

Telesat Holdings Inc.

Consolidated Financial Statements

For the three and nine month periods ended September 30, 2008

Telesat Holdings Inc.

Consolidated Statements of Earnings

FOR THE PERIOD ENDED SEPTEMBER 30 <i>(in millions of Canadian dollars) (unaudited)</i>	Notes	Three months 2008	Nine months 2008
Operating revenues			
Service revenues		166.6	483.7
Equipment sales revenues		5.6	20.7
Operating revenues	(3)	172.2	504.4
Operating expenses			
Amortization		57.4	173.5
Operations and administration		57.6	176.7
Cost of equipment sales		4.6	16.5
Total operating expenses		119.6	366.7
Earnings from operations		52.6	137.7
Interest expense	(4)	(64.1)	(185.1)
Other expense	(5)	(55.7)	(107.5)
Loss before income taxes		(67.2)	(154.9)
Income tax recovery	(6)	(5.1)	(3.8)
Net loss		(62.1)	(151.1)

Telesat Holdings Inc.

Consolidated Statements of Comprehensive Loss

FOR THE PERIOD ENDED SEPTEMBER 30 <i>(in millions of Canadian dollars) (unaudited)</i>	Three months 2008	Nine months 2008
Net loss	(62.1)	(151.1)
Other comprehensive loss, net of tax:		
Unrealized loss on translation of financial statements of self sustaining foreign operations	(1.8)	(1.8)
Related tax	0.1	0.1
Comprehensive loss	(63.8)	(152.8)

Telesat Holdings Inc.
Consolidated Statements of Shareholders' Equity

FOR THE PERIOD ENDED SEPTEMBER 30

<i>(in millions of Canadian dollars) (unaudited)</i>	Common shares	Preferred Shares	Accumulated deficit	Accumulated other comprehensive loss	Accumulated deficit and Accumulated other comprehensive loss	Total Shareholders' Equity
Balance at January 1, 2008	756.4	541.8	(4.1)	(0.6)	(4.7)	1,293.5
Net loss	-	-	(151.1)	-	(151.1)	(151.1)
Unrealized losses on translation of financial statements of self sustaining foreign operations, net of tax	-	-	-	(1.7)	(1.7)	(1.7)
Balance at September 30, 2008	756.4	541.8	(155.2)	(2.3)	(157.5)	1,140.7

Telesat Holdings Inc.

Consolidated Balance Sheets

<i>(in millions of Canadian dollars) (unaudited)</i>	Notes	September 30, 2008	December 31, 2007
Assets			
Current assets			
Cash and cash equivalents	(12)	51.8	42.2
Accounts receivable		55.3	53.9
Current future tax asset		0.8	2.6
Assets held for sale	(7)	-	4.0
Other current assets		41.4	57.8
Total current assets		149.3	160.5
Satellites, property and other equipment, net	(3),(8)	1,873.9	1,818.6
Other long-term assets		34.5	27.4
Intangible assets, net	(9)	1,051.7	1,092.3
Goodwill	(9)	2,446.6	2,446.6
Total assets		5,556.0	5,545.4
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		50.7	61.6
Other current liabilities		149.0	152.4
Debt due within one year	(10)	21.6	18.4
Total current liabilities		221.3	232.4
Debt financing	(10)	3,060.4	2,775.9
Future tax liability		429.4	439.7
Other long-term liabilities		562.8	662.5
Senior preferred shares		141.4	141.4
Total liabilities		4,415.3	4,251.9
Shareholders' equity			
Common shares (74,252,460 common shares issued and outstanding)		756.4	756.4
Preferred shares		541.8	541.8
Accumulated deficit		(155.2)	(4.1)
Accumulated other comprehensive loss		(2.3)	(0.6)
Total shareholders' equity		1,140.7	1,293.5
Total liabilities and shareholders' equity		5,556.0	5,545.4

Consolidated Statements of Cash Flow

FOR THE PERIOD ENDED SEPTEMBER 30 <i>(in millions of Canadian dollars) (unaudited)</i>	Notes	Three months 2008	Nine months 2008
Cash flows from operating activities			
Net loss		(62.1)	(151.1)
Adjustments to reconcile net loss to cash flows from operating activities:			
Amortization		57.4	173.5
Future income taxes		(6.4)	(9.2)
Unrealized foreign exchange loss		136.5	211.3
Unrealized gain on derivatives		(79.5)	(119.7)
Dividends on preferred shares		2.5	7.4
Other		(6.8)	(30.0)
Customer prepayments on future satellite services		2.8	23.2
Operating assets and liabilities	(12)	43.8	31.1
		88.2	136.5
Cash flows from investing activities			
Satellite programs		(85.2)	(206.9)
Property additions		(2.7)	(6.4)
Insurance proceeds	(8)	-	4.0
Proceeds on disposals of assets		-	4.6
		(87.9)	(204.7)
Cash flows from financing activities			
Debt financing and bank loans		51.0	183.5
Repayment of bank loans and debt financing		(5.8)	(76.6)
Capital lease payments		(22.5)	(27.9)
Satellite performance incentive payments		(0.9)	(2.8)
		21.8	76.2
Effect of changes in exchange rates on cash and cash equivalents		0.7	1.6
Increase in cash and cash equivalents		22.8	9.6
Cash and cash equivalents, beginning of period		29.0	42.2
Cash and cash equivalents, end of period	(12)	51.8	51.8
Supplemental disclosure of cash flow information			
Interest paid		45.6	200.5
Income taxes paid		0.3	1.1
		45.9	201.6

Telesat Holdings Inc.

Notes to Consolidated Financial Statements

*(all amounts in millions of Canadian dollars, except number of shares and where noted)
(unaudited)*

September 30, 2008

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 a result, there is no comparative period to report for the three months and nine months ended September 30, 2008.

The interim consolidated financial statements do not conform in all respects to the requirements of annual financial statements, and should be read in conjunction with Telesat's consolidated financial statements for the two months ended December 31, 2007.

1. Summary of significant accounting policies

The Company has prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") using the same basis of presentation and accounting policies as outlined in notes 1 and 2 to the consolidated financial statements for the two months ended December 31, 2007, except as follows.

On January 1, 2008 the Company adopted the new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook sections 1400 "General Standards on Financial Statement Presentation", 1535 "Capital Disclosures", 3031 "Inventories", 3862 "Financial Instruments - Disclosures", and 3863 "Financial Instruments - Presentation". Sections 1535, 3862 and 3863 have been applied prospectively in note 13 - "Capital disclosures" and note 14 - "Financial instruments". Sections 1400 and 3031 were also applied prospectively; however there was no impact on these financial statements.

CICA Handbook Section 3862, "Financial Instruments – Disclosure" (Section 3862) and Section 3863, "Financial Instruments – Presentation" (Section 3863), replaced Handbook Section 3861, "Financial Instruments - Disclosure and Presentation". The objective of the disclosure requirements of Section 3862 is to provide information about the significance of financial instruments to the Company's financial position and performance, and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

CICA Handbook Section 1535 "Capital Disclosures" specifies the disclosure of an entity's objectives, policies and processes for managing capital and how it is meeting those objectives.

CICA Handbook Section 3031, "Inventories", replaced the old Section 3030, "Inventories". Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also requires, when applicable, the reversal of any write-downs previously recognized.

CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", specifies that Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

Telesat Holdings Inc.**Notes to Consolidated Financial Statements***(all amounts in millions of Canadian dollars, except number of shares and where noted)**(unaudited)***September 30, 2008****2. Acquisitions**

On May 9, 2008, The SpaceConnection Inc. ("SpaceConnection"), a wholly-owned subsidiary of Telesat, completed the acquisition of the assets of Fifth Dimension Television, with the effective date of the agreement being April 1, 2008. The purchase price is based on a profit-sharing arrangement for a percentage of future monthly occasional use revenues collected, as well as a percentage of future margins on certain space only customer contracts, from the effective date of the acquisition until December 31, 2010, and will not exceed \$0.8 million. Profit-sharing payments of \$0.1 million have been expensed as at September 30, 2008.

3. Segmented information

Telesat operates in a single industry segment, in which it provides satellite-based services to broadcast, enterprise and consulting customers around the world.

Revenues are derived from the following service lines:

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Broadcast	81.1	241.6
Enterprise	83.5	242.5
Consulting and Other	7.6	20.3
Total operating revenues	172.2	504.4

Geographic Information

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Revenues – Canada	85.7	253.3
Revenues – United States	57.4	169.9
Revenues – Europe, Middle East, Africa	10.6	31.5
Revenues – Asia	8.2	22.8
Revenues – Latin America	8.6	24.1
Revenues – all others	1.7	2.8
Total operating revenues	172.2	504.4

As at September 30, 2008 and December 31, 2007, the \$2,446.6 million of goodwill was not allocated to geographic regions.

Satellites, property and other equipment by geographic region, based on the location of the asset, are allocated as follows:

	September 30, 2008	December 31, 2007
Satellites, property and other equipment – Canada	1,430.7	1,373.5
Satellites, property and other equipment – United States	433.5	434.6
Satellites, property and other equipment – all others	9.7	10.5
Total satellites, property and other equipment	1,873.9	1,818.6

Telesat Holdings Inc.**Notes to Consolidated Financial Statements***(all amounts in millions of Canadian dollars, except number of shares and where noted)**(unaudited)***September 30, 2008****4. Interest expense**

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Debt service costs	72.5	208.6
Dividends on senior preferred shares	2.5	7.4
Capitalized interest	(10.9)	(30.9)
	64.1	185.1

5. Other expense

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Foreign exchange gain (loss)	(123.6)	(225.8)
Gain on financial instruments	69.2	119.7
Interest income	0.3	1.1
Performance incentive payments and milestone interest expense	(0.8)	(2.6)
Other	(0.8)	0.1
	(55.7)	(107.5)

In May 2008, Skynet Satellite Corporation, a wholly-owned subsidiary of Telesat, sold its Hawley facility. Proceeds on this sale were \$4.1 million and the resulting gain on the sale of \$0.1 million is included in other expense.

In February 2008, Infosat Communications Inc., a wholly-owned subsidiary of Telesat, sold its security division. Proceeds on this sale were \$0.6 million and the resulting gain on the sale of \$0.4 million is included in other expense.

6. Income tax recovery

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:

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Statutory income tax rate	33.0%	33.0%
Permanent differences	(12.4%)	(10.5%)
Effect of future tax rates on temporary differences	(3.1%)	(4.2%)
Change in valuation allowance	(9.5%)	(11.5%)
Other	(0.4%)	(4.3%)
Effective income tax rate	7.6%	2.5%

The components of the income tax expense are as follows:

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Current	1.3	5.4
Future	(6.4)	(9.2)
Total income tax recovery	(5.1)	(3.8)

Telesat Holdings Inc.**Notes to Consolidated Financial Statements***(all amounts in millions of Canadian dollars, except number of shares and where noted)**(unaudited)***September 30, 2008**

7. 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 Telesat, 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 closed on May 1, 2008 with net proceeds of \$4.1 million being received (see Note 5). As of October 31, 2007, these assets were no longer amortized.

8. Satellites, property and other equipment

As at September 30, 2008	Cost	Accumulated amortization	Net book value
Satellites	1,281.3	(138.6)	1,142.7
Earth stations	121.3	(14.7)	106.6
Transponders under capital lease	56.3	(6.4)	49.9
Office buildings and other	34.6	(7.0)	27.6
Construction in progress	547.1	-	547.1
	<hr/> 2,040.6	<hr/> (166.7)	<hr/> 1,873.9

As at December 31, 2007	Cost	Accumulated amortization	Net book value
Satellites	1,285.6	(26.3)	1,259.3
Earth stations	120.2	(4.6)	115.6
Transponders under capital lease	67.1	(1.4)	65.7
Office buildings and other	32.6	(1.5)	31.1
Construction in progress	346.9	-	346.9
	<hr/> 1,852.4	<hr/> (33.8)	<hr/> 1,818.6

In April 2008, SpaceConnection renegotiated the terms of two of its capital leases. The result is a reduction to the cost of transponders under capital lease of \$13.8 million and a reduction to capital lease liabilities of \$14.6 million, and a gain of \$0.5 million reflected in other income (see Note 5).

During the second quarter of 2008 Telesat received \$4.0 million of insurance proceeds on Anik F3. These proceeds reduced the cost of the satellite.

The Nimiq 4 satellite was launched in September 2008 and is included in construction in progress. The Nimiq 4 satellite will be transferred to the satellites category upon final acceptance in October 2008.

Telesat Holdings Inc.**Notes to Consolidated Financial Statements***(all amounts in millions of Canadian dollars, except number of shares and where noted)**(unaudited)***September 30, 2008****9. Goodwill and intangible assets**

As at September 30, 2008:	Cost	Accumulated amortization	Net book value
Finite life intangible assets:			
Revenue backlog	274.5	(35.5)	239.0
Customer relationships	207.7	(11.4)	196.3
Favourable leases	4.6	(1.6)	3.0
Patents	0.1	-	0.1
	486.9	(48.5)	438.4
Indefinite life intangible assets:			
Orbital slots	596.3	-	596.3
Trade name	17.0	-	17.0
Intangible assets	1,100.2	(48.5)	1,051.7
Goodwill	2,446.6	-	2,446.6
Goodwill and intangible assets	3,546.8	(48.5)	3,498.3

As at December 31, 2007:	Cost	Accumulated amortization	Net book value
Finite life intangible assets:			
Revenue backlog	274.5	(5.3)	269.2
Customer relationships	207.7	(2.1)	205.6
Favourable leases	4.3	(0.2)	4.1
Patents	0.1	-	0.1
	486.6	(7.6)	479.0
Indefinite life intangible assets:			
Orbital slots	596.3	-	596.3
Trade name	17.0	-	17.0
Intangible assets	1,099.9	(7.6)	1,092.3
Goodwill	2,446.6	-	2,446.6
Goodwill and intangible assets	3,546.5	(7.6)	3,538.9

10. Debt financing

	September 30, 2008	December 31, 2007
Senior secured credit facilities:		
Revolving facility	-	20.0
The Canadian term loan facility	197.5	200.0
The U.S. term loan facility	1,804.0	1,687.7
The U.S. term loan II facility	154.8	5.8
Senior bridge loan	-	667.8
Senior notes	703.9	-
Senior subordinated bridge loan	-	209.3
Senior subordinated notes	220.6	-
Other debt financing	1.2	3.7
	3,082.0	2,794.3
Current portion	(21.6)	(18.4)
Long term portion	3,060.4	2,775.9

Telesat Holdings Inc.**Notes to Consolidated Financial Statements***(all amounts in millions of Canadian dollars, except number of shares and where noted)**(unaudited)***September 30, 2008**

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 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.

The senior secured credit facilities are secured by substantially all of Telesat's assets.

On June 30, 2008, Telesat exchanged its outstanding US\$692.8 million Senior bridge loan for US\$692.8 million Senior notes. The Senior notes bear interest at a rate of 11.0% and are due November 1, 2015. The Senior notes include covenants or terms that restrict Telesat's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company's satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the Senior notes prior to May 1, 2012, in each case subject to exceptions provided in the Senior notes indenture.

On June 30, 2008, Telesat also exchanged its outstanding US\$217.2 million Senior subordinated bridge loan for US\$217.2 million Senior subordinated notes. The Senior subordinated notes bear interest at a rate of 12.5% and are due November 1, 2017. The Senior subordinated notes include covenants or terms that restrict Telesat's ability to, among other things, (i) incur additional indebtedness, (ii) incur liens, (iii) pay dividends or make certain other restricted payments, investments or acquisitions, (iv) enter into certain transactions with affiliates, (v) modify or cancel the Company's satellite insurance, (vi) effect mergers with another entity, and (vii) redeem the Senior subordinated notes prior to May 1, 2013, in each case subject to exceptions provided in the Senior subordinated notes indenture.

11. Restructuring liabilities

In connection with the acquisition of Telesat Canada and substantially all of the assets of Loral Skynet, restructuring liabilities were recorded on the date of the acquisition for severance amounts to be paid to employees as part of the restructuring. At December 31, 2007, the outstanding restructuring liabilities were \$10.5 million and are expected to be paid by December 2009. During the first nine months of 2008, payments of \$7.5 million were made resulting in an outstanding restructuring liability of \$3.0 million included in accounts payable and accrued liabilities at September 30, 2008. No new restructuring liabilities or adjustments to existing liabilities were recorded in the first nine months of 2008.

12. Cash flow information

	September 30, 2008	December 31, 2007
Cash and cash equivalents is comprised of:		
Cash	26.2	32.7
Short term investments, original maturity 90 days or less	25.6	9.5
	51.8	42.2

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Changes in operating assets and liabilities are comprised of:		
Accounts and notes receivable	(0.6)	0.7
Other assets	4.4	3.7
Accounts payable and accrued liabilities	29.6	(12.8)
Other liabilities	10.4	39.5
	43.8	31.1

Telesat Holdings Inc.

Notes to Consolidated Financial Statements

(all amounts in millions of Canadian dollars, except number of shares and where noted)
(unaudited)

September 30, 2008

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Non-cash investing and financing activities are comprised of:		
Purchase of satellites, property and other equipment	(5.2)	3.0

13. Capital disclosures

Telesat Holdings Inc. is a privately held company. The Company's financial strategy is designed to maintain compliance with its financial covenants under its senior secured credit facility, and to provide adequate returns to its shareholders and other stakeholders. Telesat meets these objectives through its monitoring of its financial covenants and operating results on a quarterly basis.

The Company defines its capital as follows:

	September 30, 2008
Shareholders' equity, excluding accumulated other comprehensive loss	1,143.0
Debt financing	3,082.0
Cash and cash equivalents	51.8

Telesat manages its capital by measuring the financial covenant ratios contained in its senior secured credit agreement (the "credit agreement"), dated October 31, 2007. Compliance with financial covenants is measured on a quarterly basis. As part of the on-going monitoring of Telesat's compliance with its financial covenants, interest rate risk due to variable interest rate debt is managed through the use of interest rate swaps (Note 14), and foreign exchange risk exposure arising from principal and interest payments on Telesat's debt is partially managed through a cross currency basis swap (Note 14). In addition, operating expenses are tracked against budget on a monthly basis, and this analysis is reviewed by senior management. As of September 30, 2008, the Company was subject to two quarterly financial covenant compliance tests: a maximum Consolidated Total Debt to Consolidated Earnings Before Interest, Taxes, and Amortization ("EBITDA") ratio test, and a minimum Consolidated EBITDA to Consolidated Interest Expense ratio test.

As of September 30, 2008, Telesat's Consolidated Total Debt to Consolidated EBITDA ratio, for credit agreement compliance purposes, was 7.07:1, which was less than the maximum test ratio of 9.50:1. The Consolidated EBITDA to Consolidated Interest Expense ratio, for credit agreement compliance purposes was 1.72:1 which was greater than the minimum test ratio of 1.20:1. These test ratios are constant for the 2008 financial year, but generally become more restrictive over the remaining life of the credit agreement, which terminates in October, 2014.

For the quarter ending March 31, 2009, the Consolidated Total Debt to Consolidated EBITDA ratio test becomes 9.25:1, and the ratio test generally becomes more restrictive over the life of the credit agreement, such that for the period beginning October 1, 2013, the ratio test is a maximum of 5.50:1. For the quarter beginning April 1, 2009, the minimum Consolidated EBITDA to Consolidated Interest Expense ratio is 1.25:1, and the ratio test generally becomes more restrictive over the life of the credit agreement, such that for the quarter beginning July 1, 2014 the minimum test ratio is 1.95:1.

Telesat Holdings Inc.**Notes to Consolidated Financial Statements***(all amounts in millions of Canadian dollars, except number of shares and where noted)**(unaudited)***September 30, 2008****14. Financial 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 September 30, 2008, otherwise the discounted cash flow model is used to determine fair value. As at September 30, 2008, cash and cash equivalents and derivative instruments have been valued using quoted market values.

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 the market value excluding financing charges considering market interest rates at September 30, 2008.

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

September 30, 2008

	Carrying value			Total	Fair value
	Held for trading	Available for sale	Loans & receivables		
Financial Assets					
Cash and cash equivalents	51.8	-	-	51.8	51.8
Accounts receivable	-	-	55.3	55.3	55.3
Derivative financial instruments	1.7	-	-	1.7	1.7
Other assets	7.7	-	2.1	9.8	9.8
	61.2	-	57.4	118.6	118.6

	Carrying value			Fair value
	Held for trading	Other	Total	
Financial liabilities				
Accounts payable and accrued liabilities	-	50.7	50.7	50.7
Debt	-	3,081.4	3,081.4	2,788.3
Derivative financial instruments	186.1	-	186.1	186.1
Other liabilities	-	114.4	114.4	114.4
	186.1	3,246.5	3,432.6	3,139.5

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

(all amounts in millions of Canadian dollars, except number of shares and where noted)
(unaudited)

September 30, 2008

December 31, 2007

	Carrying value			Total	Fair value
	Held for trading	Available for sale	Loans & Receivables		
Financial Assets					
Cash and cash equivalents	42.2	-	-	42.2	42.2
Accounts receivable	-	-	55.3	55.3	55.3
Derivative financial instruments	0.4	-	-	0.4	0.4
Other assets	7.2	-	-	7.2	7.2
	49.8	-	55.3	105.1	105.1

	Carrying value			Total	Fair value
	Held for trading	Other	Total		
Financial liabilities					
Accounts payable and accrued liabilities	-	81.2	81.2		81.2
Debt	-	2,792.6	2,792.6		2,865.1
Derivative financial instruments	285.9	-	285.9		285.9
Other liabilities	-	87.2	87.2		87.2
	285.9	2,961.0	3,246.9		3,319.4

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of September 30, 2008.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, short term investments, derivative assets, other assets and accounts receivable. At September 30, 2008, the maximum exposure to credit risk is equal to the carrying value of our financial assets, \$118.6 million (December 31, 2007 - \$105.1 million), as listed above.

Cash and cash equivalents and short term investments are invested with high quality investment grade financial institutions and are governed by the Company's corporate investment policy, which aims to reduce credit risk by restricting investments to high-grade 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 with respect to accounts receivable. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Telesat's standard payment terms are 30 days. Interest at a rate of 1.5% per month, compounded monthly, is typically charged on balances remaining unpaid at the end of the standard payment terms. Our historical experience with customer defaults has been minimal. As a result, we consider the credit quality of our North American customers to be high; however due to the additional complexities of collecting from our International customers we consider the credit quality of our International customers to be lower than our North American customers. At September 30, 2008, North American and International customers made up 68% and 32% of the outstanding trade receivables balance, respectively.

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

(all amounts in millions of Canadian dollars, except number of shares and where noted)

(unaudited)

September 30, 2008

Anticipated bad debt losses have been provided for in the allowance for doubtful accounts. The allowance for doubtful accounts at September 30, 2008 was \$4.4 million (December 31, 2007 - \$4.3 million). A reconciliation of the allowance for doubtful accounts is as follows:

AS AT AND FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Balance, January 1, 2008	4.3	4.3
Provision for receivables impairment	0.4	0.4
Receivables written off during the period as uncollectible	(0.3)	(0.3)
Balance, September 30, 2008	4.4	4.4

Foreign exchange risk

The Company's operating results are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in currencies other than Canadian dollars. The most significant impact of variations in the exchange rate is on the US dollar denominated debt financing. At September 30, 2008, approximately \$2,801 million of the \$3,082 million total debt financing (see Note 10) is the Canadian dollar equivalent of the US dollar denominated portion of the debt.

Telesat uses forward contracts to hedge foreign currency risk on anticipated transactions, mainly related to the construction of satellites. At September 30, 2008, the Company had \$88.4 million of outstanding foreign exchange contracts which require the Company to pay Canadian dollars to receive US \$84.8 million for future capital expenditures. At September 30, 2008, the fair value of these derivative contract liabilities was an unrealized gain of \$1.6 million (December 31, 2007 - \$17.5 million unrealized loss). This non-cash gain will remain unrealized until the contracts are settled. These forward contracts are due between October 20, 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. Telesat uses natural hedges to manage the foreign exchange risk on operating cash flows. At September 30, 2008, the Company had a cross currency basis swap of \$1,215 million which requires the Company to pay Canadian dollars to receive US \$1,046.1 million. At September 30, 2008, the fair value of this derivative contract was an unrealized loss of \$159.9 million (December 31, 2007 - \$262 million). This non-cash loss will remain unrealized until the contract is settled. This contract is due on October 31, 2014.

The Company's main currency exposures as at September 30, 2008 lie in its US dollar denominated cash and cash equivalents, accounts receivable, accounts payable and debt financing.

A five percent weakening of the Canadian dollar against the US dollar at September 30, 2008 would have decreased the net income and other comprehensive income for the three months by \$9.8 million and \$0.1 million, respectively, and increased the net loss and other comprehensive loss by \$169.9 million and \$1.1 million, respectively, for the nine months ended September 30, 2008. A five percent strengthening of the Canadian dollar against the US dollar at September 30, 2008 would have increased the net income and other comprehensive income for the three months by \$9.3 million and \$0.1 million, respectively, and decreased the net loss and other comprehensive loss by \$161.8 million and \$1.0 million, respectively, for the nine months ended September 30, 2008. This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents and its long term debt which is primarily variable rate financing. Changes in the interest rates could impact the amount of interest Telesat is required to pay. Telesat uses interest rate swaps to hedge the interest rate risk related to variable rate debt financing. At September 30, 2008, the fair value of these derivative contract liabilities was an unrealized loss of \$26.2 million (December 31, 2007 - \$6.4 million). This non-cash loss will remain unrealized until the contracts are settled. These contracts are due between January 31, 2010 and November 28, 2011.

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If the interest rates on our unhedged variable rate debt change by 0.25% this would result in a change in the net loss of approximately \$0.6 million and \$3.0 million for the three months and nine months ended September 30, 2008, respectively.

Liquidity risk

The Company maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements. The following are the contractual maturities of financial liabilities as at September 30, 2008:

	Carrying amount	Contractual cash flows	2008	2009	2010	2011	2012	After 2012
Accounts payable and accrued liabilities	50.7	50.7	50.7	-	-	-	-	-
Customer and other deposits	6.2	6.2	4.6	1.6	-	-	-	-
Other liabilities	108.2	108.2	69.3	3.8	3.6	3.0	2.3	26.2
Derivative financial instruments	186.1	186.1	-	-	8.3	17.9	-	159.9
Long term debt	3,081.4	3,167.4	8.0	30.3	35.2	110.2	100.2	2,883.5
	<u>3,432.6</u>	<u>3,518.6</u>	<u>132.6</u>	<u>35.7</u>	<u>47.1</u>	<u>131.1</u>	<u>102.5</u>	<u>3,069.6</u>

15. Stock-based compensation plans*BCE stock options*

There were no outstanding options at September 30, 2008 under the BCE stock option programs. All previously outstanding options expired on April 30, 2008.

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

	Number of shares September 30, 2008	Weighted- average exercise price (\$)
Outstanding, January 1, 2008	406,908	34
Granted	-	-
Exercised	(264,853)	30
Expired/forfeited	(142,055)	41
Outstanding, September 30, 2008	-	-
Exercisable, September 30, 2008	-	-

Telesat Holdings stock options

On September 19, 2008, Telesat adopted a stock incentive plan for certain key employees of the Company and its subsidiaries. The plan provides for the grant of up to 8,824,646 options to purchase non-voting participating preferred shares of Telesat Holdings Inc., convertible into common shares, and stock appreciation rights (SARs).

Two different types of stock options can be granted under the plan: time-vesting options and performance-vesting options. The time-vesting options become vested and exercisable over a five year period by 20% increments on each of

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the first five anniversaries of the date of grant, however the initial 2008 grants will begin vesting on the later of October 31, 2007 and the date the employee was first employed by the Company or its subsidiaries. The performance-vesting options become vested and exercisable over a five year period starting March 31, 2009, provided that the Company has achieved or exceeded an annual or cumulative target consolidated EBITDA established and communicated on the grant date by the Board of Directors.

Certain participants may receive tandem SARs, which accompany options and have an exercise price equal to the exercise price of the granted option. The tandem SAR constitutes an unfunded and unsecured promise of the Company to provide a combination of shares and cash, at the time the tandem SAR is exercised, equal in value to the excess, if any, of the fair market value per share over the exercise price of the tandem SAR. The amount that will be settled in cash is limited to the employee's minimum mandatory statutory withholdings tax due on stock compensation. The tandem SAR vests, is exercisable and terminates at the same time and under the same conditions as the granted option. Only the option or the tandem SAR, and not both, may be exercised.

The exercise periods of the share options and the tandem SARs expire ten years from the grant date. The exercise price of each share underlying the options will be the higher of a fixed price, established by the Board of Directors on the grant date, and the fair market value of a non-voting participating preferred share on the grant date.

The Company is currently in the process of valuing the options. The impact of the stock option plan on the quarter is not expected to be significant. Once the valuation is complete, the Company will account for the stock options using the fair value based method of accounting in accordance with CICA Handbook Section 3870.

BCE deferred share units (DSUs)

There were no outstanding deferred share units at September 30, 2008 under the BCE DSU program. All of the outstanding deferred share units expired on April 30, 2008.

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

	Number of DSUs September 30, 2008
Outstanding, January 1, 2008	6,772
Granted	-
Dividends credited	65
Payments	(6,837)
Outstanding, September 30, 2008	-

16. Employee benefit plans

The net benefit expense included:

	Three months			Nine months		
	Telesat Canada		Skynet	Telesat Canada		Skynet
	Pension benefits	Other benefits	Other benefits	Pension benefits	Other benefits	Other benefits
FOR THE PERIOD ENDED SEPTEMBER 30, 2008						
Current service cost	1.0	0.1	-	3.0	0.3	-
Interest cost	2.3	0.3	0.1	6.9	0.7	0.3
Expected return on plan assets	(3.2)	-	-	(9.6)	-	-
Net benefit plans cost	0.1	0.4	0.1	0.3	1.0	0.3

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17. Related party transactions

In addition to the related party transactions disclosed at December 31, 2007, on January 11, 2008, Telesat entered into an option agreement with Loral Space and Communications Inc. ("Loral"), one of its shareholders, whereby Telesat has the option to cause Loral to assign to Telesat their rights and obligations with respect to a portion of the ViaSat-1 satellite payload providing coverage into Canada. This option expires on October 31, 2009. This related party transaction is not in the normal course of operations and has been accounted for at carrying value. The carrying value of the orbital slot license is nominal and therefore no value has been assigned to Telesat's option. At September 30, 2008, Telesat had not exercised this option.

18. Commitments and contingencies

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	75.2	127.8	31.9	18.8	14.0	60.2	327.9

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 September 30, 2008 are: \$8.0 million in 2008, \$24.9 million in 2009, \$20.1 million in 2010, \$17.0 million in 2011, \$12.2 million in 2012, and \$30.0 million thereafter.

Telesat has non-satellite purchase commitments of CAD \$20.2 million or US \$19.1 million, with various suppliers at September 30, 2008 (December 31, 2007 CAD \$4.4 million or US \$4.5 million). The US dollar commitments outstanding at September 30, 2008 are \$18.9 million in US dollars.

Telesat has entered into contracts for the construction and launch of Nimiq 4 (launched in September 2008), the construction of Nimiq 5 (targeted for launch in 2009) and Telstar 11-N (targeted for launch in late 2008). The outstanding commitments at September 30, 2008 on these contracts are CAD \$195.5 million or US \$184.4 million (December 31, 2007 - CAD \$261.2 million or US \$264.3 million). The total outstanding commitments at September 30, 2008 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 \$277.8 million (December 31, 2007 - \$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 \$19.0 million (December 31, 2007 - \$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.

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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 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\$2.4 million. In July 2008, Telesat received a final settlement of \$2.0 million from certain insurers. Claims with other insurers, for a value of US\$18.0 million, remain unresolved. In the event Telesat is unable to resolve this disagreement, it intends to pursue arbitration. At September 30, 2008, Telesat has not recorded any receivable related to this claim.

19. Reconciliation to accounting principles generally accepted in the United States of America ("U.S. 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 U.S. GAAP.

Reconciliation of net income (loss)

FOR THE PERIOD ENDED SEPTEMBER 30	Three months 2008	Nine months 2008
Canadian GAAP – Net loss	(62.1)	(151.1)
Gains on embedded derivatives ^(a)	2.3	6.6
Sales type lease – operating lease for U.S.GAAP ^(b)	4.3	12.8
Capital lease – operating lease for U.S. GAAP ^(b)	(1.7)	(5.8)
Lease amendments ^(c)	(0.1)	(0.8)
Dividends on senior preferred shares ^(d)	2.5	7.4
Tax effect of above adjustments ^(e)	(1.4)	(4.2)
Tax difference – enacted for U.S. GAAP ^(e)	0.6	-
Uncertainty in income tax ^(f)	0.2	1.6
U.S. GAAP – Net loss	(55.4)	(133.5)
Other comprehensive loss items		
Change in currency translation adjustment	(1.7)	(1.7)
U.S. GAAP – Comprehensive loss	(57.1)	(135.2)

Accumulated other comprehensive loss

	September 30, 2008	December 31, 2007
Cumulative translation adjustment	(2.3)	(0.6)
Accumulated other comprehensive loss	(2.3)	(0.6)

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	September 30, 2008	December 31, 2007
Canadian GAAP	1,140.7	1,293.5
Adjustments		
Gains on embedded derivatives ^(a)	7.4	0.8
Sales type lease – operating lease for U.S. GAAP ^(b)	15.5	2.7
Capital lease – operating lease for U.S. GAAP ^(b)	(5.9)	(0.1)
Lease amendment ^(c)	(0.8)	-
Tax effect of above adjustments ^(c)	(3.9)	0.3
Tax difference – enacted for U.S. GAAP ^(c)	-	-
Uncertainty in income taxes ^(f)	(1.0)	(2.6)
U.S. GAAP	1,152.0	1,294.6

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 that the 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 are 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. dollars resulting in embedded derivatives. This exposure to the U.S. dollar is partially offset by revenue contracts that are 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 September 30, 2008, the estimated fair value of assets resulting from embedded derivatives is \$41.9 million (December 31, 2007 - \$35.3 million).

The impact on the statement of operations of changes in the fair value of these embedded derivatives, for the three months and nine months ended September 30, 2008 is reflected as a gain of \$2.3 million and \$6.6 million, respectively, 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.

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(c) Lease amendments

Under Canadian GAAP, when amendments to the provisions of a capital lease agreement result in a change in lease classification from a capital lease to an operating lease, the gain or loss that results from removing the capital lease from the balance sheet is immediately recognized in the statement of earnings. Under U.S. GAAP, if removing the capital lease from the balance sheet results in a loss it is recognized in the statement of earnings immediately; however if it results in a gain it is deferred and recognized over the remaining term of the lease. Therefore, an adjustment has been made to defer the gain that has been recognized under Canadian GAAP.

(d) 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.

(e) Income taxes

The income tax adjustment reflects the impact the United States GAAP adjustments described above have on income taxes. The impact on the statement of operations of the income tax adjustment for the three months and nine months ended September 30, 2008 is an expense of \$1.3 million and \$3.7 million, respectively. This is offset by the tax effect of rate reduction that represents the adjustment to future taxes resulting from the application of the first quarter rate reduction to the accumulated gains and losses on embedded derivatives and for certain lease transactions classified as operating leases as discussed above. The impact on the statement of operations of the tax effect of rate reduction for the three months and nine months ended September 30, 2008 is an expense of \$nil and \$0.5 million, respectively.

Both of the above income tax adjustments are reflected in the line "Tax effect of above adjustments" in the U.S. GAAP reconciliation note.

The tax difference for enacted rates represents the difference between the substantively enacted income tax rate and the enacted income tax rate. Under U.S. GAAP, the enacted income tax rate must be applied whereas under Canadian GAAP, the substantively enacted income tax rate is used.

(f) 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.