

*Management's Discussion and Analysis for the Third Quarter Ended September 30, 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 ("Telesat") and its subsidiaries for the third quarter ended September 30, 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](http://www.telesat.ca) and on SEDAR at [www.sedar.com](http://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's Anik F2 satellite, launched on July 17<sup>th</sup>, successfully completed its in-orbit testing, and satellite control was passed to Telesat on September 30<sup>th</sup>. All traffic was then transferred from Anik E2R to Anik F2, without incident. The satellite, operating in geostationary orbit at 111.1° WL, will provide service for at least 15 years. During the month of September, Anik F2 was in the 118.7° WL orbital location where Telesat was able to bring into use its full Ka-band network. The testing involved linking a gateway earth station in Ottawa with remote stations running a wide range of applications that will be used for consumer services.

With the successful deployment of Anik F2, a multi-million dollar Ku-band capacity agreement with EchoStar Satellite L.L.C. became effective. The multi-year contract for channels on Anik F3 included a prepayment fee of US \$50 million (CAD \$65.3 million) which was received during the quarter.

During the quarter, the DIRECTV 3 satellite was co-located with Telesat's Nimiq 1 satellite at the 91° WL orbital position to provide backup and high power operations for Direct-to-Home services. This satellite has been renamed Nimiq 3 and Telesat will assume its station-keeping control early in 2005.

Telesat's international consulting business remains strong. During the quarter, the Company was selected to support the Nigerian National Space Agency in satellite proposal evaluations for its Nigcomsat-1 program. In addition, the Cooperation Council of the Arab States of the Gulf has selected Telesat to help it specify and procure an earth observation satellite.

Telesat has been selected as the prime vendor for an interactive distance learning network ("IDL") for Canada, the U.S., Mexico and Europe. The program requires construction of

a new uplink facility in Macomb, MI; space segment over two continents; and the procurement, installation and maintenance of over 8,000 integrated IP receiver/IDL control units.

In September the World Teleport Association released its annual ranking of the top teleport operating companies worldwide which identified the world's leading commercial operators of satellite ground segment by size in terms of total revenue from all services. Telesat was ranked 4<sup>th</sup> in this survey.

Telesat was also selected as one of Canada's Top 100 Employers, based on a national survey conducted by Mediacorp. Canada Inc., and published in the October 4<sup>th</sup> edition of Maclean's magazine.

## ***FINANCIAL RESULTS ANALYSIS***

### ***Operating revenues***

Consolidated operating revenues increased \$7.2 million or 9% to \$91.1 million for the third quarter of 2004 and \$14.5 million or 6% to \$260.0 million for the first nine months of 2004, compared with the same periods last year. Telecommunications revenues of \$71.6 million increased by \$2.5 million for the third quarter compared to the same period in 2003, and telecommunications revenues of \$211.3 million increased \$3.7 million in 2004 on a year-to-date basis. These increases were due to greater broadcast revenues from direct to home services and South American revenues, partially offset by lower business networks (mainly VSAT networks) and telecommunications carrier revenues. Telecommunications equipment sale revenues of \$0.2 million decreased by \$1.9 million for the third quarter compared to 2003, and decreased by \$2.4 million in 2004 on a year-to-date basis as a result of a significant digital video compression sale and higher VSAT sales in 2003.

Total International and consulting programs revenues increased by \$1.3 million to \$6.2 million for the third quarter of 2004 and by \$3.7 million to \$16.2 million for the first nine months of 2004, due to a worldwide increase in satellite programs. Total Infosat revenues increased by \$5.3 million to \$12.7 million for the third quarter of 2004 and by \$9.6 million for the first nine months of 2004, mainly due to higher service usage for the HSi shared internet services product, higher dedicated private customer networks hardware sales, and additional revenues from QuickLink, an Alberta based satellite access provider offering communications services that was acquired by Infosat during the fourth quarter of 2003.

### ***Operating expenses***

Amortization expense was \$19.5 million for the third quarter of 2004, compared to \$22.5 million for the third quarter last year. This decrease is due to lower amortization on Anik F1 and on Nimiq 2. Coincident with the settlement of the Anik F1 insurance claim in 2004, the cost of the satellite was reduced. This transaction, along with the reversal of a portion of the Anik F1 performance incentive payments liability against the cost of the satellite in 2003 (see the Other expense (income) section of the annual MD&A for 2003),

resulted in lower Anik F1 amortization. The cost of the Nimiq 2 satellite was reduced in the third quarter of 2003 with the receipt of insurance proceeds, thereby reducing the amortization on the satellite. On a year-to-date basis, amortization of \$61.0 million was \$1.3 million higher in 2004. The 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 and Nimiq 2 in 2004.

Operations and administration expenses decreased \$0.9 million or 3% to \$31.9 million for the third quarter of 2004 compared with the same period of 2003. The decrease was mainly attributable to a one-time reduction of the allowance for doubtful accounts, lower agent fees for the satellite network maintenance service in the United States, partially offset by higher cost of sales from Infosat. The year-to-date operations and administration expenses for 2004 decreased \$0.2 million to \$94.2 million compared with 2003.

#### ***Earnings from operations***

Earnings from operations were \$39.7 million for the third quarter and were \$11.1 million or 39% higher than the comparable period in 2003. This increase is essentially due to higher revenues and lower operating costs in the quarter. Earnings from operations for the first nine months of 2004 of \$104.8 million were \$13.4 million higher than the same period in 2003 with the increase being attributed to higher revenues.

#### ***Other expense (income)***

Interest expense of \$6.2 million for the third quarter compared to \$8.9 million for the same period in 2003. This decrease is mostly due to lower debt levels in 2004 as the insurance proceeds received on Anik F1 were used to pay down a loan from Export Development Canada (EDC) and bank loans. Interest expense for the first nine months of 2004 of \$20.4 million was \$2.7 million lower than the same period in 2003, again due to lower debt levels.

Other income was \$4.2 million for the third quarter compared to \$6.2 million for the same period in 2003 with the \$2.0 million decrease being attributable to foreign exchange gains recognized in 2003 compared to foreign exchange losses in 2004 and to lower capitalized interest. Other income was \$14.8 million for the first nine months of 2004, compared with \$25.9 million for the same period last year and the \$11.1 decrease is a result of the 2003 foreign exchange gains. Telesat hedged most of its liabilities early in the first quarter of 2004; however, there remain some receivables that cannot be hedged.

#### ***Net earnings applicable to common shares***

Unaudited consolidated net earnings applicable to common shares of \$23.5 million (\$3.43 per share) for the third quarter of 2004 and \$62.1 million (\$9.07 per share) for the first nine months of 2004 increased \$7.6 million and \$2.9 million, respectively (or 48% and 5% respectively), from the comparable periods in 2003. These increases were caused by the higher earnings from operations and lower interest expense, partially offset by lower other income and higher income taxes.

## ***LIQUIDITY AND CAPITAL RESOURCES***

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 of the promissory notes owing by TMI Communications and Company, Limited Partnership and revolving credit facilities.

As at September 30, 2004, the unused availability under the revolving credit facility was \$124.5 million, compared to \$176.0 million as at December 31, 2003. On June 5, 2004 the total availability was reduced to \$125 million from \$225 million in accordance with the existing loan agreement.

Cash flows from operating activities for the first nine months of 2004 were \$137.8 million compared with \$116.4 million in 2003, an increase of \$21.4 million or 18%. This increase was largely due to the higher earnings from operations combined with lower debt service costs and capitalized interest.

Cash flows used in investing activities for the first nine months of 2004 were \$24.8 million compared to \$66.9 million in 2003. During 2004, cash was used for the Anik F3 (commenced in 2004), Anik F2 and Anik F1R satellite construction programs (\$179.9 million in 2004 compared to \$81.4 million in 2003), other property additions (\$13.1 million in 2004 compared to \$8.7 million in 2003) and Anik E2R lease payments (\$11.2 million in 2004 for a full nine months compared to \$9.6 million in 2003 for four months). Cash was generated by the receipt of insurance proceeds for the claim on Anik F1 in 2004 (\$179.4 million) and for the insurance claim on Nimiq 2 in 2003 (\$31.9 million), and from the 2003 payments and deposits on transponders for Anik F2 (\$0.9 million).

For the first nine months of 2004, cash was used to pay down bank loans (\$48.9 million), the EDC financing (\$45.0 million), the Company's office building debt and satellite incentive payments liabilities (\$2.7 million) and pay preferred dividends (\$0.9 million). During the same period, the Company received customer prepayments of \$121.6 million and repayments on notes receivable of \$5.4 million. For the first nine months of 2003, the Company received \$20.7 million in customer prepayments and \$46.7 million in EDC financing. Funds were used to repay \$108.5 million on the bank loans, to make payments on the Company's office building and for satellite incentive payments (\$2.6 million) and for preferred dividends (\$1.0 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-.

***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 not 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 updates, as disclosed below, to the *Satellite risks* section of the annual MD&A with respect to Anik F1, Anik F2 and Anik F3, and with respect to the section *Business risks and competition*, there have been no significant changes to these factors (including the sections concerning *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 mid to late 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 obtain launch and in-orbit insurance coverage for the Anik F1R satellite, or that if it does obtain coverage, that it will be for the full value of the satellite or at a favourable rate.

Telesat had 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 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 and the power continues to degrade as predicted.

#### *Anik F2*

On July 17, 2004, Telesat launched Anik F2, which successfully entered commercial service, following commissioning and testing, in October 2004. Telesat has three years of in-orbit insurance coverage, expiring July 2007, for approximately 70% of the Anik F2 satellite's book value. In the event of a total failure of the satellite, the after-tax accounting loss is estimated at \$105 - \$110 million.

#### *Nimiq 1 and Nimiq 2*

Telesat carries in-orbit insurance on Nimiq 1 and Nimiq 2. Nimiq 1 is insured for its book value until the second quarter of 2005. Following a partial failure and a successful insurance claim on Nimiq 2 in 2003, Telesat arranged for in-orbit insurance for approximately 50% of the residual value of Nimiq 2. There is no assurance that Telesat will be able to obtain future coverage or, if it does, that it will be for the values of the satellite(s) as stated above or at a favourable rate.

#### *Anik F3*

Telesat has signed a contract with Astrium for construction of the Anik F3 satellite. Anik F3 will be available for service in the second half of 2006. There is no assurance that Telesat will be able to obtain launch and in-orbit insurance coverage for the Anik F3

satellite, or that if it does get coverage, that it will be for the full value of the satellite or at a favourable rate.

***Business risks and competition***

The Company's primary business activities (broadcast, telecommunications and carrier services) have been largely dedicated to the Canadian domestic market. This market is characterized by increasing competition and rapid technological development. In September 2004, Ciel Satellite Group ("Ciel"), received provisional authority from Industry Canada to operate a broadcast satellite at 129° WL. Ciel, which includes SES Americom as a partner, has announced that it expects to begin satellite operations before August 2005. Telesat is facing competition from U.S. based operators who may have greater financial resources than Telesat and, together with Ciel, could capture a larger market share than that currently anticipated by Telesat. Telesat has mitigated the impact of this competition by signing the majority of its Canadian customers to long-term contracts prior to March 1, 2000.

**The accompanying statements for the quarters ended September 30, 2004 and 2003 have not been subjected to a review by the Company auditors.**

**Telesat Canada**  
**Consolidated Statements of Earnings**  
**(unaudited)**

(in millions of dollars, except per share amounts)	Notes	Three months to September 30		Nine months to September 30	
		2004	2003	2004	2003
<b>Operating revenues</b>	(2)	<b>91.1</b>	83.9	<b>260.0</b>	245.5
Operating expenses					
Amortization		<b>19.5</b>	22.5	<b>61.0</b>	59.7
Operations and administration		<b>31.9</b>	32.8	<b>94.2</b>	94.4
		<b>51.4</b>	55.3	<b>155.2</b>	154.1
<b>Earnings from operations</b>	(2)	<b>39.7</b>	28.6	<b>104.8</b>	91.4
Other expense (income)					
Interest expense		<b>6.2</b>	8.9	<b>20.4</b>	23.1
Other income	(3)	<b>(4.2)</b>	(6.2)	<b>(14.8)</b>	(25.9)
		<b>2.0</b>	2.7	<b>5.6</b>	(2.8)
<b>Earnings before income taxes</b>		<b>37.7</b>	25.9	<b>99.2</b>	94.2
Income taxes		<b>13.7</b>	9.5	<b>35.7</b>	33.5
<b>Net earnings</b>		<b>24.0</b>	16.4	<b>63.5</b>	60.7
Dividends on preferred shares		<b>0.5</b>	0.5	<b>1.4</b>	1.5
<b>Net earnings applicable to common shares</b>		<b>23.5</b>	15.9	<b>62.1</b>	59.2
Basic and diluted net earnings per common share		<b>3.43</b>	2.32	<b>9.07</b>	8.65

**Consolidated Statements of Retained Earnings**  
**(unaudited)**

(in millions of dollars)	Three months to September 30		Nine months to September 30	
	2004	2003	2004	2003
Balance at beginning of period, as previously reported	<b>354.5</b>	289.5	<b>316.4</b>	246.3
Adjustment for change in accounting policies (1)	-	-	<b>(0.3)</b>	-
<b>Balance at beginning of period, as restated</b>	<b>354.5</b>	289.5	<b>316.1</b>	246.3
Net earnings	<b>24.0</b>	16.4	<b>63.5</b>	60.7
Dividends on preferred shares	<b>(0.5)</b>	(0.5)	<b>(1.4)</b>	(1.5)
Other	<b>(0.1)</b>	-	<b>(0.3)</b>	(0.1)
<b>Balance at end of period</b>	<b>377.9</b>	305.4	<b>377.9</b>	305.4

**Telesat Canada**  
**Consolidated Balance Sheets**  
**(unaudited)**

(in millions of dollars)	Notes	September 30 2004	December 31 2003
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		144.6	2.1
Receivables		56.5	23.6
Current future tax asset		2.4	5.4
Other current assets		26.4	25.4
<b>Total current assets</b>		<b>229.9</b>	56.5
Capital assets, net		1,166.4	1,147.3
Other long-term assets	(4)	42.2	41.7
Goodwill - Infosat Telecommunications Inc.		16.5	16.5
<b>Total assets</b>		<b>1,455.0</b>	1,262.0
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		38.4	28.7
Other current liabilities		126.0	101.4
Debt due within one year	(5)	2.5	68.1
<b>Total current liabilities</b>		<b>166.9</b>	198.2
Long-term debt	(6)	285.4	315.0
Future tax liability		121.8	118.3
Other long-term liabilities	(7)	343.5	154.9
<b>Total liabilities</b>		<b>917.6</b>	786.4
<b>Shareholders' equity</b>			
Capital stock - common shares		111.9	111.9
Contributed surplus		0.5	0.2
Retained earnings		377.9	316.4
Cumulative translation adjustments		(2.9)	(2.9)
Total common equity		487.4	425.6
Capital stock - preferred shares		50.0	50.0
<b>Total shareholders' equity</b>		<b>537.4</b>	475.6
<b>Total liabilities and shareholders' equity</b>		<b>1,455.0</b>	1,262.0

**Telesat Canada**  
**Consolidated Statements of Cash Flows**  
**(unaudited)**

(in millions of dollars)	Three months to September 30		Nine months to September 30	
	<b>2004</b>	2003	<b>2004</b>	2003
<b>Cash flows from operating activities</b>				
Net earnings	<b>24.0</b>	16.4	<b>63.5</b>	60.7
Items not affecting cash:				
Amortization	<b>19.5</b>	22.5	<b>61.0</b>	59.7
Capitalized interest	<b>(4.8)</b>	(6.5)	<b>(15.3)</b>	(17.2)
Future income taxes	<b>6.7</b>	1.2	<b>7.3</b>	4.6
Unrealized foreign exchange	<b>(0.9)</b>	1.0	<b>0.2</b>	(10.1)
Other	<b>5.4</b>	3.7	<b>21.1</b>	18.7
	<b>49.9</b>	38.3	<b>137.8</b>	116.4
<b>Cash flows from investing activities</b>				
Satellite programs	<b>(52.5)</b>	2.1	<b>(179.9)</b>	(81.4)
Property additions	<b>(4.0)</b>	(1.9)	<b>(13.1)</b>	(8.7)
E2R capital lease payments	<b>(2.5)</b>	(5.8)	<b>(11.2)</b>	(9.6)
Insurance proceeds	-	31.9	<b>179.4</b>	31.9
Payment and deposits on transponders	-	-	-	0.9
	<b>(59.0)</b>	26.3	<b>(24.8)</b>	(66.9)
<b>Cash flows from financing activities</b>				
Increase (decrease) of bank loans	<b>(0.1)</b>	(73.7)	<b>(48.9)</b>	(108.5)
EDC financing	-	-	<b>(45.0)</b>	46.7
Note repayment	-	-	<b>5.4</b>	-
Office buildings financing	<b>(0.6)</b>	(0.7)	<b>(1.7)</b>	(1.9)
Satellite performance incentive payments	<b>(0.3)</b>	(0.2)	<b>(1.0)</b>	(0.7)
Customer prepayments on future satellite services	<b>70.7</b>	14.8	<b>121.6</b>	20.7
Preferred dividends paid	<b>(0.4)</b>	(0.5)	<b>(0.9)</b>	(1.0)
	<b>69.3</b>	(60.3)	<b>29.5</b>	(44.7)
Increase (decrease) in cash and cash equivalents	<b>60.2</b>	4.3	<b>142.5</b>	4.8
Cash and cash equivalents, beginning of period	<b>84.4</b>	8.7	<b>2.1</b>	8.2
<b>Cash and cash equivalents, end of period</b>	<b>144.6</b>	13.0	<b>144.6</b>	13.0

## 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 basis of presentation and accounting policies as outlined in Note 1 to the annual consolidated financial statements for the year ended December 31, 2003, except as noted below:

Some of the figures for the comparative period have been reclassified in the consolidated financial statements to make them consistent with the current period's presentation.

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)**

<b>Business segments</b>	Three months to September 30		Nine months to September 30	
	<b>2004</b>	2003	<b>2004</b>	2003
(in millions of dollars)				
<b>Total revenues</b>				
Telecommunications	<b>71.6</b>	69.1	<b>211.3</b>	207.6
Telecommunications - equipment sales	<b>0.2</b>	2.1	<b>1.7</b>	4.1
International and consulting programs	<b>5.7</b>	4.9	<b>15.7</b>	12.3
International and consulting - equipment sales	<b>0.5</b>	-	<b>0.5</b>	0.2
Infosat	<b>7.3</b>	4.5	<b>17.7</b>	12.7
Infosat - equipment sales	<b>5.4</b>	2.9	<b>11.8</b>	7.2
Other	<b>0.4</b>	0.4	<b>1.3</b>	1.4
	<b>91.1</b>	83.9	<b>260.0</b>	245.5

**Earnings from operations**

Telecommunications	<b>35.2</b>	24.4	<b>94.6</b>	82.9
Telecommunications - equipment sales	-	0.6	<b>0.4</b>	1.3
International and consulting programs	<b>1.8</b>	2.2	<b>4.7</b>	4.2
Infosat	<b>1.3</b>	0.3	<b>1.7</b>	0.4
Infosat - equipment sales	<b>1.1</b>	0.9	<b>2.5</b>	1.7
Other	<b>0.3</b>	0.2	<b>0.9</b>	0.9
	<b>39.7</b>	28.6	<b>104.8</b>	91.4

**Revenues by products and services**

Broadcast services	<b>50.6</b>	48.9	<b>148.0</b>	144.2
Business network services	<b>28.8</b>	24.3	<b>74.5</b>	68.0
Carrier services	<b>6.8</b>	6.0	<b>20.0</b>	19.2
International and consulting services	<b>4.9</b>	4.7	<b>17.5</b>	14.1
	<b>91.1</b>	83.9	<b>260.0</b>	245.5

**3. Other expense (income)**

	Three months to September 30		Nine months to September 30	
	<b>2004</b>	2003	<b>2004</b>	2003
(in millions of dollars)				
Capitalized interest	<b>(4.8)</b>	(6.5)	<b>(15.3)</b>	(17.2)
Interest income	<b>(0.5)</b>	(0.1)	<b>(1.2)</b>	(0.5)
Gain on disposal of assets	-	-	-	(0.2)
Performance incentive payments interest expense	<b>0.3</b>	0.6	<b>1.1</b>	2.0
Foreign exchange (gain) loss	<b>1.1</b>	(1.1)	<b>1.5</b>	(10.5)
Other	<b>(0.3)</b>	0.9	<b>(0.9)</b>	0.5
	<b>(4.2)</b>	(6.2)	<b>(14.8)</b>	(25.9)

**Telesat Canada**  
**Notes to Consolidated Financial Statements**  
**(unaudited)**

**As at September 30, 2004 and as at December 31, 2003**

**4. Other long-term assets**

(in millions of dollars)	<b>2004</b>	2003
Investments	<b>15.6</b>	15.6
Notes and deferred receivables	<b>15.0</b>	5.7
Promissory notes receivable	<b>3.8</b>	9.2
Accrued pension benefit	<b>6.5</b>	6.6
Deferred charges	<b>1.0</b>	4.1
Other	<b>0.3</b>	0.5
	<b>42.2</b>	41.7

**5. Debt due within one year**

(in millions of dollars)	<b>2004</b>	2003
Bank loans	-	49.0
EDC loan	-	16.8
Office buildings and other	<b>2.5</b>	2.3
	<b>2.5</b>	68.1

**6. Long-term debt**

(in millions of dollars)	<b>2004</b>	2003
7.4% notes due June 28, 2006	<b>150.0</b>	150.0
8.2% notes due November 7, 2008	<b>125.0</b>	125.0
EDC loan	-	27.9
Office buildings and other	<b>10.4</b>	12.1
	<b>285.4</b>	315.0

**7. Other long-term liabilities**

(in millions of dollars)	<b>2004</b>	2003
Deferred revenues and deposits	<b>248.6</b>	125.0
Deferred satellite performance incentive payments	<b>11.5</b>	13.0
Deferred milestone payments	<b>72.7</b>	8.3
Capital lease liabilities	<b>1.0</b>	1.8
Other	<b>9.7</b>	6.8
	<b>343.5</b>	154.9

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**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 the construction and launch of Anik F3, targeted for launch in 2006. The outstanding commitments at September 30, 2004 on these contracts and the existing contracts for the construction and launch of the Anik F2 satellite are US \$240.9 million or CAD \$307.9 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 \$311.5 million at September 30, 2004 (December 31, 2003 - \$172.3 million), refundable under certain circumstances, are reflected in other liabilities.

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 \$4.1 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 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.

**9. Employee benefit plans**

The table below shows the components of net benefit plans cost.

(in millions of dollars)	Pension benefits		Other benefits	
	2004	2003	2004	2003
Current service cost	2.4	2.3	0.3	0.3
Interest cost	5.9	5.5	0.6	0.5
Expected return on plan assets	(7.2)	(6.5)	-	-
Amortization of net actuarial (gain)/loss	-	0.5	-	-
Amortization of transitional obligation	(1.1)	(1.1)	0.4	0.5
<b>Net benefit plans cost</b>	<b>-</b>	<b>0.7</b>	<b>1.3</b>	<b>1.3</b>

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**As at September 30, 2004 and 2003**

**10. Stock-based compensation plans**

**BCE Inc. stock options**

The table below is a summary of the status of Telesat's portion of BCE stock option programs at September 30, 2004.

	Number of shares	Weighted- average exercise price (\$)
Outstanding, beginning of year	418,457	31
Granted	152,776	30
Exercised	(10,375)	17
Expired/forfeited	(27,175)	36
<b>Outstanding, September 30, 2004</b>	<b>533,683</b>	<b>31</b>
<b>Exercisable, September 30, 2004</b>	<b>265,953</b>	<b>32</b>

**Assumptions used in stock-option pricing model**

The table below shows the assumptions used in determining the stock-based compensation expense using the Black-Scholes pricing model.

<b>For the nine months ended September 30, 2004</b>	<b>2004</b>	2003
Compensation cost (\$ millions)	<b>0.3</b>	0.1
Number of stock options granted	<b>152,776</b>	134,512
Weighted-average fair value per option granted (\$)	<b>3.0</b>	6.0
Assumptions:		
Dividend yield	<b>4.0%</b>	3.6%
Expected volatility	<b>27%</b>	30%
Risk-free interest rate	<b>3.1%</b>	4.0%
Expected life (years)	<b>3.5</b>	4.5