

Management's Discussion and Analysis for the First Quarter Ended March 31, 2004

This management's discussion and analysis (MD&A) of the financial condition and results of operations focuses on the results of operations and financial situation of Telesat Canada and its subsidiaries for the first quarter ended March 31, 2004. This MD&A should be read in conjunction with the unaudited consolidated financial statements for the same period. Additional information about Telesat can be found on the Telesat website at www.telesat.ca and on SEDAR at www.sedar.com. All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Certain sections of this MD&A contain forward-looking statements with respect to Telesat Canada which, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Telesat assumes no obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason. Factors that could cause actual results or events to differ materially from current expectations are discussed under Risk factors.

Significant events

Telesat has developed a new VSAT service called iMpACT, supported by a DIRECWAY hub purchased from Hughes Network Systems, Inc., to be launched early in the second quarter. The service will allow Telesat to satisfy the increasing demand from business customers for greater bandwidth, enabling a variety of high speed, multi-media applications at affordable prices, anywhere in Canada.

Telesat entered into an agreement with ViaSat for the provision of the gateway earth stations and terminals for commercial and consumer Ka-band services on the Anik F2 satellite.

During the quarter, Telesat was presented with the 2004 Frost & Sullivan Regional Satellite Operator Award. Telesat earned this distinction for its strategy and product innovation, which have given the company a competitive advantage over both regional and global operators. Frost & Sullivan, a global growth consulting firm, recognizes top companies around the world for their leadership, strategy, development and innovation.

In March Telesat finalized an agreement with the Anik F1 insurers. Coincident with this agreement, Telesat recorded a reduction in the value of the satellite of CAD \$180.1 million.

On March 30th, Telesat signed a contract with Astrium for construction of the Anik F3 satellite. Anik F3, to be available for service in the second half of 2006, will feature communications payloads in three different frequency bands: C-band, Ku-band and a small Ka-band payload.

On March 31st, Telesat signed a contract with Lockheed Martin Commercial Launch Services for the launch of the Anik F3 satellite on a Russian Proton rocket.

FINANCIAL RESULTS ANALYSIS

Operating revenues

First quarter consolidated operating revenues increased \$4.7 million or 6% to \$83.9 million compared with the same period last year. Telecommunications revenues increased by \$1.4 million for the first quarter compared to the same period in 2003 due to the additional revenues generated by the Nimiq 2 satellite and higher revenues from South America, partially offset by lower revenues from business networks and telecommunications carriers. Telecommunications equipment sale revenues decreased by \$0.5 million to \$0.6 million for the first quarter of 2004 compared to the same period in 2003, mainly as a result of a significant digital video compression sale to the CBC in the first quarter of 2003.

Total International and consulting programs revenues increased by \$1.6 million to \$5.1 million for the first quarter of 2004, due to a worldwide increase in satellite programs. Total Infosat revenues increased by \$2.3 million to \$8.7 million for the first quarter of 2004 due to additional revenues from QuickLink, an Alberta based satellite access provider offering communications services that was acquired by Infosat during the fourth quarter of 2003, and to increases in sales of the High Speed Internet service. Other revenues decreased \$0.1 million in the first quarter of 2004 when compared to the same period in 2003.

Operating expenses

Amortization expense was \$21.6 million for the first quarter of 2004, an increase of \$4.3 million or 25% compared to the same quarter last year. This increase is attributable to the amortization on Anik E2R, which went into service in June 2003 as a replacement for Anik E2, and was partially offset by lower amortization on Anik F1. Anik E2 was fully amortized by December 2002. Coincident with the settlement of the Anik F1 insurance claim, the value of the satellite has been reduced. This transaction, along with the reversal of a portion of the performance incentive payments liability against the cost of the satellite in 2003 (see Other expense (income) section of the annual MD&A for 2003), resulted in lower Anik F1 amortization in 2004.

Operations and administration expenses increased \$1.1 million or 4% to \$30.8 million for the first quarter of 2004 compared with the same period of 2003. This increase is largely attributable to direct billable expenses related to the increase in Infosat revenues.

Earnings from operations

Earnings from operations were \$31.5 million for the first quarter and were \$0.7 million or 2% lower than the comparable period in 2003. This decrease is essentially due to higher amortization.

Other expense (income)

Interest expense was \$7.2 million for the first quarter compared to \$7.4 million for the same period in 2003. This decrease is mostly due to lower debt levels.

Other income was \$5.8 million for the first quarter compared to \$10.4 million for the same period in 2003. The decrease of \$4.6 million is attributable to the 2003 foreign exchange gains, with no corresponding item in 2004 as Telesat hedged most of the liabilities early in the first quarter.

Net earnings applicable to common shares

Unaudited consolidated net earnings applicable to common shares of \$19.1 million (\$2.79 per share) for the first quarter of 2004 decreased \$3.0 million or 14% from the comparable period in 2003. Lower earnings from operations and lower foreign exchange gains, partially offset by lower taxes, were largely responsible for this decrease.

LIQUIDITY AND CAPITAL RESOURCES

Telesat's liquidity requirements are largely as outlined in the yearly MD&A. In addition to finalizing the construction of Anik F2 (scheduled for launch in the summer of 2004), Telesat has under construction Anik F1R and Anik F3. In 2004, the Company's capital expenditures and working capital requirements will be met primarily from cash flow from operations, the Anik F1 insurance proceeds, customer prepayments for future services, a partial repayment on the TMI promissory notes and revolving credit facilities.

As at March 31, 2004, the unused availability under the revolving credit facility and the Export Development Canada financing was \$176.5 million, compared to \$176.0 million as at December 31, 2003.

Cash flows from operating activities for the first quarter of 2004 were \$51.6 million compared with \$45.6 million in 2003, an increase of \$6.0 million or 13%.

Cash flows used in investing activities for the first quarter of 2004 were \$15.9 million compared to \$31.3 million in 2003. The cash was used for the Anik F2 and Anik F1R satellite construction programs (\$48.7 million in 2004, compared to \$25.6 million in 2003), other property additions (\$4.7 million in 2004 compared to \$6.6 million in 2003) and E2R lease payments (\$5.4 million in 2004). Cash generated by the 2004 insurance proceeds for Anik F1 (\$42.9 million) partially offset the uses listed above and compares to \$0.9 million of payments and deposits received in 2003.

Cash flows from financing activities for the first quarter of 2004 were used to pay down bank loans (\$1.0 million) and for payments on the Company's office building and satellite incentive payments (\$1.0 million). During the same period, the Company received customer prepayments of \$11.5 million. For the first quarter of 2003, the Company received \$4.8 million in customer prepayments. Funds were used to repay \$13.1 million on the bank loans and to make payments on the Company's office building and for satellite incentive payments (\$0.9 million).

Credit ratings

Telesat's ability to access the debt capital markets and the rate of interest paid by Telesat under its bank credit facility are largely dependent on the Company's credit ratings. Telesat is rated by Standard and Poor's and Dominion Bond Rating Service Limited; both agencies have rated the Company investment grade at BBB-.

A major factor that could impact the Company's credit ratings is the success or failure of the upcoming Anik F2 launch and deployment.

Contractual obligations

Telesat has entered into agreements with satellite manufacturers and launch providers as part of the Anik F2, F1R and F3 satellite construction programs, and with insurers for Anik F2. Note 8 to the consolidated financial statements contains the amount of these commitments. Telesat expects that cash flow from operations, the Anik F1 insurance proceeds and the credit facility will be sufficient to meet these needs.

Liquidity requirements and Related party transactions

These requirements and transactions are substantially unchanged from what was reported in the annual MD&A.

CHANGES TO ACCOUNTING STANDARDS AND POLICIES

As reported in the 2003 annual MD&A, Telesat has adopted as of January 1, 2004 the following CICA pronouncements: Handbook section 3063, *Impairment of long-lived assets*, Handbook section 3110, *Asset retirement obligations* and Accounting Guideline 13, *Hedging relationships*. In accordance with the requirements under the Asset retirement obligation (ARO) section, Telesat recorded an ARO asset and liability of \$0.2 million. The cumulative expense for the amortization of the asset and accretion on the liability of \$0.3 million for years prior to 2004 was recorded as an adjustment to the opening retained earnings for 2004, with offsets to the ARO liability, ARO asset and to the future tax liability.

Historically, Telesat has never segregated its assets and liabilities between current and non-current. Satellites and investments (non-current in nature) represent approximately 93% of total assets and it was management's view that the additional disclosure in Handbook section 1510 was not necessary to provide a reader with a reasonable understanding of the Company's financial position. However, amendments to Handbook section 1100, Generally accepted accounting principles, now state that every primary source of GAAP that deals with the accounting and reporting in financial statements should be applied, effective for fiscal years beginning on or after October 31, 2003. Effective for the first quarter of 2004, Telesat is now reporting its balance sheet with the current and non-current segregation.

RISK FACTORS

A risk is the possibility that an event might happen in the future that could have a negative effect on the financial condition of the Company. For a complete discussion of risk factors please see the annual MD&A for the fiscal year ending December 31, 2003, which was filed concurrently with the Annual Information Form on March 10, 2004. Other than an update, as disclosed below, to the *Satellite risks* section of the annual MD&A with respect to Anik F1 and Anik F2, there have been no significant changes to these factors (including the sections concerning *Business risks and competition*, *Foreign exchange risk* and *Government regulations*).

Satellite risks

Anik F1 and Anik F1R

In August 2001, the manufacturer of the Anik F1 satellite advised Telesat of a gradual decline in power on the satellite. Following a lengthy investigation of the anomaly, it indicated that power will continue to decline at the rates observed to date. Telesat believes that this will affect some of the satellite's core services in 2005. Telesat has a satellite under construction, Anik F1R, which is expected to replace Anik F1 in time to ensure that service to its customers will not be interrupted. There is no assurance that Telesat will be able to get launch and in-orbit insurance coverage for the Anik F1R satellite, or that if it does get coverage, that it will be for the full value of the satellite or at a favourable rate.

Telesat has insurance in place to cover the power loss on Anik F1 and filed a claim with its insurers in December 2002. In March 2004 Telesat and its insurers 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 to be included in the settlement documentation which would 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. It is expected that all of the initial payment will be received by the end of the second quarter 2004.

Anik F2

Telesat has another satellite under construction, Anik F2. The manufacturer has delayed delivery of this satellite, and more recently, the launch service provider has indicated that there is potential for a launch delay. Telesat is currently leasing a satellite to cover these delays. In addition, Telesat is making arrangements for the use of another satellite to cover potential further delays or a potential launch failure of Anik F2. Delays beyond those currently anticipated could require Telesat to refund prepayments to customers and result in additional costs.

Telesat currently has commitments for insurance coverage for approximately 70% of the satellite's projected book value which expire on August 31, 2004. Telesat is continuing its efforts to obtain additional insurance coverage. However, it is likely that Telesat will launch without full value coverage. In the event that Telesat is unable to obtain any additional coverage, the net impact of a launch failure could result in a potential after tax accounting loss estimated to be in the range of \$95 million to \$100 million. In the event that the launch of Anik F2 is delayed beyond August 31, 2004, there is no assurance that Telesat will be able to get launch insurance coverage for the Anik F2 satellite, or that if it does get coverage, that it will equate to the existing commitments or be at a favourable rate.

Nimiq 1 and Nimiq 2

Telesat carries in-orbit insurance on Nimiq 1 and Nimiq 2. Nimiq 1 is insured for its book value. Telesat expects to renew the in-orbit insurance for Nimiq 1 in 2004, but there is no assurance that it will be able to obtain coverage or, if it does, that it will be for the full value of the satellite or at a favourable rate.

The accompanying statements for the quarters ended March 31, 2004 and 2003 have not been subjected to a review by the Company auditors.

Telesat Canada
Consolidated Statement of Earnings
(unaudited)

(in millions of dollars, except per share amounts)	Notes	Three months to March 31	
		2004	2003
Operating revenues	(2)	83.9	79.2
Operating expenses			
Amortization		21.6	17.3
Operations and administration		30.8	29.7
		52.4	47.0
Earnings from operations	(2)	31.5	32.2
Other expense (income)			
Interest expense		7.2	7.4
Other income	(3)	(5.8)	(10.4)
		1.4	(3.0)
Earnings before income taxes		30.1	35.2
Income taxes		10.5	12.6
Net earnings		19.6	22.6
Dividends on preferred shares		0.5	0.5
Net earnings applicable to common shares		19.1	22.1
Basic and diluted net earnings per common share		2.79	3.24

Consolidated Statement of Retained Earnings
(unaudited)

(in millions of dollars)		Three months to March 31	
		2004	2003
Balance at beginning of period, as previously reported		316.4	246.3
Adjustment for change in accounting policies	(1)	(0.3)	-
Balance at beginning of period, as restated		316.1	246.3
Net earnings		19.6	22.6
Dividends on preferred shares		(0.5)	(0.5)
Balance at end of period		335.2	268.4

Telesat Canada
Consolidated Balance Sheet
(unaudited)

(in millions of dollars)	Notes	March 31 2004	December 31 2003
Assets			
Current assets			
Cash and cash equivalents		47.3	2.1
Receivables		164.2	32.8
Other current assets		26.1	25.4
Total current assets		237.6	60.3
Capital assets, net		999.6	1,147.3
Other long-term assets	(4)	39.0	32.5
Goodwill - Infosat Telecommunications Inc.		16.5	16.5
Total assets		1,292.7	1,256.6
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		39.2	28.7
Other current liabilities		100.0	101.4
Debt due within one year	(5)	67.2	68.1
Total current liabilities		206.4	198.2
Long-term debt	(6)	314.6	315.0
Net future tax liability		111.9	112.9
Other long-term liabilities	(7)	165.3	154.9
Total liabilities		798.2	781.0
Shareholders' equity			
Capital stock - common shares		111.9	111.9
Contributed surplus		0.3	0.2
Retained earnings		335.2	316.4
Cumulative translation adjustments		(2.9)	(2.9)
Total common equity		444.5	425.6
Capital stock - preferred shares		50.0	50.0
Total shareholders' equity		494.5	475.6
Total liabilities and shareholders' equity		1,292.7	1,256.6

Telesat Canada
Consolidated Statement of Cash Flows
(unaudited)

(in millions of dollars)	Three months to March 31	
	2004	2003
Cash flows from operating activities		
Net earnings	19.6	22.6
Items not affecting cash:		
Amortization	21.6	17.3
Capitalized interest	(5.7)	(5.2)
Future income taxes	(0.8)	1.0
Unrealized foreign exchange	0.8	(6.4)
Other	16.1	16.3
	<u>51.6</u>	<u>45.6</u>
Cash flows from investing activities		
Satellite programs	(48.7)	(25.6)
Property additions	(4.7)	(6.6)
E2R capital lease payments	(5.4)	-
Insurance proceeds	42.9	-
Payment and deposits on transponders	-	0.9
	<u>(15.9)</u>	<u>(31.3)</u>
Cash flows from financing activities		
Increase (decrease) of bank loans	(1.0)	(13.1)
Office buildings financing	(0.5)	(0.6)
Satellite performance incentive payments	(0.5)	(0.3)
Customer prepayments on future satellite services	11.5	4.8
	<u>9.5</u>	<u>(9.2)</u>
Increase (decrease) in cash and cash equivalents	45.2	5.1
Cash and cash equivalents, beginning of period	2.1	8.2
Cash and cash equivalents, end of period	<u>47.3</u>	<u>13.3</u>

Telesat Canada
Notes to Consolidated Financial Statements
(unaudited)

The interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2003. Figures in these notes are unaudited. All amounts are in Canadian dollars unless otherwise indicated.

1. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies as outlined in Note 1 to the annual consolidated financial statements for the year ended December 31, 2003, except as noted below:

Effective January 1, 2004 Telesat implemented CICA Handbook section 3110, *Asset retirement obligations* (ARO). Liabilities related to the legal obligations of retiring property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time or to the amount of the original estimate of the undiscounted cash flows. The cumulative amortization expense for the asset and accretion expense for the liability of \$0.3 million for years prior to 2004 were recorded as an adjustment to the opening retained earnings for 2004, with offsets to the ARO liability, ARO asset and to the future tax liability.

Telesat is now reporting its balance sheet using a current and non-current segregation for the various components.

Telesat has also adopted CICA Handbook section 3063, *Impairment of long-lived assets*, and Accounting Guideline 13, *Hedging relationships*. There is currently no impairment of long-lived assets and all outstanding hedges that previously qualified for hedge accounting continue to qualify.

2. Segmented information

The Company's business segments have been segregated based on the way that management organizes the business for making operating decisions and assessing performance. The following summary briefly describes the operations included in each reportable segment:

- **Telecommunications** - most activities are accounted for in this category which includes television transmit and receive services, occasional use, bundled Digital Video Compression, radio and carrier industry services, business networks (Anikom, VSAT, DirecPC) and the results from the Brazilian subsidiary.
- **Telecommunications - equipment sales** - equipment sales associated with the various services outlined in the Telecommunications segment.
- **International and consulting programs** - all consulting services related to space and earth segments, government studies, satellite control services, R&D projects as well as management services for TMI Communications and Company, Limited Partnership.
- **International and consulting- equipment sales** - equipment sales related to the International and Consulting Programs segment.
- **Infosat** - mobile and fixed satellite services for voice, fax, paging and data communications.
- **Infosat - equipment sales** - equipment sales associated with the Infosat services.
- **Other** - operations and maintenance for Iridium TTAC stations and the related space segment.

Telesat Canada
Notes to Consolidated Financial Statements
(unaudited)

Business segments	Three months to March 31	
	2004	2003
(in millions of dollars)		
Total revenues		
Telecommunications	69.1	67.7
Telecommunications - equipment sales	0.6	1.1
International and consulting programs	5.1	3.5
Infosat	5.5	4.1
Infosat - equipment sales	3.2	2.3
Other	0.4	0.5
	83.9	79.2
Earnings from operations		
Telecommunications	28.0	29.9
Telecommunications - equipment sales	0.5	0.5
International and consulting programs	1.6	1.1
Infosat	0.4	-
Infosat - equipment sales	0.7	0.4
Other	0.3	0.3
	31.5	32.2
Revenues by products and services		
Broadcast services	47.9	46.6
Business network services	22.9	21.1
Carrier services	6.4	7.2
International and consulting services	6.7	4.3
	83.9	79.2

3. Other income	Three months to March 31	
(in millions of dollars)	2004	2003
Capitalized interest	(5.7)	(5.2)
Interest Income	(0.2)	(0.2)
Gain on disposal of assets	-	(0.2)
Performance incentive payments interest expense	0.4	0.7
Foreign exchange (gain) loss	0.1	(5.1)
Other	(0.4)	(0.4)
	(5.8)	(10.4)

Telesat Canada
Notes to Consolidated Financial Statements
(unaudited)

As at March 31, 2004 and as at December 31, 2003

4. Other long-term assets

(in millions of dollars)	2004	2003
Investments	15.6	15.6
Notes and deferred receivables	13.4	5.7
Accrued pension benefit	6.3	6.6
Deferred charges	3.0	4.1
Other	0.7	0.5
39.0	32.5	

5. Debt due within one year

(in millions of dollars)	2004	2003
Bank loans	48.0	49.0
EDC loan	16.8	16.8
Office buildings and other	2.4	2.3
67.2	68.1	

6. Long-term debt

(in millions of dollars)	2004	2003
7.4% notes due June 28, 2006	150.0	150.0
8.2% Notes due November 7, 2008	125.0	125.0
EDC loan	28.2	27.9
Office buildings and other	11.4	12.1
314.6	315.0	

7. Other long-term liabilities

(in millions of dollars)	2004	2003
Deferred revenues and deposits	136.9	125.0
Deferred satellite performance incentive payments	12.8	13.0
Deferred milestone payments	8.3	8.3
Capital lease liability	1.6	1.8
Other	5.7	6.8
165.3	154.9	

Telesat Canada
Notes to Consolidated Financial Statements
(unaudited)

8. Contractual obligations, commercial commitments and contingencies

During the first quarter of 2003, Telesat entered into contracts with a satellite manufacturer and launch provider for the Anik F1R spacecraft required to replace Anik F1 in late 2005. During the first quarter of 2004, Telesat also entered into contracts for Anik F3, targeted for launch in 2006. The outstanding commitments at March 31, 2004 on these contracts and the existing contracts for the construction and launch of the Anik F2 satellite are US \$391.4 million or CAD \$517.3 million (December 2003 : US \$257.2 million or CAD \$337.4 million).

Telesat has entered into agreements with various customers for the sale and /or lease of a number of transponders on the Anik F2 satellite which take effect on final acceptance of the spacecraft. Telesat shall be responsible for operating and controlling the satellite. Deposits and accrued interest of \$183.8 million at March 31, 2004 (December 31, 2003 - \$172.3 million), refundable under certain circumstances, are reflected in other liabilities.

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 of 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 \$34.6 million (December 31, 2003 - \$33.9 million). The nature of substantially all of the indemnification undertakings prevents us 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. In the past, Telesat has not made any payments under such indemnifications.

One of Telesat's major customers is disputing the application of the contribution levy, a service surcharge on telecommunications revenues used to subsidize local telephone service in Canada, on certain invoices and has not paid \$3.8 million (December 31, 2003 - \$3.7 million). The Company is pursuing various avenues in order to enforce payment.

In August 2001, Boeing, the manufacturer of the Anik F1 satellite, advised Telesat of a gradual decrease in available power on-board the satellite. As a result of this anomaly, it is possible that certain core services on the satellite could be affected in 2005. 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 to be included in the settlement documentation which would 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. It is expected that all of the initial payment will be received by the end of the second quarter 2004.

On February 20, 2003, Telesat's Nimiq 2 experienced a malfunction affecting the available power on the spacecraft. The satellite is currently generating sufficient power to operate 26 of the 32 transponders. Telesat finalized a claim for US \$49.8 million and received CAD \$34.6 million of its portion of the insurance proceeds with the other fifty percent paid to Bell ExpressVu.