dated as of November 23, 2020 (the "Voting Support Agreement");

WHEREAS, the Parties desire to waive certain provisions of the Integration Agreement as set forth herein pursuant to and in accordance with Section 12.8 of the Integration Agreement and 3.2(a) of the Voting Support Agreement; and

WHEREAS, this Waiver has been approved by the Leo Special Committee.

NOW, THEREFORE, in consideration of the premises set forth above and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Waiver. The Parties hereby agree to waive the termination right in Section 11.1(b)(i) of the Integration Agreement, and no Party shall exercise such termination right, until after December 23, 2021. The Parties further agree that the Outside Date will be deemed to be December 23, 2021 for purposes of Section 11.1(b)(iv) and Section 11.1(b)(v).

2. Miscellaneous. No reference to this Waiver need be made in any instrument or document at any time referring to the Integration Agreement, a reference to the Integration Agreement to be deemed a reference to such agreement as amended hereby. Except as expressly modified by this Waiver, the terms of the Integration Agreement remain unchanged and remain in full force and effect. Sections 12.4, 12.5, 12.8, 12.9, 12.10, 12.12, 12.13 and 12.15 of the Integration Agreement are incorporated by reference into this Waiver, *mutatis mutandis*.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed this Waiver as of the date first written above.

TELESAT CANADA

By: /s/ Christopher S. DiFrancesco

Name: Christopher S. DiFrancesco

Title: Vice President, General Counsel and

Secretary

TELESAT CORPORATION

By: /s/ Christopher S. DiFrancesco

Name: Christopher S. DiFrancesco

Title: Vice President, General Counsel and

Secretary

TELESAT PARTNERSHIP LP

By its General Partner, TELESAT CORPORATION

By: /s/ Christopher S. DiFrancesco

Name: Christopher S. DiFrancesco

Title: Vice President, General Counsel and

Secretary

TELESAT CANHOLD CORPORATION

By: /s/ Christopher S. DiFrancesco

Name: Christopher S. DiFrancesco

Title: Vice President, General Counsel and

Secretary

[Signature Page to Waiver to Integration Agreement]

LION COMBINATION SUB CORPORATION

By: /s/ Avi Katz
Name: Avi Katz
Title: President and Secretary

LORAL SPACE & COMMUNICATIONS INC.

By: /s/ Avi Katz
Name: Avi Katz
Title: President and Secretary

PUBLIC SECTOR PENSION INVESTMENT BOARD

By: /s/ Melanie Bernier
Name: Melanie Bernier
Title: Authorized Signatory

By: /s/ Selin Bastin
Name: Selin Bastin
Title: Authorized Signatory

RED ISLE PRIVATE INVESTMENTS INC.

By: /s/ Melanie Bernier /s/ Selin Bastin
Name: Melanie Bernier / Selin Bastin
Title: Authorized Signatory

MHR INSTITUTIONAL PARTNERS LP

By: MHR Institutional Advisors LLC, its General Partner

[Signature Page to Waiver to Integration Agreement]

By: /s/ Janet Yeung
Name: Janet Yeung
Title: Authorized Signatory

MHRA LP

By: MHR Institutional Advisors LLC, its General
Partner

By: /s/ Janet Yeung
Name: Janet Yeung
Title: Authorized Signatory

MHRM LP

By: MHR Institutional Advisors LLC, its General
Partner

By: /s/ Janet Yeung
Name: Janet Yeung
Title: Authorized Signatory

MHR INSTITUTIONAL PARTNERS II LP

By: MHR Institutional Advisors II LLC, its General Partner

By: /s/ Janet Yeung
Name: Janet Yeung
Title: Authorized Signatory

MHR INSTITUTIONAL PARTNERS IIA LP

By: MHR Institutional Advisors II LLC, its General Partner

By: /s/ Janet Yeung
Name: Janet Yeung
Title: Authorized Signatory

[Signature Page to Waiver to Integration Agreement]

MHR INSTITUTIONAL PARTNERS III LP

By: MHR Institutional Advisors III LLC, its General Partner

By: /s/ Janet Yeung

Name: Janet Yeung

Title: Authorized Signatory

MHR CAPITAL PARTNERS MASTER ACCOUNT II HOLDINGS LLC

By: MHR Advisors LLC, the General Partner of its Sole Member

By: /s/ Janet Yeung

Name: Janet Yeung

Title: Authorized Signatory

MHR CAPITAL PARTNERS MASTER ACCOUNT LP

By: MHR Advisors LLC, its General Partner

By: /s/ Janet Yeung

Name: Janet Yeung

Title: Authorized Signatory

MHR CAPITAL PARTNERS (100) LP

By: MHR Advisors LLC, its General Partner

By: /s/ Janet Yeung

Name: Janet Yeung

Title: Authorized Signatory

[Signature Page to Waiver to Integration Agreement]

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Avi Katz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Loral Space & Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ AVI KATZ

Avi Katz

President, General Counsel & Secretary

November 9, 2021

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John Capogrossi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Loral Space & Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ JOHN CAPOGROSSI

John Capogrossi

Vice President, Chief Financial Officer and Treasurer

November 9, 2021

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Loral Space & Communications Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Avi Katz, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ AVI KATZ

Avi Katz

President, General Counsel & Secretary

November 9, 2021

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Loral Space & Communications Inc. (the "Company") on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Capogrossi, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JOHN CAPOGROSSI

John Capogrossi
Vice President, Chief Financial Officer and Treasurer

November 9, 2021
