

Report of Independent Registered Chartered Accountants

To the Shareholders of Telesat Holdings Inc.

We have audited the consolidated balance sheet of Telesat Holdings Inc. as at December 31, 2007 and the consolidated statements of earnings, comprehensive loss, shareholders' equity and cash flows for the period from October 31, 2007 to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the period from October 31, 2007 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
March 20, 2008

Telesat Holdings Inc. Consolidated Statement of Earnings

<i>(in thousands of Canadian dollars)</i>	Notes	October 31 to December 31, 2007
Operating revenues		
Service revenues		\$ 103,509
Equipment sales revenues		7,907
Operating revenues	(4)	111,416
Amortization		40,046
Operations and administration		43,276
Cost of equipment sales		6,485
Total operating expenses		89,807
Earnings from operations		21,609
Interest expense	(5)	(43,861)
Other expense	(6)	(43,969)
Loss before income taxes		(66,221)
Income tax recovery	(7)	(62,170)
Net loss		\$ (4,051)

Telesat Holdings Inc. Consolidated Statement of Comprehensive Loss

<i>(in thousands of Canadian dollars)</i>	October 31 to December 31, 2007
Net loss	\$ (4,051)
Other comprehensive loss, net of tax:	
Unrealized loss on translation of financial statements of self sustaining foreign operations	(665)
Related tax	66
Comprehensive loss	\$ (4,650)

Telesat Holdings Inc.
Consolidated Statement of Shareholders' Equity

FOR THE PERIOD FROM OCTOBER 31 TO DECEMBER 31, 2007

<i>(in thousands of Canadian dollars)</i>	Notes	Common shares	Preferred Shares	Accumulated deficit	Accumulated other comprehensive loss	Accumulated deficit and Accumulated other comprehensive loss	Total Shareholders' Equity
Balance at October 31, 2007		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Common shares issued as part of the sale transaction	(3), (16)	756,414					756,414
Preferred shares issued as part of the sale transaction	(3), (16)		541,764				541,764
Net loss				(4,051)		(4,051)	(4,051)
Unrealized loss on translation of financial statements of self sustaining foreign operations					(599)	(599)	(599)
Balance at December 31, 2007		\$ 756,414	\$ 541,764	\$ (4,051)	\$ (599)	\$ (4,650)	\$ 1,293,528

Telesat Holdings Inc.

Consolidated Balance Sheet

December 31,
2007

<i>(in thousands of Canadian dollars)</i>	Notes	
Assets		
Current assets		
Cash and cash equivalents		\$ 42,203
Accounts and notes receivable	(8)	53,875
Current future tax asset	(7)	2,594
Assets held for sale	(9)	4,037
Other current assets	(10)	57,777
Total current assets		160,486
Satellites, property and other equipment, net	(11)	1,818,612
Other long-term assets	(10)	27,368
Intangible assets, net	(12)	1,092,359
Goodwill	(12)	2,446,603
Total assets		\$ 5,545,428
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		\$ 61,599
Other current liabilities	(13)	152,375
Debt due within one year	(14)	18,419
Total current liabilities		232,393
Debt financing	(14)	2,775,944
Future tax liability	(7)	439,641
Other long-term liabilities	(13)	662,487
Senior preferred shares	(15)	141,435
Total liabilities		4,251,900
Shareholders' equity		
Common shares (74,252,460 common shares issued and outstanding)	(16)	756,414
Preferred shares	(16)	541,764
Accumulated deficit		(4,051)
Accumulated other comprehensive loss		(599)
Total shareholders' equity		1,293,528
Total liabilities and shareholders' equity		\$ 5,545,428

On behalf of the board of directors:

"Colin D. Watson"

"James Pittman"

Telesat Holdings Inc.

Consolidated Statement of Cash Flow

October 31 to
December 31, 2007

<i>(in thousands of Canadian dollars)</i>	Notes	
Cash flows from operating activities		
Net loss		\$ (4,051)
Adjustments to reconcile net loss to cash flows from operating activities:		
Amortization		40,046
Future income taxes		(60,653)
Unrealized foreign exchange		43,066
Other		(317)
Operating assets and liabilities	(17)	207,185
		<u>225,276</u>
Cash flows from investing activities		
Satellite programs		(15,496)
Property additions		(14,019)
Business acquisitions	(3)	(3,229,194)
Proceeds on disposals of assets		25
		<u>(3,258,684)</u>
Cash flows from financing activities		
Debt financing and bank loans		2,767,716
Repayment of bank loans and debt financing		(44,899)
Capitalized debt issuance costs		(83,585)
Note repayment		(129,334)
Common shares issued	(16)	311,124
Preferred shares issued	(15, 16)	258,833
Capital lease payments		(1,306)
Satellite performance incentive payments		(4,196)
		<u>3,074,353</u>
Effect of changes in exchange rates on cash and cash equivalents		1,258
Increase in cash and cash equivalents		42,203
Cash and cash equivalents, beginning of period		-
Cash and cash equivalents, end of period	(17)	<u>\$ 42,203</u>

Supplemental disclosure of cash flow information

Interest paid		\$ 18,339
Income taxes paid		343
		<u>\$ 18,682</u>

Telesat Holdings Inc.

Notes to Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except share amounts and per share amounts, and where otherwise noted)

December 31, 2007

1. Basis of presentation

On October 31, 2007, Canada's Public Sector Pension Investment Board ("PSP") and Loral Space & Communications Inc. ("Loral"), through a newly formed entity called Telesat Holdings Inc. ("Telesat" or the "Company"), completed the acquisition of Telesat Canada from BCE Inc. Loral and PSP hold an economic interest in Telesat of 64% and 36%, respectively, and a voting interest of 33 1/3% and 66 2/3% respectively.

As part of the same transaction, substantially all of the assets of a Loral subsidiary, Loral Skynet Corporation ("Loral Skynet"), were transferred to Telesat, along with the shares of all of the legacy Skynet subsidiaries.

Headquartered in Ottawa, Canada, with offices and facilities around the world, Telesat is the fourth largest fixed satellite services operator. The Company provides satellite-delivered communications solutions to broadcast, telecom, corporate and government customers. Telesat has a global fleet of 12 satellites and 3 additional satellites under construction, and manages the operations of 13 additional satellites for third parties.

The consolidated financial statements of Telesat Holdings Inc. have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements have been prepared as at and for the 2 months ended December 31, 2007. Telesat consolidates the financial statements of its wholly owned subsidiaries Telesat Interco Inc., Telesat Canada, Infosat Communications Inc. (Infosat), Telesat Brasil Limitada (Telesat Brazil), The SpaceConnection, Inc. (SpaceConnection), Skynet Satellite Holdings Corporation ("Skynet") and its wholly owned subsidiaries, and Loral Asia Pacific Satellite (HK) Limited. All transactions and balances between these companies have been eliminated on consolidation.

Regulation

As an operator of a privately owned global satellite system, Telesat is subject to: the regulatory authority of the Canadian government and other countries which license its satellites; the regulatory authority of other countries in which it operates; and, the frequency coordination process of the International Telecommunication Union ("ITU"). Telesat's ability to provide satellite services in a particular country or region is subject also to the technical constraints of its satellites, international coordination, constraints associated with local regulatory approval and any limitation to those approvals.

The Company operates Canada's domestic fixed satellite telecommunication system and is subject to regulation by the Canadian Radio-television and Telecommunications Commission ("CRTC"). Under the current regulatory regime, Telesat has pricing flexibility subject to a price ceiling on certain Full Period Fixed Satellite Services ("FSS") offered in Canada under minimum five-year lease arrangements. Telesat's Direct Broadcast Services offered within Canada are also subject to CRTC regulation, but have been treated as separate and distinct from Telesat's FSS and facilities. The CRTC has approved the specific customer agreements relating to the sale of the capacity on the Nimiq satellites, including the rates, terms and conditions of service set out therein.

Telesat's ground network services have been forborne from regulation since 1994. The Commission has the right of examination of the Company's accounting policies.

2. Summary of significant accounting policies

Use of estimates

When preparing financial statements according to GAAP, management makes estimates and assumptions relating to the reported amounts of revenues and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. We base our estimates on a number of factors, including historical experience, current events and actions that the Company may undertake in the future, and other assumptions that we believe are reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions. We use estimates when accounting for certain items such as the valuation of goodwill and intangible assets, and for

Telesat Holdings Inc.

Notes to Consolidated Financial Statements

(all amounts in thousands of Canadian dollars, except share amounts and per share amounts, and where otherwise noted)

December 31, 2007

revenues, allowance for doubtful accounts, useful lives of capital assets, capitalized interest, asset impairments, inventory reserves, legal and tax contingencies, employee compensation plans, employee benefit plans, evaluation of minimum lease terms for operating leases, income taxes, and goodwill and intangible asset impairments. We also use estimates when recording the fair values of assets acquired and liabilities assumed in a business combination.

Revenue recognition

Telesat recognizes operating revenues when earned, as services are rendered or as products are delivered to customers. There must be clear proof that an arrangement exists, the amount of revenue must be fixed or determinable and collectibility must be reasonably assured. Consulting revenues for cost plus contracts are recognized after the work has been completed and accepted by the customer. The percentage of completion method is used to account for fixed price consulting revenue contracts. Deferred revenues consist of remuneration received in advance of the provision of service and are recognized in income on a straight-line basis over the term of the related customer contract. When it is questionable whether or not Telesat is the principal in a transaction, the transaction is evaluated to determine whether it should be recorded on a gross or net basis.

Equipment sales revenues are recognized when the equipment is delivered to the customer and accepted. Only equipment sales are subject to warranty or return and there is no general right of return. Historically Telesat has not incurred significant expense for warranties and consequently no provision for warranty is recorded. When a transaction involves more than one product or service, revenue is allocated to each deliverable based on its relative fair value; otherwise, revenue is recognized as services are provided over the term of the customer contract.

Lease contracts that qualify for capital lease treatment are accounted for as sales-type leases. Sales-type leases are those where substantially all of the benefits and risks of ownership are transferred to the customer. Sales revenue recognized at the inception of the lease represents the present value of the minimum lease payments net of any executory costs, computed at the interest rate implicit in the lease. Unearned finance income, effectively the difference between the total minimum lease payments and the aggregate present value, is deferred and recognized in earnings over the lease term to produce a constant rate of return on the investment in the lease. The net investment in the lease includes the minimum lease payments receivable less the unearned finance income.

Cash and cash equivalents

All highly liquid investments with an original maturity of 90 days or less are classified as cash and cash equivalents.

Inventories

Inventories are valued at the lower of cost or market and consist of work in process and finished goods. Cost for substantially all network equipment inventories is determined on an average cost basis. Cost for work in process and certain one-of-a-kind finished goods is determined using the specific identification method.

Satellites, property and other equipment

On October 31, 2007 our satellites, property and other equipment were recorded at their fair values in conjunction with the allocation of the purchase price (note 3) for the acquisition of Telesat and Skynet. Satellites, property and other equipment, which are carried at cost (equal to fair value for assets acquired on October 31, 2007) less accumulated amortization, include the contractual cost of equipment, capitalized engineering and, with respect to satellites, the cost of launch services, launch insurance and capitalized interest during construction.

The Company shares equally with a developer, the ownership, cost and debt of the Company's headquarters land and building. The Company has leased the developer's share of the building which is accounted for as a capital lease.

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Amortization is calculated using the straight line method over the respective estimated service lives of the assets. Below are the estimated useful lives of our satellites, property and other equipment as of December 31, 2007:

	<u>Years</u>
Satellites	6 to 15
Transponders under capital lease	12 to 15
Earth stations	5 to 30
Office buildings	30
Leasehold improvements	1
Equipment, furniture and fixtures	5 to 10

The estimates of useful lives are reviewed every year and adjusted if necessary.

Liabilities related to the legal obligation of retiring property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and the amount of the current estimate of the undiscounted cash flows. The liabilities recorded to date have not been significant.

In the event of an unsuccessful launch or total in-orbit satellite failure, all unamortized costs that are not recoverable under launch or in-orbit insurance are recorded as an operating expense.

The investment in each satellite will be removed from the property accounts when the satellite has been fully amortized and is no longer in service. When other property is retired from operations at the end of its useful life, the amount of the investment and accumulated amortization are removed from the accounts. Earnings are credited with the amount of any net salvage and charged with any net cost of removal. When an item is sold prior to the end of its useful life, the gain or loss is recognized in earnings immediately.

Impairment of long-lived assets

Long-lived assets, including finite life intangible assets and satellites, property and other equipment, are assessed for impairment when events or changes in circumstances indicate that the carrying value exceeds the total undiscounted cash flows expected from the use and disposition of the assets. If impairment is indicated, the loss is determined by deducting the asset's fair value (based on discounted cash flows expected from its use and disposition) from its carrying value and is recorded in other expense.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect as of the balance sheet dates. Operating revenues and expenses, and interest on debt transacted in foreign currencies are reflected in the financial statements using the average exchange rates during the period. The translation gains and losses are included in other expense in the statement of earnings.

For those subsidiaries that we consider to be self-sustaining foreign operations, assets and liabilities are translated at the exchange rate in effect on the balance sheet date, and revenues and expenses are translated at average exchange rates during the year. The resulting unrealized gains or losses are reflected as a component of Other Comprehensive Income ("OCI").

For those subsidiaries that we consider to be integrated foreign operations, non-monetary assets and liabilities are translated at their historical exchange rates and monetary assets and liabilities are translated at the exchange rate in effect on the balance sheet date, and revenues and expenses are translated at average exchange rates during the year. The resulting unrealized gains or losses are reflected as a component of net earnings.

Goodwill and other intangible assets

Goodwill and other intangible assets were recorded on the acquisition of Telesat Canada and Skynet as described in note 1. For goodwill and intangible assets with indefinite useful lives an assessment for impairment is undertaken on an annual basis on November 30, or whenever events or changes in circumstances indicate that the carrying

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December 31, 2007

amount of these assets is likely to exceed their fair value. The Company considers orbital slots and trade names to be indefinite lived intangible assets. To date, Telesat has not recognized any permanent impairment in value of these assets as these assets were only acquired on October 31, 2007 and there have been no indications that circumstances have changed.

Finite life intangible assets consist of backlog, customer relationships and favourable leases, all of which were recorded in connection with the acquisition of Telesat Canada and Skynet. Intangible assets with finite useful lives are amortized over their estimated useful lives using the amortization method that most accurately represents the use of the asset. Below are the estimated useful lives of our finite life intangible assets as of December 31, 2007:

	<u>Years</u>
Backlog	4 to 17
Customer relationships	11 to 21
Favourable leases	3 to 4
Patents	18

The estimates of useful lives are reviewed every year and adjusted if necessary.

Derivative financial instruments

The Company uses derivative financial instruments to reduce its exposure to foreign exchange rate risk associated with anticipated purchases and with debt denominated in foreign currencies, as well as to reduce its exposure to interest rate risk associated with debt. The use of derivatives is expected to generate enough cash flows and gains or incur losses to offset these risks. Telesat does not use derivative financial instruments for speculative or trading purposes. Currently, Telesat does not designate any of its derivative financial instruments as hedging instruments for accounting purposes. All gains and losses on these derivative financial instruments are recorded in the statement of earnings.

Embedded derivatives

The Company has chosen to account for embedded foreign currency derivatives in a host contract as a single instrument where the contract requires payments denominated in the currency that is commonly used in contracts to procure non-financial items in the economic environment in which we transact.

Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading (“HFT”) or available-for-sale (“AFS”). For other financial instruments, transaction costs are amortized to net income over the expected life of the financial instrument using the effective interest method. Currently the only transaction costs which Telesat has elected to capitalize are related to debt and these costs are amortized to net income as a component of interest expense.

Employee benefit plans

Telesat maintains one contributory and three non-contributory defined benefit pension plans which provide benefits based on length of service and rate of pay. Telesat is responsible for adequately funding these defined benefit pension plans. Contributions are made based on various actuarial cost methods that are permitted by pension regulatory bodies and reflect assumptions about future investment returns, salary projections and future service benefits. Telesat also provides other post-employment and retirement benefits, including health care and life insurance benefits on retirement and various disability plans, workers compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement, under certain circumstances. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. Pension costs and other retirement benefits are determined using the projected benefit method prorated on service and management’s best estimate of expected investment performance, salary escalation, retirement ages of employees and expected health care costs.

Telesat Holdings Inc.

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(all amounts in thousands of Canadian dollars, except share amounts and per share amounts, and where otherwise noted)

December 31, 2007

Pension plan assets are valued at fair value which is also the basis used for calculating the expected rate of return on plan assets. The discount rate is based on the market interest rate of high quality long-term bonds. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of the active employees at the date of amendment. The Company deducts 10% of the benefit obligation or the fair value of plan assets, whichever is greater, from the net actuarial gain or loss and amortizes the excess over the average remaining service period of active employees. A valuation is performed at least every three years to determine the present value of the accrued pension and other retirement benefits. The 2007 pension expense calculation is extrapolated from a valuation performed as of January 1, 2007. The accrued benefit obligation is extrapolated from an actuarial valuation as of January 1, 2007. The most recent valuation of the pension plans for funding purposes was as of January 1, 2007, and the next required valuation is as of January 1, 2010.

In addition, Telesat provides certain health care and life insurance benefits for retired employees and dependents of Skynet. These benefits are funded primarily on a pay-as-you-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

Stock-based compensation plans

The Company does not have a stock-based compensation plan as of December 31, 2007. Both Telesat Canada and Loral Skynet offered stock-based compensation plans to certain employees prior to being acquired by Telesat. There will be no further options granted under either of these plans subsequent to October 30, 2007 as these plans were discontinued with the acquisition of Telesat Canada and Loral Skynet by Telesat.

Income taxes

Current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years. The Company uses the liability method to account for future income taxes.

Future income taxes reflect:

- the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes
- the benefit of unutilized tax losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

The Company estimates future income taxes using the rates enacted by tax law and those substantively enacted. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

Recent changes to accounting standards

Financial Instruments

In December 2006, the CICA issued two new handbook sections, 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation.” These new standards are effective for Telesat beginning January 1, 2008.

These sections replace CICA handbook section 3861, “Financial Instruments — Disclosure and Presentation.” These new sections enhance disclosure requirements on the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Capital Disclosures

In December 2006, the CICA issued a new handbook section 1535, “Capital Disclosures,” which requires an entity to disclose its objectives, policies and processes for managing capital. This new standard is effective for Telesat beginning January 1, 2008. The impact of implementing this standard is not expected to be significant.

Telesat Holdings Inc.

Notes to Consolidated Financial Statements

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December 31, 2007

Inventories

In June 2007, the CICA issued handbook section 3031 “Inventories”, which replaces section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards. This section provides changes to the measurement and more extensive guidance on the determination of cost, narrows the permitted cost formulas, requires impairment testing, and expands the disclosure requirements to increase transparency. This new standard is effective for Telesat beginning January 1, 2008. The impact of implementing this standard is not expected to be significant.

Goodwill and intangible assets

In February 2008, the CICA issued handbook section 3064 “Goodwill and Intangible Assets”, which replaces sections 3062 and 3450. This section applies to goodwill and intangible assets subsequent to initial recognition in a business combination and establishes standards for recognition, measurement, presentation and disclosure of intangible assets. This new standard is effective for Telesat beginning January 1, 2009. The Company is currently evaluating the impact of adopting this new standard.

3. Business acquisitions

On October 31, 2007, Canada’s Public Sector Pension Investment Board and Loral Space & Communications Inc., through a newly formed entity, Telesat, completed the acquisition of 100% of the common shares of Telesat Canada from BCE Inc. Loral and PSP hold an economic interest in Telesat of 64% and 36%, respectively, and a voting interest of 33 1/3% and 66 2/3%, respectively. As part of the Telesat Canada acquisition, substantially all of the assets of a Loral subsidiary, Loral Skynet Corporation, were transferred to Telesat. In addition, Telesat acquired the shares of the remaining Loral Skynet subsidiaries. The aggregate fair value of the net assets transferred by Loral Skynet was \$773.7 million, of which \$24 million was paid using cash equivalents and the balance in common shares and non-voting participating preferred shares of Telesat. In addition, Loral Skynet transferred foreign exchange forward contracts with a value of \$119.9 million, in exchange for non-voting participating preferred shares, which were settled for cash on October 31, 2007 and have been included in the balance of cash acquired. The Telesat Canada purchase price was paid in cash. The shares issued as part of the purchase transaction were valued based on the estimated fair value of the assets contributed by Loral Skynet as agreed to by the shareholders. The results of operations for Telesat Canada and Skynet have been included in these consolidated financial statements since October 31, 2007. The acquisition has been accounted for as a purchase transaction.

The asset and liability values acquired are based on a purchase price which was calculated as follows:

	Total
Cash paid (net of cash acquired)	3,229,194
Shares issued (note 16)	869,656
Transaction costs	32,692
Purchase price	<u>4,131,542</u>

Other adjustments include severance costs and adjustments to the pension plan as a result of the restructuring at both Telesat Canada and Skynet. The plan to restructure both Telesat Canada and Skynet was in place on October 31, 2007 and for the most part was executed on November 30, 2007. The restructuring plan will be completed on or before October 31, 2008. Severance costs include payments to severed employees in lieu of notice and benefits, as well as incentive bonus payments that would have otherwise been received by the severed employees had they remained with the Company. Of the total severance costs included in the purchase price \$5.0 million was paid prior to December 31, 2007. The adjustments to the pension plan include an increase in the benefit obligation as a result of the early retirement program which was partially offset by a curtailment gain due to the overall decrease in the number of employees.

Telesat Holdings Inc.

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(all amounts in thousands of Canadian dollars, except share amounts and per share amounts, and where otherwise noted)

December 31, 2007

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. Telesat determined the fair value of the assets acquired and liabilities assumed based on information available as well as certain assumptions we consider reasonable, and which may be revised as additional information becomes available. The purchase price was allocated to the assets acquired and liabilities assumed based on their fair values on October 31, 2007:

Current assets	101,317
Satellites, property and other equipment	1,826,047
Other long term assets	19,219
Intangible assets	1,099,965
Assumed debt	(171,620)
Current liabilities, less current portion of debt	(285,016)
Future income tax liability	(497,419)
Other long term liabilities	(407,554)
Total net assets acquired	1,684,939
Goodwill	2,446,603
Purchase price	4,131,542

Of the \$1,100 million of acquired intangible assets, \$596.3 million relates to orbital slots and \$17.0 million relates to trade names, both of which are not subject to amortization. The remaining intangible assets include revenue backlog of \$274.5 million, customer relationships of \$207.7 million, favourable leases of \$4.4 million, and patents of \$0.1 million all of which will be subject to amortization. See note 12 for disclosure of amortization periods.

Of the total amount of goodwill, \$355.7 million is expected to be deductible for tax purposes.

Other long term liabilities assumed include severance costs of \$15.5 million and adjustments to the pension plan as a result of the restructuring at both Telesat Canada and Skynet. The plan to restructure both Telesat Canada and Skynet was in place on October 31, 2007 and for the most part was executed on November 30, 2007. The restructuring plan will be completed on or before October 31, 2008. Severance costs include payments to severed employees in lieu of notice and benefits, as well as incentive bonus payments that would have otherwise been received by the severed employees had they remained with the Company. Of the total severance costs included in the purchase price \$5.0 million was paid prior to December 31, 2007. The adjustments to the pension plan include an increase in the benefit obligation as a result of the early retirement program which was partially offset by a curtailment gain due to the overall decrease in the number of employees.

4. Segmented information

The Company operates in a single industry segment, in which it provides satellite-based services to its broadcast, enterprise and consulting customers around the world. The Company derives revenues from the following services:

- **Broadcast** – distribution or collection of video and audio signals in the North American and International markets which include television transmit and receive services, occasional use, bundled Digital Video Compression and radio services.
- **Enterprise** – provision of satellite capacity and ground network services for voice, data, and image transmission and internet access around the world.
- **Consulting and Other** – all consulting services related to space and earth segments, government studies, satellite control services, R&D.

Telesat Holdings Inc.**Notes to Consolidated Financial Statements**

(all amounts in thousands of Canadian dollars, except share amounts and per share amounts, and where otherwise noted)

December 31, 2007

For the period ended December 31, 2007, revenues derived from the above service lines were as follows:

Broadcast	52,771
Enterprise	53,758
Consulting and Other	4,887
Total operating revenues	111,416

Geographic Information

For the period ended December 31, 2007, revenue by geographic region was based on the point of origin of revenues (destination of billing invoice), allocated as follows:

Revenues – Canada	60,085
Revenues – United States	34,352
Revenues – Europe	6,108
Revenues - Asia	5,588
Revenues – South America	4,586
Revenues – all others	697
Total operating revenues	111,416

As at December 31, 2007, the \$2,447 million of goodwill was not allocated to geographic regions.

As at December 31, 2007, satellites, property and other equipment by geographic region, based on the location of the asset, are allocated as follows:

Satellites, property and other equipment – Canada	1,373,513
Satellites, property and other equipment – United States	434,596
Satellites, property and other equipment – all others	10,503
Total satellites, property and other equipment	1,818,612

Major customers

For the period ended December 31, 2007, two customers from the Broadcast segment represented 14.9% and 11.1% of consolidated revenues.

5. Interest expense

	December 31,
	2007
Debt service costs	47,535
Dividends on senior preferred shares	1,695
Capitalized interest	(5,369)
	43,861

Telesat Holdings Inc.**Notes to Consolidated Financial Statements**

(all amounts in thousands of Canadian dollars, except share amounts and per share amounts, and where otherwise noted)

December 31, 2007

6. Other expense

	December 31, 2007
Foreign exchange loss	(118,034)
Gain on financial instruments	75,098
Interest income	301
Performance incentive payments and milestone interest expense	(499)
Other	(835)
	<hr/> (43,969) <hr/>

7. Income taxes

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

	December 31, 2007
Statutory income tax rate	35.3%
Permanent differences	(32.7%)
Adjustment for tax rate changes	83.4%
Resolution of uncertain tax positions	2.2%
Other	5.7%
Effective income tax rate	<hr/> 93.9% <hr/>

The components of the income tax expense are as follows:

Future	(60,653)
Current	(1,517)
Total income tax expense	<hr/> (62,170) <hr/>

The tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes are presented below:

	December 31, 2007
Future tax assets	
Capital assets	7,912
Intangible assets	5,353
Investments	8,256
Loss carry forwards	12,610
Derivative assets	17,895
Other	3,560
Less: valuation allowance	(34,358)
Total future tax assets	<hr/> 21,228

Telesat Holdings Inc.

Notes to Consolidated Financial Statements

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December 31, 2007

	December 31, 2007
Future tax liabilities	
Capital assets	(170,276)
Intangibles	(276,005)
Derivative liabilities	(7,398)
Other	(4,596)
Total future tax liabilities	(458,275)
Total future income taxes - net	(437,047)

Total future income taxes are comprised of:

Net future income tax asset – current portion	2,594
Net future income tax liability – long-term portion	(439,641)
Total future income taxes - net	(437,047)

8. Accounts and notes receivable

	December 31, 2007
Trade receivables - net of allowance for doubtful accounts	54,114
Less: long-term portion of trade receivables	239
	53,875

The allowance for doubtful accounts was \$4.3 million at December 31, 2007.

The long-term portion of trade receivables includes items that will not be collected during the subsequent year and is included in other long term assets in note 10.

9. Assets held for sale

As a result of the consolidation of facilities of the two legacy operating entities, Telesat Canada and Loral Skynet, the Hawley facility was slated to be sold as part of the overall integration plan. On February 13, 2008, Skynet Satellite Corporation, a wholly-owned subsidiary of Skynet, entered into an agreement with a third party to sell the Hawley facility, along with most of the equipment located within the facility. The sale is expected to close on May 1, 2008, but is subject to the satisfaction of standard closing conditions. As of October 31, 2007, these assets were no longer amortized.

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			December 31, 2007
	Current portion	Long term portion	Total
Net investment in leases (a)	16,747	3,395	20,142
Income taxes recoverable	12,847	-	12,847
Accrued pension benefit (see note 20)	-	9,911	9,911
Prepaid expenses and deposits (b)	15,236	712	15,948
Deferred charges (c)	4,808	8,637	13,445
Inventories (d)	7,239	-	7,239
Other assets (e)	900	4,713	5,613
	<u>57,777</u>	<u>27,368</u>	<u>85,145</u>

- (a) The net investment in leases is classified on the balance sheet in other current assets and other long-term assets, and includes the following:

Net investment in leases as at	December 31, 2007
Total minimum lease payments	21,383
Unearned finance income	(1,241)
	<u>20,142</u>
Current portion	(16,747)
Long-term portion	<u>3,395</u>

Unearned finance income is allocated to income over the term of the lease in a manner that produces a constant rate of return on the investment in the leases. The investment in the leases for purposes of income recognition is composed of net minimum lease payments and unearned finance income. Future minimum lease payments receivable under the sales-type leases are \$18.0 million in 2008, and \$3.4 million in 2009.

- (b) Prepaid expenses and deposits includes mainly prepaid insurance for in-orbit satellites, prepaid interest on banker's acceptances, and deposits related to foreign taxes.
- (c) Deferred charges include deferred costs related to deferred revenue, as well as deferred financing charges related to the revolving credit facility and the Canadian Term Loan (note 14).
- (d) Inventories are valued at lower of cost or market and consist of \$5.7 million of finished goods and \$1.5 million of work in process. Cost for substantially all network equipment inventories is determined on an average cost basis. Cost for work in process and certain one-of-a-kind finished goods is determined using specific identification.
- (e) Other assets includes: tax indemnifications receivable from Loral of \$2.3 million (note 22), other deposits of \$2.1 million, investments of \$0.6 million, derivative assets of \$0.4 million and long term trade receivables of \$0.2 million.

Investments are recorded at cost. No impairments were recorded as no events or changes in circumstances were identified during the period that may have a significant adverse effect on the carrying value of the investments. Telesat has a portfolio interest in Hellas-Sat Consortium Limited. The consortium has one satellite which

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provides regional coverage to Greece, Cyprus and the Balkans. Telesat also holds a nominal portfolio interest in Anik-Colombia. Telesat's wholly-owned subsidiary Infosat has a 22% interest in Pakistan's Comstar ISA Ltd., a satellite service provider.

Derivative assets relate to a foreign currency forward contract that matures in January 2008.

11. Satellites, property and other equipment

At December 31, 2007, satellites, property and other equipment is comprised of the following:

	Cost	Accumulated Amortization	Net Book Value
Satellites	1,285,583	(26,324)	1,259,259
Earth stations	120,210	(4,546)	115,664
Transponders under capital lease	67,085	(1,411)	65,674
Office buildings and other	32,619	(1,544)	31,075
Construction in progress	346,940	-	346,940
	<u>1,852,437</u>	<u>(33,825)</u>	<u>1,818,612</u>

The cost of assets under capital lease, including satellite transponders, was \$ 68.0 million at December 31, 2007. At December 31, 2007 the net book value of these assets was \$66.5 million.

12. Goodwill and intangible assets

As part of the acquisition transactions described in note 3, intangible assets were acquired. The carrying amount and accumulated amortization of the acquired intangible assets subject to amortization consisted of the following at December 31, 2007:

	Cost	Accumulated Amortization	Net Book Value
Finite life intangible assets:			
Revenue backlog	274,487	(5,316)	269,171
Customer relationships	207,704	(2,072)	205,632
Favourable leases	4,368	(218)	4,150
Patents	59	-	59
	<u>486,618</u>	<u>(7,606)</u>	<u>479,012</u>
Indefinite life intangible assets:			
Orbital slots	596,347	-	596,347
Trade name	17,000	-	17,000
Intangible assets	<u>1,099,965</u>	<u>(7,606)</u>	<u>1,092,359</u>
Goodwill	2,446,603	-	2,446,603
Goodwill and intangible assets	<u>3,546,568</u>	<u>(7,606)</u>	<u>3,538,962</u>

Revenue backlog is amortized based on the annual rate at which the backlog is recognized in revenue which is estimated to be between 4 and 17 years. Customer relationships, favourable leases and patents are amortized on a

Telesat Holdings Inc.**Notes to Consolidated Financial Statements***(all amounts in thousands of Canadian dollars, except share amounts and per share amounts, and where otherwise noted)***December 31, 2007**

straight-line basis over the asset's estimated useful life. Customer relationships have an estimated useful life of between 11 and 21 years. Favourable leases have an estimated useful life of between 3 and 4 years. Patents have an estimated useful life of 18 years. The Company recorded amortization expense of \$7.6 million for the period ended December 31, 2007.

13. Other liabilities

			December 31, 2007
	Current portion	Long term portion	Total
Deferred revenues and deposits (a)	54,652	257,256	311,908
Derivative liabilities (b)	14,811	271,061	285,872
Capital lease liabilities (c)	29,008	44,344	73,352
Deferred satellite performance incentive payments (d)	7,533	35,791	43,324
Interest payable	40,146	-	40,146
Dividends payable on senior preferred shares (note 15)	1,695	-	1,695
Pension and other post retirement liabilities (note 20)	-	24,313	24,313
Other liabilities (e)	4,530	29,722	34,252
	152,375	662,487	814,862

(a) Deferred revenues represent the Company's liability for the provision of future services. The prepaid amount is brought into income over the period of service to which the prepayment applies. The net amount outstanding at December 31, 2007 will be reflected in the Statement of Earnings as follows: \$54.7 million in 2008, \$27 million in 2009, \$25.9 million in 2010, \$25 million in 2011, \$24.9 million in 2012, and \$154.4 million thereafter.

(b) Derivative liabilities comprise the following:

Derivative liability	Maturity	December 31, 2007
Foreign currency forward contracts	January 1, 2008 to December 1, 2009	17,545
Cross currency basis swap	October 31, 2014	261,974
Interest rate swaps	January 31, 2010 to November 28, 2011	6,353
		285,872

(c) The obligation under the capital lease is classified on the balance sheet in other current liabilities and other long-term liabilities.

Capital lease obligations	December 31, 2007
Total minimum lease payments	90,025
Amount representing interest (9%)	(16,673)
	73,352
Current portion	(29,008)
Long-term portion	44,344

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Future minimum lease payments payable under all capital leases are \$34 million in 2008, \$17.9 million in 2009, \$7.8 million in 2010, \$7.8 million in 2011, \$7.8 million in 2012 and \$14.7 million thereafter.

- (d) Deferred satellite performance incentive payments are payable over the lives of the Nimiq 1, Anik F1, Anik F2, Anik F3 and Anik F1R satellites. The present value of the payments is capitalized as part of the cost of the satellite, recorded as a liability, and charged against operations as part of the normal amortization of the satellite. The amounts payable on the successful operation of the transponders are \$7.5 million in 2008, \$3.1 million in 2009, \$3.4 million in 2010, \$2.8 million in 2011, \$2.1 million in 2012, and \$24.4 million thereafter.
- (e) Other liabilities includes: tax indemnifications payable to Loral of \$6.9 million (note 22), potential income tax liabilities of \$1.8 million, unfavourable leases of \$2.2 million, unfavourable customer revenue backlog of \$15.2 million, income taxes payable of \$0.9 million, and other liabilities of \$7.3 million at December 31, 2007.

14. Debt financing

	December 31, 2007
Senior secured credit facilities (a):	
Revolving facility	20,000
The Canadian term loan facility	200,000
The U.S. term loan facility	1,687,652
The U.S. term loan II facility	5,842
Senior bridge loan (b)	667,806
Senior subordinated bridge loan (c)	209,324
Other debt financing (d)	3,739
	<hr/> 2,794,363
Current portion	(18,419)
Long-term portion	<hr/> 2,775,944 <hr/>

The outstanding debt balances above, with the exception of the revolving credit facility and the Canadian Term Loan, are shown net of related debt issuance costs. The debt issuance costs related to the revolving credit facility and the Canadian Term Loan are included in Other Assets (note 10) and are amortized to interest expense on a straight-line basis. All other debt issuance costs are amortized to interest expense using the effective interest method.

- (a) The senior secured credit facilities are secured by substantially all of Telesat's assets. Under the terms of these facilities, Telesat is required to comply with certain covenants including financial reporting, maintenance of certain financial covenant ratios for leverage and interest coverage, a requirement to maintain minimum levels of satellite insurance, restrictions on capital expenditures, a restriction on fundamental business changes or the creation of subsidiaries, restrictions on investments, restrictions on dividend payments, restrictions on the incurrence of additional debt, restrictions on asset dispositions, and restrictions on transactions with affiliates. The financial covenant ratios include total debt to EBITDA (earnings before interest, taxes, depreciation and amortization) and EBITDA to interest expense. Both financial covenant ratios become tighter over the term of the credit facility. At December 31, 2007 Telesat was in compliance with all of the required covenants.

Telesat is required to hedge, at fixed rates, 50% of its floating interest rate debt for a three year period ending October 31, 2011. Each tranche of the credit facility is subject to mandatory principal repayment requirements,

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which, in the initial years, are generally ¼ to 1% of the initial aggregate principal amount. The senior secured credit facility has several tranches which are described below:

- i) A revolving Canadian dollar denominated credit facility (the “Revolving Facility”) of up to the Canadian dollar equivalent of \$153 million (US\$154.8 million) is available to Telesat. This Revolving Facility matures on October 31, 2012 and is available to be drawn at any time. The drawn loans will bear interest at the prime rate or LIBOR or Bankers’ Acceptance plus an applicable margin of 175 to 275 basis points per annum. The average interest rate was 7.53% for the two months ended December 31, 2007. Undrawn amounts under the facility are subject to a commitment fee. As at December 31, 2007, \$20 million was drawn under this facility.
 - (ii) The Canadian Term Loan Facility is a \$200 million loan facility denominated in Canadian dollars, bears interest at a floating rate of the Bankers’ Acceptance rate plus an applicable margin of 275 basis points per annum, and has a maturity of October 31, 2012. There are no required repayments on the Canadian Term Loan facility until the third quarter of 2008. The average interest rate was 7.55% for the two months ended December 31, 2007. This facility was fully drawn at December 31, 2007.
 - (iii) The U.S. Term Loan Facility is a \$1,755 million loan facility denominated in US dollars (\$1,733.7 million CAD), bears interest at LIBOR plus an applicable margin of 300 basis points per annum, and has a maturity of October 31, 2014. The average interest rate was 7.92% for the two months ended December 31, 2007. This facility was fully drawn at December 31, 2007.
 - (iv) The U.S. Term Loan II Facility is a \$150 million delayed draw facility denominated in US dollars (\$148.2 million CAD), bears interest at LIBOR plus an applicable margin of 300 basis points per annum, and has a maturity of October 31, 2014. The average interest rate was 8.0% for the two months ended December 31, 2007. The U.S. Term Loan II Facility is available to be drawn for 12 months after the closing of the acquisition described in Note 3 to fund capital expenditures. The undrawn amount of the Term loan B-2 is subject to a commitment fee. As at December 31, 2007, US\$10 million (\$9.9 million CAD) of the facility was drawn.
- (b) Senior Bridge Loan is a \$692.8 million loan facility denominated in US dollars (\$684.6 million CAD). The Bridge Loan is unsecured but is guaranteed by certain Telesat subsidiary entities. This facility has a maturity of October 31, 2008, and an initial interest rate per annum equal to the greater of 9% or three-month LIBOR plus the applicable margin. The applicable margin increases over time subject to an interest rate cap of 11%. The average interest rate was 9.0% for the two months ended December 31, 2007. This facility was fully drawn at December 31, 2007. The lenders under the Bridge Loan have a right, as early as April 28, 2008, to make a Securities Demand whereby Telesat would issue high yield notes subject to registration rights at an interest rate at or below the 11% cap in exchange for the Bridge Loan. If the Senior Bridge Loan is not repaid in full before October 31, 2008, the Senior Bridge Loan is automatically converted into a rollover loan which matures on October 31, 2015 and has escalating interest rates which are capped at 11%.
 - (c) Senior Subordinated Bridge Loan is a \$217.2 million loan facility denominated in US dollars (\$214.6 million CAD). The Senior Subordinated Bridge Loan is unsecured but is guaranteed by certain Telesat subsidiary entities. This facility has a maturity of October 31, 2008 and an initial interest rate per annum equal to the greater of 10.5% or three-month LIBOR plus the applicable margin. The average interest rate was 10.5% for the two months ended December 31, 2007. The applicable margin increases over time subject to an interest rate cap of 12.5%. This facility was fully drawn at December 31, 2007. The lenders under the Senior Subordinated Bridge Loan have a right, as early as April 28, 2008, to make a Securities Demand whereby Telesat would issue high yield notes subject to registration rights at an interest rate at or below the 12.5% cap in exchange for the Senior Subordinated Bridge Loan. If the Senior Bridge Loan is not repaid in full before October 31, 2008, the Senior Subordinated Bridge Loan is automatically converted into a rollover loan which matures on October 31, 2015 and has escalating interest rates which are capped at 12.5%.

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(d) Other debt financing includes the financing for the Company's headquarters building. With respect to the headquarters building, the Company shares equally with the developer, the ownership, cost and debt of the building. The Company has leased the developer's share for twenty years beginning January 25, 1989 for an annual rent, excluding operating costs, of \$1.8 million. Total headquarters financing of \$3.7 million includes the amount owing under this capital lease of \$1.8 million at December 31, 2007. The imputed interest rate for the capital lease is 10.69% per annum.

Mortgage financing for the Company's share of the facility has been arranged by the developer for a twenty-year term coincident with the lease with interest at 11% per annum and with annual payments of principal and interest of \$1.8 million.

The outstanding balance of long term debt, excluding debt issuance costs, will be repaid as follows (in millions of Canadian dollars):

2008	2009	2010	2011	2012	Thereafter	Total
\$25.9	\$27.7	\$32.4	\$107.5	\$117.4	\$2,556.0	\$2,866.9

15. Senior preferred shares

Telesat issued 141,435 Senior Preferred Shares in exchange for cash with an issue price of \$1,000 per Senior Preferred Share on October 31, 2007 as part of the acquisition transaction described in notes 1 and 3. The Senior Preferred Shares rank in priority, with respect to payment of dividends and return of capital upon liquidation, dissolution or winding-up, ahead of the shares of all other classes of Telesat stock which have currently been created, as well as any other shares that may be created that by their terms rank junior to the Senior Preferred Shares. The Senior Preferred Shares are entitled to receive cumulative preferential dividends at a rate of 7% per annum on the Liquidation Value, being \$1,000 per Senior Preferred Share plus all accrued and unpaid dividends. The annual dividend may be paid in cash, if such payment is permitted under the terms of (i) the senior secured credit facilities and the indenture governing the senior bridge loans, and (ii) any indebtedness incurred to refinance the senior secured credit facilities or the senior bridge loans. If the cash payment is not permitted under the terms of the senior secured credit facilities or senior bridge loans, the dividends will be paid in Senior Preferred Shares based on an issue price of \$1,000 per Senior Preferred Share. Dividends of \$1.7 million have been accrued at December 31, 2007 (note 13) and included as interest expense.

The Senior Preferred Shares may be submitted by the holder for redemption on or after the twelfth anniversary of the date of issue, subject to compliance with law. Upon a change of control which occurs after the fifth anniversary of the issue of the Senior Preferred Shares, or on the fifth anniversary if a change of control occurs prior to the fifth anniversary of the issue, Telesat must make an offer of redemption to all holders of Senior Preferred Shares, and must redeem any Senior Preferred Shares for which the offer of redemption is accepted within 25 days of such offer. As a result, the Senior Preferred Shares have been classified as a liability on the balance sheet.

The holders of the Senior Preferred Shares are not entitled to receive notice of or to vote at any meeting of shareholders of the Company except for meetings of the holders of the Senior Preferred Shares as a class, called to amend the terms of the Senior Preferred Shares, or otherwise as required by law.

16. Capital stock

The authorized capital of the Company is comprised of: (i) an unlimited number of common shares, (ii) an unlimited number of voting participating preferred shares, (iii) an unlimited number of non-voting participating preferred shares, (iv) an unlimited number of redeemable common shares, (v) an unlimited number of redeemable non-voting

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participating preferred shares, (vi) 1000 director voting preferred shares, and (vii) 325,000 senior preferred shares. None of the Redeemable Common Shares or Redeemable Non-Voting Participating Preferred Shares have been issued as at December 31, 2007.

Common Shares

The holders of the Common Shares are entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one vote in respect of each common share held on all matters at all such meetings, except in respect of a class vote applicable only to the shares of any other class, in respect of which the common shareholders shall have no right to vote. The holders of the Common Shares are entitled to receive dividends as may be declared by the Board of Directors of the Company, and are entitled to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in order of priority. The Common Shares are convertible at the holders' option, at any time, into Voting Participating Preferred Shares or Non-Voting Participating Preferred Shares, on a one-for-one basis.

The following table provides the details of the issued and outstanding Common Shares as at December 31, 2007. All amounts are in thousands of Canadian dollars, except the number of shares:

	Common shares	
	Number	Value (\$)
Opening balance, October 31, 2007	1	-
Issued for cash (notes 1 and 3)	35,172,218	311,124
Issued in exchange for contributed assets (notes 1 and 3)	39,080,241	445,290
Ending balance, December 31, 2007	74,252,460	756,414

Voting Participating Preferred Shares

The rights, privileges and conditions of the Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Voting Participating Preferred Shares are not entitled to vote at meetings of the shareholders of the Company on resolutions electing directors.
- For all other meetings of the shareholders of the Company, the holders of Voting Participating Preferred Shares are entitled to a variable number of votes per Voting Participating Preferred Share based on the number of Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares and Redeemable Non-Voting Participating Preferred Shares outstanding on the record date of the given meeting of the shareholders of the Company.
- The Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Non-Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

Non-Voting Participating Preferred Shares

The rights, privileges and conditions of the Non-Voting Participating Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Non-Voting Participating Preferred Shares are not entitled to vote on any matter at meetings of the shareholders of the Company, except in respect of a class vote applicable only to the Non-Voting Participating Preferred Shares.

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- The Non-Voting Participating Preferred Shares are convertible, at any time, at the holders' option into Common Shares or Voting Participating Preferred Shares on a one-for-one basis as long as the result of such conversion does not cause the Company to cease to be a "qualified corporation" within the meaning of the Canadian Telecommunication Common Carrier Ownership and Control Regulations pursuant to the Telecommunications Act (Canada).

Director Voting Preferred Shares

The rights, privileges and conditions of the Director Voting Preferred Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Director Voting Preferred Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company at which directors of the Company are to be elected. The holders of the Director Voting Preferred Shares are not entitled to attend meetings of the shareholders of the Company and have no right to vote on any matter other than the election of directors of the Company.
- The holders of Director Voting Preferred Shares are entitled to receive annual non-cumulative dividends of \$10 per share if declared by the board of directors of the Company, in priority to the payment of dividends on the Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, but after payment of any accrued dividends on the Senior Preferred Shares.
- In the event of liquidation, wind-up or dissolution, the holders of Director Voting Preferred Shares are entitled to receive \$10 per share in priority to the payment of dividends on the Common Shares, Voting Participating Preferred Shares, Non-Voting Participating Preferred Shares, Redeemable Common Shares, and Redeemable Non-Voting Participating Preferred Shares, but after payment of any accrued dividends on the Senior Preferred Shares.
- The Director Voting Preferred Shares are redeemable at the option of the Company, at any time, at a redemption price of \$10 per share.

The following table provides the details of the issued and outstanding preferred shares as at December 31, 2007. All amounts are in thousands of Canadian dollars, except the number of shares:

	Voting Participating		Non-Voting Participating		Director Voting		Total	
	Number	Value (\$)	Number	Value (\$)	Number	Value (\$)	Number	Value (\$)
Opening balance, October 31, 2007	-	-	-	-	-	-	-	-
Issued for cash (note 3)	7,034,444	117,388			1,000	10	7,035,444	117,398
Issued in exchange for contributed assets (note 3)			25,794,025	304,449			25,794,025	304,449
Issued in exchange for the novation of forward contracts from Loral Skynet (note 3)			10,159,799	119,917			10,159,799	119,917
Ending balance, December 31, 2007	7,034,444	117,388	35,953,824	424,366	1,000	10	42,989,268	541,764

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	December 31, 2007
Cash and cash equivalents is comprised of:	
Cash	32,737
Short term investments, original maturity 90 days or less	9,466
	<u>42,203</u>

Changes in operating assets and liabilities are comprised of:

Receivables	(4,718)
Other assets	132,768
Accounts payable	72,380
Income taxes payable	(749)
Other liabilities	7,504
	<u>207,185</u>

Non-cash investing and financing activities are comprised of:

Purchase of satellites, property and other equipment	4,767
Shares issued in exchange for assets contributed (note 3)	869,656

18. Financial instruments

The carrying amounts and fair values of financial instruments were as follows as at:

December 31, 2007

	HFT	Carrying value		Total	Fair value
		AFS	Loans & Receivables		
Financial Assets					
Cash and cash equivalents	42,203	-	-	42,203	42,203
Accounts and notes receivable	-	-	55,299	55,299	55,299
Derivative financial instruments	354	-	-	354	354
Other assets	7,203	-	-	7,203	7,203
	<u>49,760</u>	<u>-</u>	<u>55,299</u>	<u>105,059</u>	<u>105,059</u>

	HFT	Carrying value		Total	Fair value
		Other			
Financial Liabilities					
Accounts payable and accrued liabilities	-	81,221	81,221	81,221	
Customer and other deposits	-	6,291	6,291	6,291	
Debt	-	2,792,575	2,792,575	2,865,116	
Derivative financial instruments	285,872	-	285,872	285,872	
Other liabilities	-	80,928	80,928	80,928	
	<u>285,872</u>	<u>2,961,015</u>	<u>3,246,887</u>	<u>3,319,428</u>	

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Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading (“HFT”) or available-for-sale (“AFS”). For other financial instruments, transaction costs are amortized to net income in interest expense over the expected life of the instrument using the effective interest method.

Unrealized gains and losses on financial assets that are held as available-for-sale are recorded in other comprehensive income until realized, at which time they will be recorded in the Consolidated Statement of Earnings. Available-for-sale equity securities which do not have a quoted market price will continue to be recorded at cost.

Financial assets and financial liabilities that are held-for-trading are measured at fair value with unrealized gains and losses recorded in the Consolidated Statement of Earnings. Derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value on the Consolidated Balance Sheet. Changes in the fair values of derivative instruments are recognized in the Consolidated Statement of Earnings.

We have chosen to account for embedded foreign currency derivatives in a host contract as a single instrument where the contract requires payments denominated in the currency that is commonly used in contracts to procure non-financial items in the economic environment in which we transact.

Telesat uses derivative instruments to manage the exposure to foreign currency risk and interest rate risk, and does not use derivative instruments for speculative purposes.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and short term investments. Investment of these funds is done with high quality financial institutions and is governed by the Company’s corporate investment policy, which aims to reduce credit risk by restricting investments to high-grade US dollar and Canadian dollar denominated investments.

Telesat may be exposed to credit risk if counterparties to its derivative instruments are unable to meet their obligations. It is expected that these counterparties will be able to meet their obligations as they are institutions with strong credit ratings. Telesat regularly monitors the credit risk and credit exposure.

Telesat has a number of diverse customers, which limits the concentration of credit risk. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Anticipated bad debt losses have been provided for in the allowance for doubtful accounts.

Currency exposures

Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites. At December 31, 2007, the Company had \$196.9 million of outstanding foreign exchange contracts which require the Company to pay Canadian dollars to receive US \$198.9 million for future capital expenditures. The fair value of these derivative contract liabilities was an unrealized loss of \$17.5 million. The forward contracts are due between January 1, 2008 and December 1, 2009.

The Company has also entered into a cross currency basis swap to hedge the foreign currency risk on a portion of its US dollar denominated debt. At December 31, 2007, the Company had a cross currency basis swap of \$1,224 million which requires the Company to pay Canadian dollars to receive US \$1,054 million. The fair value of this derivative contract was an unrealized loss of \$262 million.

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Interest rate risk

Telesat uses interest rate swaps to hedge the interest rate risk related to debt financing which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. On November 30, 2007, Telesat entered into a series of five interest rate swaps to fix interest rates on US \$600 million and \$630 million of debt for an average term of 3.2 years. Average rates achieved, before any borrowing spread, were 4.12% on US dollar swaps and 4.35% on Canadian dollar swaps. At December 31, 2007, the fair value of these derivative contract liabilities was an unrealized loss of \$6.4 million.

For the period ended December 31, 2007, none of the derivative financial instruments were designated as hedging instruments.

Fair value

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. Where possible fair values are based on the quoted market values on December 31, 2007, otherwise the discounted cash flow model is used to determine fair value. As at December 31, 2007, cash and cash equivalents and derivative instruments have been valued using quoted market values.

These estimates are affected significantly by the assumptions for the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The carrying amounts for cash and cash equivalents, short term investments, trade receivables, promissory notes receivable, other current liabilities, accounts payable, and debt due within one year approximate fair market value due to the short maturity of these instruments. The fair value of the debt financing is equal to its carrying value, excluding financing charges, due to the short period of time elapsed between the assumption of the debt and December 31, 2007.

19. Stock-based compensation plans

Stock options

Prior to the acquisition of Telesat Canada, as described in note 1, options were granted to key employees of Telesat Canada to purchase BCE common shares. The subscription price is usually equal to the market value of the shares on the last trading day before the grant comes into effect. All of the outstanding options vested with the closing of the acquisition transaction, and must be exercised within 180 days of the transaction or they will be forfeited.

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The following tables are a summary of the status of Telesat's portion of the BCE stock option programs:

	Number of Shares December 31, 2007	Weighted- Average Exercise Price (\$)
Outstanding, beginning of period	411,047	34
Granted	-	-
Exercised	-	-
Expired/forfeited	(4,139)	30
Outstanding, end of period	406,908	34
Exercisable, end of period	406,908	34

Deferred share units (DSUs)

DSUs were granted to executives when they choose to receive their bonuses in the form of DSUs instead of cash. The value of a DSU is always equal to the value of one BCE common share. Dividends in the form of additional DSUs are credited to the participant's account on each dividend payment date and are equivalent in value to the dividend paid on BCE common shares. DSUs are paid in cash when the holder chooses to exercise their units. All of the outstanding options vested with the closing of the acquisition transaction, and must be exercised within 180 days of the transaction or they will be forfeited.

The table below is a summary of the status of the DSUs:

	Number of DSUs December 31, 2007
Outstanding, beginning of period	6,772
Granted	-
Dividends credited	-
Exercised	-
Outstanding, end of period	6,772

20. Employee benefit plans*Telesat Canada*

The Company's funding policy is to make contributions to its pension funds based on various actuarial cost methods as permitted by pension regulatory bodies. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equity securities, fixed income instruments and short-term investments.

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The Company provides certain health care and life insurance benefits for retired employees of the legacy Skynet companies and their dependents. Participants are eligible for these benefits generally when they retire from active service and meet the eligibility requirements for our pension plan. These benefits are funded primarily on a pay-as-you-go basis, with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

The changes in the benefit obligations and in the fair value of assets and the funded status of the defined benefit plans were as follows:

	Telesat Canada Pension Benefits	Canada Other Benefits December 31, 2007	Skynet Other Benefits	Total
Change in benefit obligations				
Benefit obligation, October 31, 2007	159,392	16,631	8,079	184,102
Current service cost	774	79	-	853
Interest cost	1,513	146	-	1,659
Benefit payments	(722)	(70)	(24)	(816)
Plan amendment (early retirement program)	5,703	-	5	5,708
Employee contributions	145	-	87	232
Restructuring	(3,259)	(562)	(58)	(3,879)
Benefit obligation, December 31, 2007	163,546	16,224	8,089	187,859
Change in fair value of plan assets				
Fair value of plan assets, October 31, 2007	176,595	-	-	176,595
Return on plan assets	(2,596)	-	-	(2,596)
Benefit payments	(722)	(70)	(24)	(816)
Employee contributions	145	-	5	150
Employer contributions	35	70	19	124
Fair value of plan assets, December 31, 2007	173,457	-	-	173,457
Funded status	9,911	(16,224)	(8,089)	(14,402)

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The fair value of the Telesat Canada plan assets consists of the following asset categories:

	December 31, 2007
Equity securities	60 %
Fixed income instruments	38 %
Short-term investments	2 %
Total	100 %

Plan assets are valued as at the measurement date of December 31 each year.

The significant weighted-average assumptions adopted in measuring Telesat Canada's pension and other benefit obligations and Skynet's other benefit obligations were as follows:

	Telesat Canada Pension Benefits	Telesat Canada Other Benefits December 31, 2007	Skynet Other Benefits
Accrued benefit obligation			
Discount rate	5.5%	5.5%	6.5%
Rate of compensation increase	3.5%	3.5%	4.3%
Benefit costs for the period ended			
Discount rate	5.5%	5.5%	6.5%
Expected long-term rate of return on plan assets	7.5%	7.5%	8.5%
Rate of compensation increase	3.5%	3.5%	4.3%

For the Telesat Canada plans, for measurement purposes, a 10.5% (drugs) / 4.5% (other) annual rate of increase in the per capita cost of covered health care benefits (the health care cost trend) was assumed for 2007. The drug rate is assumed to gradually decrease to 4.5% over 6 years and remain at that level thereafter. For the Skynet plan, actuarial assumptions to determine the benefit obligation for other benefits as of December 31, 2007, used a health care cost trend rate of 9.5% decreasing gradually to 4.5% by 2014. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

The net benefit expense included the following components:

	Telesat Canada Pension Benefits	Telesat Canada Other Benefits	Skynet Other Benefits	Total
	October 31, 2007 to December 31, 2007			
Current service cost	774	79	-	853
Interest cost	1,513	146	87	1,746
Expected return on plan assets	(2,206)	-	-	(2,206)
Net benefit expense	81	225	87	393

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21. Commitments and contingent liabilities

Off balance sheet commitments include operating leases, commitments for future capital expenditures and other future purchases.

	2008	2009	2010	2011	2012	Thereafter	Total
Off balance sheet commitments	192,402	96,537	23,073	14,749	10,648	55,024	392,433

Certain of the Company's satellite transponders, offices, warehouses, earth stations, vehicles, and office equipment are leased under various terms. Minimum annual commitments under operating leases determined as at December 31, 2007 are: \$32.6 million in 2008, \$23.7 million in 2009, \$21.5 million in 2010, \$13.1 million in 2011, \$8.9 million in 2012, and \$27.0 million thereafter. The aggregate lease expense for the two months ended December 31, 2007 was \$4.5 million. The expiry terms range from February 2008 to July 2016.

Telesat has non-satellite purchase commitments of CAD \$4.4 million or US \$4.5 million, with various suppliers at December 31, 2007. The total outstanding commitments are in US dollars.

Telesat has entered into contracts for the construction and launch of Nimiq 4 (targeted for launch in 2008), the construction of Nimiq 5 (targeted for launch in 2009) and Telstar 11-N (targeted for launch in 2008). The outstanding commitments at December 31, 2007 on these contracts are CAD \$261.2 million or US \$264.3 million. The total outstanding commitments are in US dollars.

Telesat has agreements with various customers for prepaid revenues on several satellites which take effect on final acceptance of the spacecraft. Telesat is responsible for operating and controlling these satellites. Deposits of \$273.3 million, refundable under certain circumstances, are reflected in other liabilities, both current and long-term.

In the normal course of business, Telesat has executed agreements that provide for indemnification and guarantees to counterparties in various transactions. These indemnification undertakings and guarantees may require Telesat to compensate the counterparties for costs and losses incurred as a result of certain events including, without limitation, loss or damage to property, change in the interpretation of laws and regulations (including tax legislation), claims that may arise while providing services, or as a result of litigation that may be suffered by the counterparties.

Certain indemnification undertakings can extend for an unlimited period and may not provide for any limit on the maximum potential amount, although certain agreements do contain specified maximum potential exposure representing a cumulative amount of approximately \$14.9 million. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount Telesat could be required to pay counterparties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, Telesat has not made any significant payments under such indemnifications.

Telesat and Loral have entered into an indemnification agreement whereby Loral will indemnify Telesat for any tax liabilities for taxation years prior to 2007. Likewise, Telesat will indemnify Loral for the settlement of any tax receivables for taxation years prior to 2007.

In August 2001, Boeing, the manufacturer of the Anik F1 satellite, advised Telesat of a gradual decrease in available power on-board the satellite. Telesat filed an insurance claim with its insurers on December 19, 2002, and in March 2004 reached a final settlement agreement. The settlement calls for an initial payment in 2004 of US \$136.2 million and an additional payment of US \$49.1 million in 2007 if the power level on Anik F1 degrades as predicted by the manufacturer. In the event that the power level on Anik F1 is better than predicted, the amount of the payment(s) will be adjusted by applying a formula which is included in the settlement documentation and could result in either a pro-rated payment to Telesat of the additional US \$49.1 million or a pro-rated repayment of up to a maximum of US \$36.1 million to be made by Telesat to the insurers. The initial payment has been received. During December

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2005, a number of insurers elected to pay a discounted amount of the proceeds due in 2007. A discounted value of US\$26.2 million was received from a number of insurance underwriters in December 2005 with US \$20.0 million to be paid by a few insurers in 2007. Telesat submitted its final claim in the fourth quarter of 2007. In January, 2008, certain insurance underwriters indicated disagreement with Telesat's determination of the available power such that the final payment, in the insurers' view, would be approximately US\$2.7 million. In the event Telesat is unable to resolve this disagreement, it fully intends to pursue arbitration. At December 31, 2007, Telesat has not recorded any receivable related to this claim.

22. Related party transactions

Related parties include PSP and Loral, the common shareholders, together with their subsidiaries and affiliates.

The following transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions as at and for the period ended December 31, 2007 were between Telesat and Loral, and subsidiaries and affiliates of Loral.

	December 31, 2007
Service revenues	440
Operations and administration expenses	825
Capital expenditures - Satellites	12,318

The balances with related parties are as follows:

	December 31, 2007
Receivables at year end	3,389
Payables at year end	9,682

23. Reconciliation to US GAAP

Telesat has prepared these consolidated financial statements according to Canadian GAAP. The following tables are a reconciliation of differences relating to the statement of operations and total shareholders' equity reported according to Canadian GAAP and United States GAAP.

Reconciliation of net loss

	December 31, 2007
Canadian GAAP – Net loss	(4,051)
Gains on embedded derivatives ^(a)	774
Sales type lease – operating lease for US GAAP ^(b)	2,748
Capital lease – operating lease for US GAAP ^(b)	(78)
Dividends on senior preferred shares ^(c)	1,695

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Tax effect of above adjustments ^(d)	(976)
Uncertainty in income taxes ^(e)	(2,648)
Impact of future tax rate reduction ^(d)	1,251
United States GAAP – Net loss	(1,285)
Other comprehensive loss items	
Change in currency translation adjustment	(599)
United States GAAP - Comprehensive loss	(1,884)

Accumulated other comprehensive loss

	December 31, 2007
Cumulative translation adjustment	(599)
Accumulated other comprehensive loss	(599)

Reconciliation of total shareholders' equity

	December 31, 2007
Canadian GAAP	1,293,528
Adjustments	
Gains on embedded derivatives ^(a)	774
Sales type lease – operating lease for US GAAP ^(b)	2,748
Capital lease – operating lease for US GAAP ^(b)	(78)
Tax effect of above adjustments ^(d)	(976)
Uncertainty in income taxes ^(e)	(2,648)
Impact of future tax rate reduction ^(d)	1,251
United States GAAP	1,294,599

Description of United States GAAP adjustments

(a) *Embedded derivatives*

The accounting for derivative instruments and hedging activities under Canadian GAAP is now substantially harmonized with U.S. GAAP, with the exception of the accounting for certain embedded derivatives. Under U.S. GAAP an embedded foreign currency derivative in a host contract that is not a financial instrument must be separated and recorded on the balance sheet unless the currency in which payments are to be paid or received is: i) either the functional currency of either party to the contract or ii) the currency for price of the related good or service is routinely denominated in commercial transactions around the world (typically referring to a traded commodity). The same applies to an embedded foreign currency derivative in a host contract under Canadian GAAP except that the entity has the option as a matter of accounting policy to account for the embedded foreign currency derivative in a host contract as a single instrument providing certain criteria are met. One of these criteria is that the payments to be paid or received is in a currency that is commonly used in contracts to purchase or sell such non-financial items in the economic environment in which the transaction takes place. This option under Canadian GAAP results in embedded derivatives that must be recorded separately under U.S. GAAP to not have to be separately recorded and disclosed under Canadian GAAP. The additional option loosens the more stringent U.S. GAAP requirement that the currency be one in which such commercial transactions are denominated around the world to be one that is commonly used in the economic environment in which the transaction takes place.

In accordance with U.S. GAAP, all derivative instruments embedded in contracts are recorded on the balance sheet at fair value. The Company denominates many of its long-term international purchase contracts in U.S.

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dollars resulting in embedded derivatives. This exposure to the U.S. dollar is partially offset by revenue that is also denominated in U.S. dollars. For Canadian GAAP, the Company has elected to account for such contracts as single instruments (as explained above); resulting in a U.S. GAAP reconciling item. At December 31, 2007, the estimated fair value of assets resulting from embedded derivatives is \$52.5 million.

The impact on the statement of earnings of changes in the fair value of these embedded derivatives, for the two month period ended December 31, 2007 is reflected as a gain of \$0.8 million in the U.S. GAAP reconciliation note.

(b) Sales-type and capital leases

Under U.S. GAAP, if the beginning of a lease term falls within the last 25% of a leased asset's total estimated economic life; then it can only be classified as a capital lease if the lease transfers ownership at the end of the lease term or there is a bargain purchase option. This exception does not exist under Canadian GAAP, therefore certain leases are reported as a capital lease and sales-type lease respectively under Canadian GAAP, and as operating leases for U.S. GAAP.

(c) Senior preferred shares

In accordance with U.S. GAAP, the senior preferred shares are classified outside of permanent equity as they are redeemable at the option of the holder. These senior preferred shares are classified as liabilities under Canadian GAAP. This results in a U.S. GAAP reconciling item to reflect the different classification.

(d) Income taxes

The income tax adjustment reflects the impact the United States GAAP adjustments described above have on income taxes.

The tax effect of rate reduction represents the adjustment to future taxes resulting from the application of the fourth quarter rate reduction to the accumulated gains and losses on embedded derivatives and for certain lease transactions classified as operating leases as discussed above.

(e) Uncertainty in income taxes

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, effective for fiscal years beginning after December 15, 2006. FIN 48 provides specific guidance on the recognition, de-recognition and measurement of income tax positions in financial statements, including the accrual of related interest and penalties recorded in interest expense. An income tax position is recognized when it is more likely than not that it will be sustained upon examination based on its technical merits, and is measured as the largest amount that is greater than 50% likely of being realized upon ultimate settlement. Under Canadian GAAP, significant differences may arise as we recognize and measure income tax positions, based on our best estimate of the amount that is more likely than not of being realized.

24. Subsequent events

On January 17, 2008, the Infosat board of directors passed a resolution to approve the sale of the Infosat security business. The proceeds are estimated to be \$1.45 million and will be received in cash. The sale was finalized on February 15, 2008 and was retroactive to February 1, 2008.

On February 13, 2008, Skynet Satellite Corporation entered into an agreement to sell the Hawley facility. The purchase price is estimated to be \$4.25 million USD and will be paid in two parts: \$4 million USD will be received in cash and \$0.25 million USD will be received in service in-kind.

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The lenders under the Senior Bridge Loan have a right, as early as April 28, 2008, to make a securities demand whereby Telesat would issue high yield notes with registration rights, but subject to an interest rate at or below the 11% (12.5% for the Senior Subordinated Bridge Loan) cap in exchange for the Senior Bridge Loan and the Senior Subordinated Bridge Loan. In March 2008, Telesat was advised by its lenders to expect to issue these high yield notes at or below the cap rate on April 30, 2008.