



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the Year Ended December 31, 2004

This Management's Discussion and Analysis contains statements and other forward looking information including, but not limited to, the Corporation's financial guidance for 2005, potential future circumstances, results and developments. Such statements and information are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally and may differ materially from the Corporation's actual future results or events. Factors which could cause results or events to differ from current expectations include, among other things: the rapid and significant changes in technology and industry participants in the remote communications industry, frequent new product and service introductions, completion of acquisitions and the integration of any acquired business into the Corporation's business and operations, changing or evolving customer requirements, increasing competitiveness in the industry and general industry and global economic conditions. For additional information with respect to certain of these risks or factors, reference should be made to the Corporation's continuous disclosure materials filed with Canadian Securities Regulatory Authorities.

The Corporation disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

Reported in U.S. dollars unless otherwise stated.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with both the Corporation's Audited Consolidated Financial Statements and related notes thereto as at and for the years ended December 31, 2004 and 2003, (the "Consolidated Financial Statements"). Financial data presented in the MD&A has been prepared in accordance with Canadian Generally Accepted Accounting Principles. A reconciliation to United States Generally Accepted Accounting Principles is presented in Note 21 to the Corporation's Consolidated Financial Statements as at and for the years ended December 31, 2004 and 2003.

This MD&A has been prepared as at February 3, 2005.

Additional information regarding the Corporation, including copies of the Corporation's continuous disclosure materials filed with Canadian securities regulatory authorities, such as the Corporation's annual information form, is available on the Corporation's website at www.stratosglobal.com or through the SEDAR website at www.sedar.com.

Overall Corporate Performance

Overview of the Business

Stratos Global Corporation (the "Corporation" or "Stratos") provides mobile and fixed telecommunication services to customers operating beyond the reach of traditional terrestrial telecommunication networks. With its extensive portfolio of advanced satellite and microwave technologies, the Corporation provides Internet Protocol ("IP"), data, and voice solutions to an array of diverse markets worldwide, including government and military, oil and gas, and maritime. The Corporation provides communications services and solutions for its customers through wholesale arrangements with a number of satellite system operators and through Stratos' owned and operated telecommunications facilities.

Stratos' operations are classified into two business segments: Mobile Satellite Services ("MSS") and Broadband Services ("Broadband"). The MSS segment includes the sale of airtime, equipment and

engineering services for Stratos' Inmarsat® and other mobile satellite operations. The Broadband segment includes the sale of airtime, equipment and services for Stratos' microwave and very small aperture terminals ("VSAT") operations.

MSS solutions include portable and semi-fixed terminals which offer complete office telecommunications functionality, including voice, fax and high-speed data ("HSD") connectivity. MSS products allow clients to communicate virtually anywhere in the world and are most suited to customers requiring communication capabilities in areas beyond the reach of terrestrial communications. The Inmarsat product line represents the majority of the Corporation's MSS segment both in revenue and number of products. Inmarsat Ltd. operates a constellation of geostationary satellites designed to extend voice, fax and data communications around the world. In support of the Inmarsat product line, the Corporation operates two land earth stations in Goonhilly, England and Auckland, New Zealand. Other products in the MSS product line include Iridium and MSAT. Iridium is a global mobile satellite telephone and paging service utilizing handheld phones. The MSAT satellite network provides voice, data and wide area dispatch maritime communications services for North and Central America, the northern tip of South America, the Caribbean and Hawaii.

Broadband products are designed to deliver integrated voice, fax and HSD communications between fixed remote site and land-based offices. Broadband products include microwave radio-based network and VSAT technology. The Corporation's microwave network is utilized primarily by oil and gas customers operating in the Gulf of Mexico, providing cost-effective and reliable communications for their offshore rigs and platforms. The VSAT service is generally used by customers with operations in remote, isolated locations who need a reliable cost-effective data network to monitor and control their assets. This service permits information to be transmitted to and from remote sites using a relatively small satellite antenna. The principal difference between Broadband services and MSS is that Broadband clients are primarily seeking communication solutions for relatively fixed remote sites, whereas MSS clients require communication solutions from remote locations while traveling, such as onboard ships at sea.

Overall Strategy

The Corporation's primary objective in 2004 was to enhance shareholder value through profitable growth within key vertical markets, expansion of the product and services portfolio, controlling costs and expenses, continuing to strengthen the Corporation's financial position and pursuing strategic acquisitions as opportunities arose.

Shareholder Value

The Corporation's common shares are listed and posted for trading on the Toronto Stock Exchange and are traded in Canadian dollars. Stratos' share price was Cdn \$10.82 at December 31, 2004 compared with Cdn \$12.94 at December 31, 2003. The Corporation generated basic earnings per share of U.S. \$0.51 for the year ended December 31, 2004. This amount included the negative impact of \$0.06 per share related to the after tax effect of charges resulting from the Corporation refinancing its long-term debt as further described in "Capital Structure – Long-term Debt" below. The year ended December 31, 2003 included revenue relating to the peak demand arising from the conflict in the Middle East contributing to basic earnings per share of U.S. \$0.77 including U.S. \$0.18 per share (after tax) generated by a gain on sale of the Corporation's investment in Inmarsat Ventures plc.

Growth

Profitable growth is expected to be achieved through the expansion of the customer base and meeting customers' increased needs for remote communication solutions through existing and new product and service offerings. With the introduction of IP VSAT products in the fourth quarter of 2003 the Corporation expanded its customer base in the key vertical markets of government and military, oil and gas, maritime and construction in the year ended December 31, 2004 when compared to a year ago. In the fourth quarter of 2004, a leading oilfield services company awarded the Corporation a three-year contract to install and support the StratosTek™ broadband data and voice communications system for approximately sixty offshore drilling rigs and remote offices worldwide.

Products and Services

New products introduced during the last three quarters of 2003, including Swift64™, Regional BGAN, Inmarsat Fleet 55 and StratosTek™, contributed to revenue growth in 2004 as compared to 2003. During 2004, the Corporation continued to enhance the communications capabilities of its customers by introducing new products and services such as Inmarsat Fleet 33 voice, data and Mobile Packet Data Services (MPDS) and, most recently, the next generation of StratosOne®, an all-in-one messaging solution that provides an efficient and reliable platform for satellite-based maritime messaging and communications.

Anticipating the future communication needs of its customers, the Corporation has become a prospective Launch Partner for Inmarsat's forthcoming Broadband Global Area Network (BGAN) service, scheduled for commercial launch in the fourth quarter of 2005. Stratos will work directly with Inmarsat during the pre-launch period to prepare business systems, assess market opportunities and develop a suite of value-added services.

Controlling Costs and Expenses

The Corporation continues to take restructuring actions to control its operating expenses through automation, rationalization of infrastructure, and consolidating processes in order to enhance profitability. For the year ended December 31, 2004, operating expenses decreased \$5.9 million when compared to last year. In 2004, costs of \$2.9 million were expensed in respect of these restructuring actions as further described under "Other costs (income)". In 2003, similar costs of \$3.1 million were expensed in respect of restructuring activities.

Financial Position

The Corporation continued to strengthen its financial position in 2004 by refinancing long-term debt and increasing cash flow from operations. In December 2004, the Corporation completed the issuance of a new \$150 million long-term debt facility and established a new \$25 million operating facility. As more fully described below under "Capital Structure", the new long-term debt facility is the first step in resetting the Corporation's capital structure. Net operating cash flow for the year ended December 31, 2004 was \$85.8 million compared to \$68.0 million for fiscal 2003, as further described under "Liquidity and Capital Resources".

Strategic Acquisitions

Subsequent to year end, the Corporation announced two acquisitions designed to strengthen its vertical market and geographic presence.

On January 11, 2005, the Corporation entered into a definitive agreement to acquire 100 percent of Plenexis Holding GmbH, a European VSAT service provider. Plenexis, headquartered in Bonn, Germany, generated approximately US\$40 million in annual revenue in 2004 from a customer base that includes European and Russian oil and gas, government and military and broadcasting sectors. The purchase price of the Plenexis shares, together with the assumption of debt and estimated transaction costs was \$8.7 million. The Corporation closed the transaction on January 31, 2005.

On January 13, 2005, the Corporation acquired a 49 percent minority ownership interest in Navarino Telecom SA and NTS Maritime, Ltd. (collectively referred to as "Navarino"), a maritime distributor operated from Athens, Greece. Navarino is Stratos' largest distributor in the important maritime vertical market, serving a number of major European merchant fleets, shipping companies and other maritime vessels. As part of this transaction, Navarino has entered into an exclusive distribution agreement to acquire all Inmarsat and Iridium services solely from Stratos. The Corporation has an option for a period of three years following closing to acquire the remaining ownership interest in Navarino subject to terms and conditions outlined in the agreement. The purchase price for the minority interest in Navarino was \$6.3 million, including estimated transaction costs.

During the year ended December 31, 2004, the Corporation recorded other assets of \$0.6 million related to deferred acquisition costs incurred on these transactions.

Capital Structure

Long-term Debt

The Corporation's long-term debt facility was refinanced effective December 3, 2004. The new facility consists of a non-revolving six year \$150.0 million Term B facility provided by a group of U.S. institutional lenders and a five year \$25.0 million revolving operating facility provided by a syndicate of lending institutions. The Term B facility bears interest at LIBOR plus 225 basis points and is structured to require principal repayments of \$1.5 million per annum in the first five years of the six-year term. Proceeds of the Term B facility were principally used to repay the Corporation's prior term facility.

Issuer Bid

In order to further improve the efficiency of the Corporation's capital structure and return funds to shareholders, on January 13, 2005 the Corporation announced an issuer bid which contained an offer to purchase for cancellation up to 15 percent of the Corporation's common shares through a Dutch Auction tender process. The offer, which represented 7.4 million of the Corporation's 49.4 million outstanding shares, was made at a purchase price of not less than Cdn. \$10.75 and not more than Cdn. \$12.00 per common share representing a premium of up to 12 percent above the closing price on January 12, 2005. The offer will expire on February 18, 2005 unless extended by the Corporation. The Corporation will fund the purchase of shares pursuant to the issuer bid from available cash on hand and from the proceeds received under a new five year \$25.0 million non-revolving incremental term facility, established under the Corporation's existing credit facility. The Corporation has received commitments for this facility from a syndicate of lending institutions.

Other Subsequent Event

On January 14, 2005, the Corporation entered into an interest rate swap with a notional amount of \$75.0 million to hedge a portion of the interest payments on the new long-term debt. The swap involves the exchange of the underlying three month U.S. dollar LIBOR rates for a fixed rate of 3.95%. The swap transaction expires January 14, 2009.

Competition

The Corporation competes or may compete, directly or indirectly, with other former Inmarsat signatories, satellite service resellers and network operators. In 2004, competition within the MSS segment remained aggressive both in terms of pricing and value added services, and certain new voice and data technologies were introduced by industry participants in the maritime sector. While management believes the impact of these technologies has not been significant to date, these developments will likely result in additional competitive pressure for Inmarsat's maritime services going forward.

The Commercial Framework Agreement ("CFA") signed with Inmarsat in late 2003 allowed for new distribution partners beyond the current Land Earth Station Operators ("LESOs") to sell certain future Inmarsat services under specific conditions. The CFA provides Stratos and other LESOs with the ability to minimize the number of new distribution partners by working closely with Inmarsat to sell the next generation Inmarsat services into the desired market segments.

With respect to competing satellite services, there were no significant announcements regarding the development of new competitive satellite constellations, and there does not appear to be a significant threat from new competing constellations over the near term. The introduction of third generation cellular telephone services ("3G" services), particularly in Europe, during 2004 represents both a threat and opportunity for the Corporation. As these networks proliferate, they could expand the geographic areas where high speed data services are available, thus potentially limiting the market for the Corporation's traditional mobile satellite data services. However, the Corporation believes that the increased availability and promotion of mobile data services will condition the market to demand access to such technologies regardless of location, thereby stimulating demand for the Corporation's services, particularly as Inmarsat's upcoming mobile satellite data services will provide speed and capabilities compatible with current 3G technology.

Stratos believes it is well positioned to counter competitive pressures, through its investments in new products and services such as BGAN and its emphasis on maintaining a scalable low-cost structure. The Corporation will remain responsive to new service opportunities and will closely align with customer requirements as their needs develop. As well, the Corporation is well positioned through its global distribution capabilities and multi-technology product set to potentially partner with new technology entrants, should market developments suggest that such alliances would create value.

In the Broadband market, competition in the Gulf of Mexico oil and gas market remained intense during 2004, although there were no significant new competitive entrants. Stratos believes it is well positioned to respond to any emerging competitive threats to its Broadband business. The Corporation has strong, long-term customer relationships with a number of significant oil and gas industry participants, which provide an

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important advantage in an industry where developing customer trust and the overall sales cycle are lengthy processes. Furthermore, Stratos' microwave network in the Gulf of Mexico provides significant cost and scale advantages for customers. Stratos is also actively developing new products, such as StratosTek™, and upgrading the Corporation's microwave network to IP-based technology, to take advantage of additional market opportunities and to ensure the Corporation's product offerings provide customers with leading edge functionality. In addition, the Corporation is pursuing new market niches for Broadband's suite of services in order to grow revenues and to further offset potential competitive pressure in the core oil and gas markets.

Other

Other significant adjustments to net earnings which were recorded in the year ended December 31, 2004 include a write down of \$2.2 million in assets related to both the MSS and Broadband divisions and a reduction in the allowance for uncollectability of accounts receivable resulting in income of \$1.5 million. These adjustments are further described under "Other costs (income)" and in Note 12 to the Consolidated Financial Statements for the year ended December 31, 2004.

Results of Operations

Certain prior year's financial information has been restated due to a change in accounting policy and a change in method of determining segment earnings. This is further described under "Changes in Accounting Policies" and in Note 2(b) to the Corporation's Consolidated Financial Statements as at and for the year ended December 31, 2004.

Revenue

Revenue decreased by \$29.4 million, or 7.4%, to \$367.8 million for the year ended December 31, 2004 from \$397.2 million for 2003. The decline in revenue for 2004 as compared to 2003 is primarily attributable to the peak demand experienced by the MSS segment during 2003 as a result of the Middle East conflict. The MSS revenue decline was partially offset by an increase in revenue in the Broadband segment.

Outlined below are the Corporation's comparative revenue results:

Revenue by Segment				
(in millions of U.S. dollars, except percentages)				
Year ended December 31				
	2004	2003	Change	
			\$	%
Mobile Satellite Services				
Inmarsat	\$ 205.7	\$ 239.5	\$ (33.8)	(14%)
Other	60.1	61.3	(1.2)	(2%)
	265.8	300.8	(35.0)	(12%)
Broadband Services				
	102.0	96.4	5.6	6%
Total Revenue	\$ 367.8	\$ 397.2	\$ (29.4)	(7%)

Details by business segment are as follows:

Mobile Satellite Services

MSS segment revenue decreased by \$35.0 million, or 12%, to \$265.8 million in 2004, from \$300.8 million in 2003. The Inmarsat revenue decline of \$33.8 million accounts for 97% of the decrease and is due primarily to declines in revenue from the peak demand experienced in the same period last year related to the conflict in the Middle East. The Inmarsat product line includes a number of products which can be classified according to their technological nature and life cycle as either third generation services, second generation services or first generation services.

Third generation services consist primarily of Inmarsat GAN, Swift64, Regional BGAN and Inmarsat Fleet. These products incorporate the latest advances in digital satellite communication technology which, through the highly efficient use of satellite resources, allow for the delivery of HSD services at lower costs and from smaller user terminals than previously possible. Furthermore, these services have been designed to directly support IP, making them compatible with virtually all modern data applications. In particular, the Inmarsat GAN product is used by government and military due to its high-speed digital capabilities and a highly portable terminal.

Second generation services include Inmarsat B, mini M, C and leased capacity. These services incorporate older generation digital technologies and either require physically large terminals or provide only a limited set of end-user services.

Inmarsat-A, a first generation service, uses older, inefficient analog technology, and is suited only for voice and limited data communication. This system has been superseded by more modern services providing more sophisticated services from smaller terminals.

World events and U.S. homeland security issues in recent years have led to a significant increase in government and military operations and a resulting high demand for remote communications solutions such as Inmarsat GAN. The level of activity experienced as a result of such world events has had a significant impact on the MSS segment in the 2002, 2003 and 2004 fiscal years, including: 1) a concentrated period of demand for terminals and communication services, including Inmarsat GAN and digital services; and 2) a continuing level of organic growth as Inmarsat GAN and other mobile high speed data services have become accepted remote communication solutions for government and military applications.

Of particular relevance were the events in the Middle East throughout the year ended December 31, 2003 which led to a significant increase in government and military activities and operations. Due to the size and nature of these events and the operations employed by the government and military, the MSS segment experienced a concentrated period of peak demand that was more substantial than from other recent world events. Consequently, it is necessary to breakdown the component parts of MSS segment revenues by excluding the effect of this peak demand in 2003, in order to better understand, and to allow comparisons to be made to, revenue levels experienced in 2004.

Excluding management's estimate of the revenue related to the 2003 peak demand, in 2004 the Inmarsat product line had a 16% revenue increase in third generation services offset by a 3% decrease in second generation services and a 28% decrease in first generation services when compared to revenues in 2003.

Accordingly, in 2004 first, second and third generation services accounted for 3%, 63% and 34% of total Inmarsat revenues, respectively, compared to 4%, 66% and 30%, respectively, for 2003 excluding estimated peak demand. During 2004, revenue growth in third generation services has been driven by growth in Inmarsat Fleet, Swift 64 and Regional BGAN services. Revenue growth for Inmarsat GAN services was limited principally due to reduced activity levels of government and military users and competitive pricing pressures in this market. Government and military customer demand for GAN has proven difficult to predict as a portion of this revenue arises as circumstances require rather than from normal operating demand. The decline in second generation services revenue in 2004 was driven by Inmarsat B and Mini M services due to a combination of competitive pricing pressures, the declining demand for such services by government and military and customer migration to leased capacity and third generation services such as Inmarsat Fleet. This decline was partially offset by growth in leasing services as the Corporation expanded its customer base with users such as the Australian and New Zealand Defense Forces. The decrease in first generation services is attributable to the continued reductions in demand for the Inmarsat A analog service as customers migrate to preferred digital technologies provided by Stratos and other service providers.

Other MSS revenues for 2004 decreased \$1.2 million, or 2%, compared to 2003. The decrease is primarily due to a decrease in MSAT revenues as customers continue to switch to competing technologies provided by Stratos and other service providers, a decrease in the aeronautical services business and lower terminal sales partially offset by an increase in Iridium revenues. A portion of the high terminal sales in 2003 relates to the peak demand arising from events in the Middle East.

In order to further understand the Corporation's operating results, it is also insightful to consider the MSS segment revenue prior to the events of 2003. In 2002, the MSS segment revenue was \$234.3 million. Comparing the 2002 revenue to 2004 indicates organic growth of \$31.5 million, or 13%, over the twenty-four month period. Over the two year period, the Inmarsat product line experienced increased revenue of \$25.0 million, or 14%, and other MSS revenue has increased \$5.5 million, or 10%, when compared to 2002.

Broadband Services

Broadband segment revenue increased by \$5.6 million, or 6%, from \$96.4 million in 2003 to \$102.0 million in 2004. The increase is primarily attributable to growth in VSAT and IP VSAT equipment and services, both in existing and new market verticals, offset partially by declines in microwave services in the Gulf of Mexico and the expiration of certain North Sea contracts acquired from British Telecommunications plc in 2000. The decrease in revenue in the Gulf of Mexico has been caused by a general decline in exploration and development drilling activity and the transfer, in 2003, of mature production properties from major integrated oil and gas producers to independent companies with reduced communication requirements.

Overall, VSAT, IP VSAT and related revenues increased by \$10.1 million, or 25%, in 2004 when compared to the same revenues in 2003. This growth was achieved in the traditional oil and gas vertical market and in the new government and military, maritime and construction vertical markets and offset declines related to expired contracts in the North Sea. Declines in the Gulf of Mexico microwave and related services caused revenue in this market to decline by \$4.5 million, or 8%, in 2004 compared to 2003.

Gross Margin

Gross margin declined by \$16.5 million during 2004 to \$121.5 million from \$138.0 million last year. The decline is primarily a result of the decrease in revenue. In addition, gross margin as a percentage of revenue was 33% for 2004 compared to 35% for 2003. These declines in gross margin as a percentage of revenue reflect a change in product mix and competitive pricing pressures in both the MSS and Broadband segments.

In the MSS segment, changes in customer demand patterns resulted in decreased revenue for certain higher margin HSD products when compared to the peak demand experienced in 2003. Also, competitive pricing pressures contributed to overall lower margins in certain second generation Inmarsat products such as Mini M and Inmarsat B. The Corporation expects competitive pricing pressures and product mix changes in the MSS segment to continue in 2005. Management believes the Corporation is positioned to respond to these pressures as a result of Stratos' scalable low-cost operating structure and through increased volume. However, gross margin as a percentage of revenue is expected to decline slightly in 2005.

The Broadband segment has experienced a shift in product mix during 2003 and 2004 as revenue from lower margin products has increased compared to the historical higher margin products. Broadband customers have reduced the number of microwave circuit purchases due to the shift of mature production properties from major integrated oil and gas producers to independent companies, as well as a trend by customers to purchase, rather than rent, telecommunications equipment. This has resulted in a reduced gross margin percentage compared to the previous year. In addition, competitive pricing pressures in the oil and gas industry resulting in part from over capacity among communications service providers, also contributed to lower margins during the year.

Operating Expenses

Operating expenses for the year ended December 31, 2004 decreased by \$5.9 million to \$43.3 million from \$49.2 million during last year, a percentage decrease of 12%. As a percentage of revenue, operating expenses were 12% for both years.

Operating expenses in both the MSS and Broadband divisions have decreased during 2004 as compared to 2003 due to the Corporation's continued focus on cost control and restructuring initiatives implemented in fiscal 2003 and 2004. As a percentage of revenue, operating expenses in the MSS division have remained consistent at 10% during 2004 as compared to 2003 due primarily to the cost reduction measures implemented in 2004. In the Broadband division, operating expenses as a percentage of revenue have declined by 4% to 16% for 2004 as compared to 20% for 2003. These decreases are principally due to reduced operating expenses resulting from restructuring activities and process improvements which occurred in 2003 and 2004.

Segment Earnings

As described in Note 2(b) to the Corporation's Consolidated Financial Statements as at and for the year ended December 31, 2004, effective January 1, 2004, the Corporation changed its method of determining segment earnings in order to more closely align segment earnings to information used by the Corporation's chief operating decision maker in managing segments. As a result of this change, segment earnings no longer includes an allocation of depreciation and amortization. Segment earnings is an acceptable measure under Canadian generally accepted accounting principles ("GAAP"). With this change, segment earnings is defined by the Corporation as earnings before interest expense, depreciation and amortization, other costs (income) and income taxes.

Outlined below are the Corporation's comparative segment earnings results:

Segment Earnings					
(in millions of U.S. dollars, except percentages)					
Year ended December 31					
	2004	2003	Change		
			\$	%	
Mobile Satellite Services	\$ 56.1	\$ 67.4	\$ (11.3)	(17%)	
% of segment revenue	21%	22%			
Broadband Services	22.0	21.4	0.6	3%	
% of segment revenue	22%	22%			
Total	\$ 78.1	\$ 88.8	\$ (10.7)	(12%)	
% of total revenue	21%	22%			

Details by business segment are as follows:

Mobile Satellite Services

The MSS segment earnings for 2004 declined \$11.3 million to \$56.1 million from \$67.4 million for 2003, a decrease of 17%. This decline in segment earnings is primarily attributable to the revenue decline in 2004 of \$35.0 million. As previously described, the gross margin for 2004 has declined from the previous year. These gross margin declines are partially offset by reductions in operating expenses resulting from cost reduction measures implemented in 2004. Consequently, as a percentage of revenue, segment earnings declined to 21% for 2004 from 22% in 2003.

Broadband Services

Broadband segment earnings for 2004 increased \$0.6 million to \$22.0 million compared to \$21.4 million for 2003. Segment earnings increased due to increased revenue and the reduction in operating expenses through restructuring measures undertaken in 2003 and 2004 which offset the gross margin decline described previously. Operating expenses for the year ended December 31, 2004 have decreased in absolute dollars and as a percentage of revenue as a result of restructuring initiatives implemented during the second and third quarters of 2003 and the second quarter of 2004. As a percentage of revenue, Broadband segment earnings were consistent at 22% for 2004 and 2003 also as a result of the operating expense reductions noted above offsetting the decreases in gross margin.

Interest expense

Up to December 3, 2004, the Corporation's long-term debt consisted of a non-revolving term facility provided by a syndicate of Canadian chartered banks ("Term Lenders"). Effective December 3, 2004, the Corporation completed a refinancing of its bank credit facilities. The new credit facility consists of a \$150.0 million non-revolving Term B facility provided by a group of U.S. institutional lenders ("Term B Lenders") with an amortization period of six years. The Term B facility was subject to variable interest rates based on the LIBOR rate plus the applicable margin fee as was the former term facility. In 2000, in order to fix the interest rate and reduce the risks associated with a variable LIBOR interest rate, the Corporation entered into two interest rate swap transactions (the "Swap Transactions") with respect to a portion of the term debt and any applicable replacement debt. As of December 31, 2004, the Swap Transactions, which mature on December 30, 2005, covered approximately 44% of the Term B facility which is subject to a fixed LIBOR rate of 5.43% plus the applicable margin fee. Effective January 14, 2005 the Corporation has entered into an additional interest rate swap transaction as previously described under "Other Subsequent Event". LIBOR rates relevant in determining the Corporation's interest expense during each of the last four quarters were as follows:

Period:

January 1, 2004 – March 31, 2004	1.13%
April 1, 2004 – June 30, 2004	1.09%
July 1, 2004 – September 30, 2004	1.51%
October 1, 2004 – October 29, 2004	1.84%
October 30, 2004 – December 14, 2004	N/A ⁽¹⁾
December 15, 2004 – December 31, 2004	2.34%

The applicable margin fees for 2003 and 2004 pursuant to the prior term facility were as follows:

January 1, 2003 – February 5, 2003	2.50%
February 6, 2003 – October 22, 2003	2.00%
October 23, 2003 – December 31, 2003	1.50%
January 1, 2004 – October 29, 2004	1.50%

(1) During the period from October 29, 2004 to December 15, 2004, the Corporation's long-term debt under the former term facility and current Term B facility were temporarily subject to interest at 6% to 6.25% in order to facilitate the refinancing transactions

Effective December 15, 2004 the applicable margin fee under the Term B facility was 2.25% based on the Corporation's current senior secured credit ratings of BB- as assigned by Standard & Poor's Rating Service ("S&P") and Ba2 as assigned by Moody's Investor Services, Inc. ("Moody's"). An improvement in these ratings to BB or higher by S&P will result in a reduction of the margin rate to 2.00% pursuant to the terms of the credit agreement. A subsequent reduction in the senior secured credit ratings below BB by S&P or below Ba2 by Moody's will result in a return of the margin rate to 2.25%.

Interest expense for the year ended December 31, 2004 decreased \$3.6 million, or 23%, to \$11.7 million from \$15.3 million for 2003. The decrease reflects repayments on the Corporation's credit facilities which took place during 2003 (including the extinguishment of the bridge credit facility in December 2003) and

the first nine months of 2004 and a reduction in the bank margin fee resulting from improvements in the Corporation's leverage ratio when compared to the same periods of 2003. The decrease is partially offset by the write off of the unamortized balance of deferred financing costs of \$1.5 million related to the prior term loan as a result of refinancing long-term debt.

Depreciation and Amortization

Depreciation and amortization for 2004 decreased \$0.5 million to \$29.0 million from \$29.5 million for 2003. The decrease resulted from the asset impairment charge in the fourth quarter of 2003 of \$5.5 million in respect of the Corporation's aeronautical services business partially offset by asset additions in the current year as well as a full year of depreciation on 2003 asset additions.

Other Costs (Income)

Other costs for the year ended December 31, 2004 were \$3.6 million compared to other income of \$6.8 million for the twelve months ended December 31, 2003. In 2004, these costs included severance and other costs of \$2.9 million associated with workforce reductions in the MSS and Broadband divisions and at the corporate level as well as the consolidation of certain finance and operational functions in the Broadband and MSS divisions. These costs consisted of severance, retention, relocation, travel and other expenses associated with restructuring activities. Also included in 2004 are \$2.2 million of asset impairment charges which are as follows: \$0.7 million resulting from the termination of a Broadband contract which utilized specific assets, which were not re-deployed by the Corporation due to the nature of the technology; \$1.2 million resulting from the consolidation of certain telecommunications switches within the Broadband division to improve efficiencies and customer service; and \$0.3 million related to a planned rationalization of the MSS network infrastructure designed to improve operational efficiency and reduce operating costs.

In 2004, these other costs were partially offset by \$1.5 million in other income. Management regularly conducts a detailed evaluation of the allowance for doubtful accounts. Better than anticipated collections have resulted in a significant reduction in overall account balances, an improvement in the aging of accounts receivable, and a reduction in the concentration of accounts receivable due from certain large customers. Accordingly, management has revised its estimate of the required allowance for uncollectability of accounts receivable, resulting in a \$1.5 million reduction included in other income in 2004.

Other costs (income) of \$(6.8) million in the year ended December 31, 2003 included the following: a gain on sale of Inmarsat investment of \$(9.8) million; a reduction to the allowance for uncollectability of \$(5.9) million; a receipt from the Corporation's former controlling shareholder of \$(7.0) million; the write-off of deferred acquisition costs of \$7.3 million related to a significant consolidation opportunity for which the successful completion was no longer considered more likely than not; an asset impairment charge of \$5.5 million; and other costs of \$3.1 million.

Income Tax

Income tax expense for the year ended December 31, 2004 was \$8.7 million based on income before tax of \$33.8 million compared to income tax expense of \$12.7 million for the year ended December 31, 2003 based on income before tax of \$50.8 million. Income tax expense in both periods arises from profitable

operations in certain jurisdictions, large corporation tax and other taxes. The Corporation's global effective income tax rate increased to 26% for the year ended December 31, 2004 from 25% for the year ended December 31, 2003. The Corporation's global effective tax rate for both years compares favorably to the statutory rate of 36% (2003 – 38%) due principally to the recognition of the benefit of certain prior years' tax losses which had not previously been recorded.

During the third quarter of 2004, the Corporation recorded a future tax asset of \$2.2 million related to the benefit of a portion of previously unrecognized tax loss carry forwards and reduced tax expense accordingly. As a consequence of the recognition of the future benefit of tax losses in the third quarter of 2004, the Corporation's global effective tax rate was expected to increase to a level closer to the Canadian statutory rate in future periods.

In the fourth quarter, the Corporation's global effective tax rate was 53% primarily due to a \$1.8 million charge recorded as a result of refinancing long-term debt. A taxable capital gain resulted from the prior U.S. dollar term loan being accounted for in Canadian dollars for Canadian income tax purposes and the strengthening Canadian dollar since the original debt was put in place in January, 2001. The Corporation's global effective tax rate in the fourth quarter was 31% excluding the effect of the taxable capital gain triggered by the refinancing.

Net Earnings

The Corporation had net earnings of \$25.1 million for the year ended December 31, 2004, a decrease of \$13.0 million compared with the net earnings of \$38.1 million reported for 2003. Basic earnings per share for the year ended December 31, 2004 was \$0.51 compared to \$0.77 for 2003.

Fourth Quarter 2004

The fourth quarter of 2004 included expenses of \$0.06 per share related to refinancing the Corporation's long-term debt facility. The repayment of the former term facility resulted in the write-off of \$1.5 million of the unamortized balance of deferred financing costs incurred in prior years which was recorded in interest expense. In addition, the Corporation recorded additional income tax expense of \$1.8 million related to a taxable capital gain triggered by the repayment of the debt as described under "Income tax" above.

In addition, the fourth quarter of 2004 included the following components of other (income) costs: a reduction in the allowance for uncollectability of accounts receivable; an asset impairment charge; and additional severance costs. These components have been previously described under "Other (income) costs". The net effect of these adjustments on net income for the fourth quarter was immaterial.

Quarterly Information

The table below sets forth selected financial data relating to the Corporation's revenue, net earnings and earnings per common share for each of the eight quarters ended December 31, 2004 (U.S. dollars; in thousands, except per share amounts). The financial data is derived from the Corporation's interim unaudited consolidated financial statements, which are prepared in accordance with Canadian GAAP. Certain of the prior years' information in the following table has been restated due to a change in accounting policy as

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
For the Year Ended December 31, 2004

described in Note 2(b) to the Corporation's Consolidated Financial Statements as at and for the period ended December 31, 2004.

(U.S. Dollars; in thousands, except per share amounts)				
2004				
	Dec. 31	Sept. 30	June 30	Mar. 31
Revenue	\$ 89,190	\$ 91,240	\$ 95,142	\$ 92,181
Net Earnings	3,867	9,182	5,412	6,660
Basic Earnings per Common Share	0.08	0.18	0.11	0.14
Diluted Earnings Per Common Share	0.08	0.18	0.11	0.13
2003 as restated				
	Dec. 31	Sept. 30	June 30	Mar. 31
Revenue	\$ 94,319	\$ 99,053	\$ 108,153	\$ 95,663
Net Earnings	15,777	7,062	8,178	7,072
Basic and Diluted Earnings Per Common Share	0.32	0.14	0.17	0.14

During the second half of 2003 and the first quarter of 2004, the level of Inmarsat GAN revenue experienced a decline in activity from previous quarters of 2003 due to the reduction of military operations in the Middle East. In the second quarter of 2004, an increase in Inmarsat GAN and other third generation Inmarsat products combined with growth in Broadband's VSAT products resulted in a 3% increase in revenue as compared to the first quarter of 2004. In the third quarter of 2004, declines in Inmarsat GAN and Inmarsat B revenues due to customer activity levels combined with lower revenue from Broadband equipment sales resulted in a 4% decrease in revenue compared to the second quarter of 2004. In the fourth quarter of 2004, declines in second generation Inmarsat services and Iridium services revenues combined with a reduction in terminal sales to reduce MSS segment revenues. Broadband division growth in VSAT products during the same period partially offset the MSS revenue declines resulting in an overall 2% decrease in revenue in the fourth quarter of 2004.

On April 1, 2004, the Corporation's renewed LESO agreement with Inmarsat Limited became effective. Both the renewed LESO agreement and the prior LESO agreement provide for an annual volume discount arrangement to be reset in April of each year to the end of 2004. The reset of this discount effective April 1, 2004 increased cost of goods and services in the MSS segment by \$1.5 million in the second quarter of 2004 as compared to the first quarter of the year when higher volume discounts were reached at the end of the prior discount period. As the volume discount rates under the new agreement continued in the third quarter of 2004, the Corporation achieved reductions in the costs of goods and services of \$1.4 million when compared to similar costs in the second quarter of 2004. Additional cost reductions of \$0.9 million due to volume discount rates were achieved in the fourth quarter of 2004 when compared to the third quarter of 2004.

Commencing in 2005, future volume discount arrangements will be effective on January 1st of each year. As a result, in the first quarter of 2005, volume discounts will be at their lowest level for the year and will increase in each successive quarter as aggregate volume levels rise throughout the year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
For the Year Ended December 31, 2004

During the fourth quarter of 2003, there were several adjustments including a write-off of deferred acquisition costs of \$7.3 million; an asset impairment charge of \$5.5 million; a payment from a former controlling shareholder of \$7.0 million; a reduction in the allowance for uncollectability of accounts receivable of \$5.9 million; and a gain on sale of investment of \$9.8 million. The net effect of these adjustments was recorded as other income in the fourth quarter of 2003 totaling \$9.9 million. During the third quarter of 2004, the Corporation recorded the future benefit of \$2.2 million of certain previously unrecognized tax losses as a reduction of income tax expense. The fourth quarter of 2004 includes charges to income as a result of the refinancing of the Corporation's long-term debt facility as previously described under "Fourth Quarter 2004".

Selected Annual Information

The table below sets forth selected financial data relating to the Corporation's years ended December 31, 2004, 2003 and 2002. This financial data is derived from the Corporation's Consolidated Financial Statements for each of the years then ended, which are prepared in accordance with Canadian GAAP. Certain of the prior years' information in the following table has been restated due to a change in accounting policy as described in Note 2(b) to the Corporation's Consolidated Financial Statements as at and for the period ended December 31, 2004.

Income Statement Data

(U.S. Dollars; in thousands, except per share amounts)

	Year Ended December 31		
	2004	2003 restated	2002 restated
Revenue	\$ 367,753	\$ 397,188	\$ 326,817
Net earnings	25,121	38,089	13,262
Basic and diluted earnings per share	0.51	0.77	0.29
Shares outstanding, end of period	49,379	49,120	49,119

Balance Sheet Data

(U.S. dollars; in thousands)

	As at December 31		
	2004	2003 restated	2002 restated
Total assets	\$ 529,598	\$ 485,797	\$ 510,010
Long-term debt (excluding current portion)	149,176	112,711	169,145
Cash dividends paid	-	-	-

Fiscal 2003 Compared to Fiscal 2002

Net earnings from operations were \$38.1 million in 2003, which represented a \$24.8 million improvement over the net earnings of \$13.3 million in 2002. The principal components of the increase over 2002 relate to an increased gross margin of \$19.7 million, a decrease in interest expense of \$9.4 million, an increase in other income of \$6.8 million partially offset by an increase in income tax expense of \$6.8 million.

The year over year increase in gross margin was directly attributable to the increase in revenue in the MSS segment. Revenue in the MSS segment increased by \$66.5 million in 2003, as compared to 2002. This increase was attributable to organic growth in Inmarsat revenues in the key customer vertical markets such as government and military and a period of peak demand related to the events in the Middle East as previously described. As a result Inmarsat revenues increased by \$59.8 million in 2003, as compared to 2002.

The year over year decrease in interest expense reflects amendments to, and repayments on, the Corporation's credit facilities which took place during 2002 and 2003 as well as lower prevailing LIBOR rates and a reduction in the bank margin fee resulting from improvements in the Corporation's leverage ratio.

Other (income) costs in 2003 were a net amount of (\$6.8) million. This amount resulted from the following (income) costs: i) gain on the sale of the Corporation's investment in Inmarsat Ventures plc of (\$9.8) million; ii) reduction in the allowance for uncollectability of accounts receivable of (\$5.9) million as a result of successful collection activities and settlements with customers; iii) a receipt of (\$7.0) million from the former controlling shareholder in recognition of certain cost and expenses expected to be incurred as a result of the shareholder's decision to sell the controlling interest; iv) the write-off of deferred acquisition costs of \$7.3 million related to a significant consolidation opportunity for which the successful completion was no longer considered more likely than not; v) an asset impairment charge of \$5.5 million in respect of the Corporation's aeronautical business operations; and vi) other costs of \$3.1 million in respect of certain restructuring activities undertaken in the year. The Corporation did not incur such (income) costs in 2002.

Income tax expense increased in 2003 compared to 2002 primarily due to the increase in earnings before tax but was partially offset by the non-taxable portion of the capital gain in respect of the sale of the investment in Inmarsat Ventures plc.

The decrease in long-term debt as at December 31, 2003 when compared to the prior year is due to scheduled repayments in respect of the debt and additional repayments required for excess cash flow and proceeds on the sale of the investment in Inmarsat.

Fiscal 2004 Compared to Fiscal 2003

The increased revenue and net earnings in 2004, as compared to 2003, is described under "Results of Operations". The increase in the long-term debt in 2004 as compared to 2003 is described under "Liquidity and Capital Resources".

Related Party Transactions

As at December 31, 2002, BCE Inc. ("BCE") beneficially owned approximately 53.1% of the total outstanding common shares of Aliant Inc. ("Aliant"), which in turn owned approximately 53.2% of the outstanding common shares of the Corporation. In December 2003, Aliant disposed of its entire interest in the Corporation. As a result, Aliant and BCE are no longer related parties of the Corporation.

Liquidity and Capital Resources

Operating Activities

The Corporation generated \$65.0 million of operating cash flow (before changes in non-cash working capital) in 2004, a decrease of \$8.6 million from the \$73.6 million generated for 2003. This decrease reflects the decline in net earnings for 2004 compared to 2003. The Corporation generated \$20.8 million in cash from working capital during 2004, primarily through strong collection efforts and prudent working capital management. As a result, net operating cash flow for the year ended December 31, 2004 was \$85.8 million, an increase of \$17.8 million, or 26%, from 2003.

Investing Activities

Cash used for investing activities was \$27.8 million in 2004 compared to \$0.7 million of cash generated through investing activities in 2003. The \$28.5 million change is due primarily to the \$26.5 million of proceeds received on the sale of the Inmarsat investment in 2003. Capital asset expenditures of \$22.5 million were \$2.9 million higher than in 2003, while deferred expenditures were \$0.9 million lower than in 2003.

In December 2004, the Corporation refinanced its long-term debt. Expenditures deferred in connection with this activity in 2004 totaled \$3.2 million. During the year, the Corporation deferred costs of \$0.6 million related to two acquisitions as previously noted. Deferred cost additions in 2003 were related primarily to expenditures associated with a consolidation opportunity which Stratos was actively pursuing. The Corporation had incurred costs of \$6.6 million in connection with this opportunity in 2003. These costs were expensed in the fourth quarter of 2003 upon determination that it was no longer more likely than not that this transaction would be completed.

Capital asset additions totaled \$22.5 million for the year ended December 31, 2004. MSS capital asset additions during 2004 included bandwidth expansion technology and system enhancements to improve customer service, improve operational efficiency and upgrade networks. Broadband capital asset additions included investments in satellite terminals in support of multi-regional VSAT and IP VSAT services and equipment to expand and upgrade facilities and network management systems in support of new contracts and to improve service delivery.

Financing Activities

Financing activities generated cash of \$11.2 million for the year ended December 31, 2004 as compared to a use of cash of \$78.8 million for 2003. Effective December 3, 2004, the Corporation's bank credit facilities were refinanced. The new credit facilities consist of a \$150.0 million non-revolving Term B facility with an amortization period of six years provided by a group of U.S. lending institutions and a new \$25.0 million revolving operating facility with a five year term provided by a syndicate of lending institutions. Letters of credit totaling \$0.6 million were in place at December 31, 2004 with the remaining \$24.4 million of credit under the non-revolving facility available to the Corporation. Proceeds from the Term B facility were principally used to fully repay \$121.8 million of the prior term facility then outstanding and related transaction costs totaling \$3.2 million. The remaining cash proceeds of \$25.0 million from the Term B facility contributed to the net increase in cash and cash equivalents for the year. Prior to December 3, 2004, under the terms of the previous term facility, the Corporation made \$17.5 million of scheduled payments. Cash generated by common share issues totaled \$1.7 million for 2004.

The Corporation repaid \$73.7 million of debt related to the prior term facility and bridge credit facilities during the twelve months ended December 31, 2003. The total payment of \$73.7 million consisted of an \$11.2 million payment made on April 3, 2003 in respect of excess cash flow, a payment of \$22.5 million made on December 31, 2003 from the proceeds of the sale of the Corporation's investment in Inmarsat, and a total of \$40.0 million in scheduled repayments.

In prior years, a guarantee in respect of the former term facility had been provided by the Corporation's then majority shareholder, Aliant in return for a guarantee fee of 2% per annum. In December 2003, the Corporation paid \$4.6 million to Aliant in respect of the guarantee fee. The balance of \$0.6 million,

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
For the Year Ended December 31, 2004

representing interest on the guarantee fee, was payable to Aliant when all debts and obligations of the Corporation under the prior term credit facility were discharged in full. As a result, this amount was repaid in December 2004 upon repayment of the prior term facility.

At December 31, 2004, long-term debt (including current portion) totaled \$150.8 million and shareholders' equity totaled \$281.4 million. At December 31, 2003 long-term debt (including current portion) totaled \$140.7 million and shareholders' equity totaled \$253.8 million. The long-term debt to equity ratio was 0.5:1 at December 31, 2004, compared to 0.6:1 at December 31, 2003.

Contractual Obligations

The following table summarizes contractual obligations by category and the associated payment for the next five years.

Contractual Obligations	Total	Payments Due by Period (in millions of dollars)					
		2005	2006	2007	2008	2009	After 2009
Long-term Debt	150.8	1.7	1.6	1.6	1.6	1.6	142.7
Operating Leases	17.7	3.3	2.4	2.3	1.4	1.2	7.1
Maintenance Contracts	29.4	5.8	5.2	4.8	4.6	4.5	4.5
Capital Expenditure Obligations ⁽¹⁾	4.3	1.7	0.7	0.6	0.5	0.4	0.4
Purchase Obligations	79.1	41.1	29.9	8.1	–	–	
Other Obligations	6.1	0.4	2.1	0.4	–	0.1	3.1
Total Contractual Obligations	287.4	54.0	41.9	17.8	8.1	7.8	157.8

(1) Capital Expenditure Obligations consist primarily of costs related to upgrades at the Corporation's land earth stations in support of current product offerings and upgrades to the Corporation's microwave network in the Gulf of Mexico to enhance customer service. Capital expenditures required on an annual basis to maintain capacity, meet planned growth and fund development activities are expected to be between 6% to 7% of revenue. These expenditures will be funded with operating cash flow.

Other

At December 31, 2004, the Corporation held cash and cash equivalents of \$80.7 million. This is an increase of \$69.2 million from the December 31, 2003 balance of \$11.5 million. This increase results from the operating, investing and financing activities noted above.

The Corporation believes that existing sources of cash will be sufficient to meet expenditure requirements for the foreseeable future. Sources of cash include the following: cash and cash equivalents; cash flow from operations; the additional committed non-revolving incremental term facility available to be drawn in 2005; and the Corporation's as yet undrawn \$25.0 million revolving operating facility. Expenditure requirements for the foreseeable future include the following: working capital requirements; purchase price and related costs of business acquisitions; shares purchased pursuant to the Corporation's issuer bid; debt service; and ongoing capital expenditure requirements. The Corporation believes debt capacity is available to fund future acquisitions.

Outstanding Share Capital

The Corporation is authorized to issue an unlimited number of preferred shares, issuable in series, and an unlimited number of common shares. As at December 31, 2004 the Corporation had issued and outstanding

49.4 million (2003 – 49.1 million) common shares with a stated value of \$254.1 million (2003 – \$252.5 million). No preferred shares have been issued.

Foreign Currency

The Corporation prepares its Consolidated Financial Statements in U.S. dollars as a substantial portion of the Corporation's business is conducted in U.S. dollars. By virtue of its international operations, the Corporation conducts business in a number of foreign currencies other than the U.S. dollar. The Corporation has developed a risk management strategy to mitigate potential risks with respect to foreign currencies. The strategy is to match cash inflows and outflows by currency, thereby minimizing net currency exposures to the greatest extent possible. This is accomplished by ensuring customer contracts, major expenditures and debt are denominated in the appropriate currencies. Consequently, the Corporation does not enter into forward contracts to manage exposure to exchange rate fluctuations pertaining to its future net cash flows from operations.

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results that differ from these estimates could have a significant adverse effect on operating results and financial position. The following significant accounting estimates are considered critical in that they involve a higher degree of judgment and complexity than others.

Allowance for Uncollectability of Accounts Receivable and Revenue Adjustments

The Corporation provides goods and services to its customers primarily on credit and provides an allowance for uncollectability of accounts receivable to cover reasonably estimated losses from the inability of customers to make required payments.

Provisions are assessed utilizing a combination of techniques. The Corporation specifically reviews its larger accounts and assesses a customer's ability to make payments to the Corporation. Based on this review, specific reserves for such accounts are recorded against amounts due to reduce accounts receivable to the amount reasonably believed to be collectable. For those accounts not specifically reviewed, the Corporation records specific reserves at varying rates dependent on the collection status and aging of the customer account. A number of factors are considered in evaluating the adequacy of the provision for uncollectability of accounts receivable, including: historical collections experience; customer concentrations; changes in customer payment terms; economic and industry trends expected to prevail prior to settlement; the creditworthiness and collection status of the account; and any other specific factors known to management relating to the accounts.

Management believes the recorded allowance is sufficient and appropriate based on the exposures identified and historical experience. Should the financial condition of the Corporation's customers deteriorate, adversely affecting their ability to make payments to the Corporation, additional allowances may be required and could affect operating results in future periods. Bad debt expense is classified within operating expenses in the consolidated statements of operations. The allowance is netted against accounts receivable.

The Corporation also provides an allowance against accounts receivable for revenue adjustments. The provision is estimated based on an analysis of known billing adjustments existing at the balance sheet date and historical experience. Revenue adjustments are charged against revenue in the consolidated statements of operations. The allowance for uncollectability of accounts receivable and revenue adjustments is \$10.8 million as at December 31, 2004 (2003 – \$20.8 million) and is netted against accounts receivable. During the year ended December 31, 2004, \$8.7 million of accounts receivable were offset against the allowance for uncollectability of accounts receivable.

Useful Life of Capital and Intangible Assets

The estimated useful life of capital and intangible assets is used to determine depreciation and amortization expense. An asset's useful life is estimated when the asset is acquired. The estimate is based upon past experience with similar assets, taking into account expected technological changes, prospective economic utilization and physical condition of the assets concerned. A significant portion of the Corporation's capital assets relate to telecommunications equipment and earth station equipment associated with the Corporation's communications network. These assets represent 82% of the total net book value of the capital assets as at December 31, 2004. The network is highly complex and, due to constant innovation and enhancements, some network assets may lose their utility faster than anticipated. A reassessment of the economic lives of these components is conducted when events or changes in circumstances indicate that their useful life may not be as long as originally anticipated. Adjustments to their expected lives would be made after considering historical experience and capacity requirements, consulting with the vendor and assessing new product and market demands and other factors. When factors indicate network assets may not be useful for as long as anticipated, the asset's estimated useful life may be shortened. This could result in a higher depreciation and amortization expense in future periods and/or an impairment charge to reflect the write-down in value of the asset.

Telecommunication equipment depreciation is currently calculated using the declining-balance method based on rates ranging from 5% to 20% annually. Earth station equipment depreciation is calculated using the straight-line method based on estimated useful lives of ten to twelve years. A one year decrease in the useful life of the Corporation's capital assets relating to telecommunications equipment and earth station equipment would increase depreciation and amortization expense by approximately \$2.6 million. Of this amount \$1.4 million would relate to the MSS segment and \$1.2 million would relate to the Broadband segment. A one year increase in the useful life of these assets would decrease depreciation and amortization expense by approximately \$2.3 million, of which \$1.4 million would relate to the MSS segment and \$0.9 million to the Broadband segment.

Impairment

The impairment of long-lived assets is assessed when events or changes in circumstances indicate that the Corporation may not be able to recover their carrying value. Factors considered important which would result in an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of the Corporation's use of its assets or the strategy of the overall business; and
- significant negative industry or economic trends.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
For the Year Ended December 31, 2004

Impairment for such assets is determined using a projected undiscounted cash flow method. If the asset's carrying value is greater than the value indicated under the undiscounted cash flow method, an impairment charge would be recorded. This requires judgment to be made by management estimating future cash flows and economic life, among other assumptions. Different assumptions could yield materially different results.

Management believes that estimates of future cash flows and fair value are reasonable. Assumptions used are consistent with internal planning and reflect best estimates based on factors including past operating results, budgets, economic projections, and market trends. These estimates, however, have inherent uncertainties that management may not be able to control. As a result, the amounts reported for these items could be different if different assumptions were used or if conditions changed in the future.

In the year ended December 31, 2004 the Corporation recorded asset impairment charges of \$2.2 million as further described under "Other costs (income)".

Impairment of goodwill is assessed annually and when events or changes in circumstances indicate that goodwill might be impaired. In accordance with the CICA recommendations with regard to Goodwill and Other Intangible Assets, the annual goodwill impairment test involves a two step approach: 1) compare the fair value of a reporting unit with its carrying amount, including goodwill, to identify potential impairment. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not impaired and the second step of the impairment test is unnecessary; and 2) if the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill should be compared with its carrying amount to measure the impairment loss, if any.

In Stratos' case, the reporting units are the MSS and Broadband segments. The fair value of a reporting unit is the amount at which the unit could be purchased or sold between willing parties. Fair value is normally determined by using one of three approaches: market capitalization; multiples of segment earnings (or other financial indicators, such as revenue or earnings); or present value of future cash flows.

Stratos has elected to use the market capitalization approach in its annual goodwill impairment test. This involves assigning a portion of the market capitalization amount to each reporting unit. Market capitalization is currently allocated to the reporting segments based on the reporting unit's segmented earnings. This amount represents the reporting unit's fair market value. In 2004 and 2003 the results of step one of the annual impairment test indicated that there was no potential impairment to goodwill as at December 31, 2004 and December 31, 2003. As a result, the Corporation was not required to perform step two of the annual impairment test.

Accounting for Income Taxes

The Corporation is required to estimate the amount of tax payable for the current year and the future income tax assets and liabilities recorded in the accounts for future tax consequences of events that have been reflected in its financial statements or tax returns for each taxing jurisdiction in which it operates. Significant management judgment is required to assess the timing and probability of the ultimate tax impact. The Corporation records valuation allowances on future tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, changes in the jurisdictions in which the Corporation operates, the inability to generate sufficient future taxable income or unpredicted results from potential examinations or determinations of each year's liability by taxing authorities.

Valuation allowances primarily relate to potential future tax assets arising from accounting depreciation claimed in excess of tax depreciation and tax losses carried forward in the various jurisdictions in which the Corporation operates. Management must assess both positive and negative evidence when determining whether it is more likely than not that future tax assets will be recoverable in future periods; such assessment is required on a jurisdiction by jurisdiction basis. Based on this assessment, a valuation allowance must be established for the amount of the deferred tax assets that are determined not to be realizable. Realization is based on the Corporation's ability to generate sufficient future taxable income. During the third quarter of 2004, the Corporation recognized a future tax asset related to tax losses carried forward in a particular jurisdiction. A change in material assumptions occurred in the quarter in relation to the relative significance of positive and negative evidence related to this jurisdiction. However, notwithstanding the positive evidence provided by recent net earnings, cumulative losses incurred in other jurisdictions in prior years represent sufficient negative evidence under GAAP to require a valuation allowance related to differences in depreciation and tax losses carried forward in these jurisdictions. Accordingly, future tax assets in these jurisdictions have been recognized only in an amount equal to future tax liabilities to the extent that the reversal of these taxable temporary differences is more likely than not available to utilize a portion of the tax losses carried forward. The Corporation intends to maintain a valuation allowance until sufficient positive evidence exists to support its reversal. Changes in material assumptions can occur from period to period due to the aging of prior year's losses, the cumulative effect of current period taxable income and other sources of positive and negative evidence. If these changes in material assumptions were to provide sufficient positive evidence, the Corporation could record the net benefit of \$8.6 million, or a portion thereof, as a recovery of income taxes in the period when realization becomes more likely than not and a corresponding increase in net future income tax assets.

Risk and Risk Management

Operating Risk

The remote communications industry is continually evolving and is subject to rapid and significant changes in technology and industry participants. The industry is characterized by changing customer requirements, emerging industry standards and new product and service introductions. Customer demand has also been impacted by fluctuations in communication requirements of various government, military and media agencies resulting from world events. Management is committed to making the necessary investments to develop, improve and expand product and service offerings.

The remote communications industry is competitive. The Corporation competes or may compete, directly or indirectly, with other former Inmarsat signatories, satellite service resellers and network operators on product pricing and value added services. The Corporation may also face competition from newly formed or emerging entities, as well as more established telecommunications organizations. The Corporation must continue to respond effectively to technological changes and to competitors' innovations. There is also a risk that the increasing number of global mobile satellite systems and other systems operators will saturate the market and generate related competitive and pricing pressures. To mitigate this risk, the Corporation's strategy is to be: timely in bringing to market new products and services as well as enhancements to current products and service offerings; geographically diversified; focused on superior customer service; and, supported by cost-effective operations.

The Corporation relies on key suppliers such as Inmarsat, Iridium, and several other satellite space segment suppliers. In the normal course of business the Corporation periodically renews its contracts with these suppliers. In December 2003, the Corporation entered into a new CFA with Inmarsat Limited. The CFA and related agreements define the roles and responsibilities of the parties and assures the supply by Inmarsat of existing services, as well as new services which are planned to be introduced in the future based on the fourth generation satellites. The CFA and renewed LESO agreement will expire in April 2009, with provisions for further extensions. The new CFA and renewed LESO agreement permit Inmarsat, subject to certain specified conditions, to appoint new distribution partners for future Inmarsat services and to authorize other entities to construct land earth stations.

There has been enhanced awareness of the risk stemming from a major disruption in business operations in the event of a natural or man-made disaster. The Corporation has completed a business continuity plan to mitigate this risk and will maintain and test the plan on an ongoing basis.

Acquisitions Risk

The Corporation has a strategy of achieving growth both organically and through acquisition, such as that recently announced in Europe. The Corporation continues to consider investments in other complementary companies and business and strategic opportunities to enhance its operations and competitive position. The Corporation has a history of successfully integrating large acquisitions. However, there can be no assurance that the Corporation will be able to realize the anticipated benefits of, or synergies from recent or potential future acquisitions.

Market Risk

Market risk represents the risk of loss that may impact the Corporation due to adverse changes in financial market prices and rates. The Corporation's market risk exposure results from fluctuations in interest rates and foreign exchange rates.

Long-term debt under the Corporation's credit facility is issued at floating rates of interest and is therefore subject to risks associated with fluctuating interest rates. In order to reduce this risk, the Corporation had previously entered into two Swap Transactions with two Canadian chartered banks with respect to a portion of its term debt. These Swap Transactions expire on December 30, 2005. The Swap Transactions provide for the exchange of the underlying three-month U.S. dollar LIBOR floating interest rates for fixed interest rates of 5.43% per annum. At December 31, 2004, the notional amount of the Swap Transactions was \$33.3 million each for a total of \$66.7 million.

On January 14, 2005, the Corporation entered into an additional interest rate swap with a notional amount of \$75.0 million to hedge a portion of the interest payments on long-term debt as previously described under "Other Subsequent Event".

Foreign exchange risk was described previously under "Foreign Currency" above.

Regulation

The operation of the systems and distribution of the services of Stratos are subject to significant regulation in the United States, the United Kingdom, Canada and New Zealand. The regulation is pervasive and largely outside the control of the Corporation. In general, the allocation and use of radio frequency spectrum for

the provision of satellite and other wireless communications services are regulated on a country by country basis, as well as being subject to coordination by various international organizations. In addition, the implementation and operation of Stratos' systems, like those of other satellite and wireless systems are dependent upon obtaining and maintaining the necessary licenses, certifications and other approvals, which may or may not be issued or renewed by the applicable regulatory authority.

Taxes

The Corporation is subject to tax in many jurisdictions throughout the world. Income tax expense and future income taxes are affected by a number of factors, such as the amount of taxable income in particular jurisdictions, the tax rates in such jurisdictions, tax treaties between jurisdictions, capital taxes not based on taxable income, and future changes in law. Generally, the tax liability for each legal entity is assessed on a legal entity or group of legal entities within the same jurisdiction, therefore, the Corporation is not always able to apply current or prior year's tax losses in certain entities against the taxable income arising in other profitable entities. As a result, the Corporation may pay income and capital taxes or record future tax expense in certain jurisdictions even though losses may be incurred in other jurisdictions.

The foregoing risks should be read in conjunction with the additional risks relating to the Corporation and the remote telecommunications industry described in the Corporation's annual information form filed with Canadian securities regulatory authorities.

Changes in Accounting Policies

A summary of the Corporation's significant accounting policies is presented in Note 1 to the Corporation's Consolidated Financial Statements for the fiscal year ended December 31, 2004. New accounting policies which were adopted in the year ended December 31, 2004 are described below and in Note 2(b) to the Corporation's Consolidated Financial Statements to which this MD&A relates.

Asset Retirement Obligations

Effective January 1, 2004 the Corporation implemented the recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to asset retirement obligations. Under this new policy, the fair value of legal obligations associated with the retirement of tangible long-lived assets must be recognized in the financial statements in the period in which the liability is incurred. Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset, which is then amortized to income. Following the initial recognition of an asset retirement obligation, the carrying amount of the liability is increased for the passage of time by applying an interest method of allocation to the liability with a corresponding accretion cost reflected in income.

Revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized each period as an adjustment to the carrying amount of the asset retirement obligation and the related long-lived asset. This standard was applied retroactively with restatement of prior periods.

As a result of this change in accounting policy, the Corporation reduced opening retained earnings on January 1, 2003 by \$0.9 million; with a corresponding increase in capital assets of \$1.6 million; an increase in the liability for asset retirement obligations of \$2.8 million and a decrease in future income taxes of \$0.3 million.

In the MSS segment, the Corporation has lease contracts in connection with Inmarsat Land Earth Stations ("LES's") in Goonhilly, England, Laurentides, Quebec, Canada, Niles Canyon, California, United States as well as two Telemetry, Tracking and Command stations in Lake Cowichan, British Columbia, Canada and Pennant Point, Nova Scotia, Canada. Long-lived assets employed at these sites include various land earth station and telecommunications equipment. Upon termination of these lease contracts, the Corporation is required to satisfy certain asset retirement obligations including removal of equipment from the buildings and land (such as antennas) and restoration of land and premises to their original condition.

In the Broadband Services segment, the Corporation has microwave equipment and towers installed at various leased customer sites. Asset retirement obligations relate to the requirement for removal of the equipment upon termination of the leases.

This is further described in Note 2(b) to the 2004 Consolidated Financial Statements of the Corporation.

Segment Earnings

As described in Note 2(b) to the Corporation's Consolidated Financial Statements for the year ended December 31, 2004, effective January 1, 2004, the Corporation changed its method of determining segment earnings in order to more closely align segment earnings to information used by the Corporation's chief operating decision maker in managing segments. As a result of this change, segment earnings no longer includes an allocation of depreciation and amortization.

Impairment of Long-lived Assets

Effective January 1, 2004, the Corporation implemented the recommendations of the CICA accounting standard with respect to the impairment of long-lived assets. The recommendations were applied prospectively.

Under the new policy, impairment is assessed using a two step approach. Under the first step, the impairment of capital assets and finite-life intangible assets is tested when events or changes in circumstances indicate that the asset's carrying value is not recoverable and may be in excess of its fair value. The carrying amount of a long-lived asset is not recoverable if its carrying value exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition.

Following from step one, if the asset's carrying amount is in excess of the undiscounted cash flows, step two of the asset impairment test must be performed. Under step two of the test, impairment is measured as the excess of an asset carrying value over fair value. Fair value is measured using a discounted cash flow approach.

This change in accounting policy did not have an impact on the Corporation's earnings or financial position at December 31, 2004 and for the year ended December 31, 2003.

Hedging relationships

Effective January 1, 2004, the Corporation implemented the recommendations of the CICA accounting guideline which outlines the requirements for identification, designation, documentation and effectiveness testing of hedging relationships in order to meet the conditions for applying hedge accounting to certain financial instruments. Implementation of this guideline did not have an impact on the Corporation's earnings or financial position at December 31, 2004.

Outlook

In 2005, Stratos expects to strengthen its customer relationships through the introduction of new products and value added services, and by a continued dedication to customer service excellence. Management intends to introduce product and service offerings to existing vertical markets and to enhance geographic coverage building on the acquisitions announced subsequent to year end. Providing additional services to existing customers through the cross selling of Broadband and MSS products and services also remains a priority. The Company remains focused on pursuing growth through further acquisitions, as opportunities arise.

The Corporation expects revenue growth in 2005 to be in the low to mid teen range, including revenue associated with the acquisition of Plenexis. Basic earnings per share are expected to remain comparable to 2004. The positive earnings per share effect of the Corporation's issuer bid, assuming the maximum 7.4 million shares are tendered for repurchase, are expected to be offset by transition and integration costs related to achieving future synergies from Plenexis, higher depreciation and amortization, increased interest expense resulting from actions taken to reset the Corporation's capital structure in 2004 and 2005 and a higher global effective income tax rate. As previously noted, capital expenditures (excluding the purchase price of acquisitions) in the range of 6% to 7% of revenue are expected to be sufficient to maintain capacity, meet planned growth and fund development activities in 2005.

Broadband

A transmission system that multiplexes multiple independent signals onto one cable. In telecommunications terminology, any channel having a bandwidth greater than a voice-grade channel (4 kHz). In LAN terminology, a coaxial cable on which analog signaling is used. Also called *wideband*.

DIRECWAY®

A VSAT satellite service operated by Hughes Network Systems (HNS) that provides broadband connectivity to consumers and businesses in fixed-site, remote locations, primarily where terrestrial services, such as DSL and cable broadband, are unavailable. Stratos is a value-added reseller of DIRECWAY in the U.S. and Canada.

Fleet F77, F55 and F33

Stratos-provided Inmarsat services that offer highly advanced communications capabilities, including voice, HSD and packet data services for the marine market while at the same time lowering service costs. These services give shipboard crew members the same global access to voice and data communications as any major land-based office. F77 is designed for large vessels, while F55 and F33 offer lighter weight antennas to serve medium- and small-sized vessels, respectively.

Inmarsat®

An acronym for International Maritime Satellite service that provides mobile communications for land, air and sea worldwide.

IP

Internet Protocol. Software that tracks the Internet address of nodes, routes outgoing messages, and recognizes and routes incoming messages.

Iridium®

A global mobile satellite telephone and paging service. Global coverage is provided by low-earth-orbiting satellites, allowing users to make and receive calls virtually anywhere in the world.

Microwave

A high-frequency electromagnetic wave, one millimeter to one meter in wavelength, intermediate between infrared and short-wave radio wavelengths. Can be used as a long-range voice and data communications medium.

MSAT®

A satellite network that provides voice, data and wide area dispatch maritime communications services. MSAT uses spot beam technology to provide secure communication for North and Central America, the northern tip of South America, the Caribbean, and Hawaii.

Regional BGAN

A Stratos-provided Inmarsat service that brings high-speed data communications to developed and developing nations in its service area, with usage charges based on the amount of data sent or received rather than the conventional "per minute" charge for satellite airtime.

StratosITek™

A Stratos-provided IP VSAT service that provides high-speed, always-on connectivity for remote-location land and maritime applications on a global scale. StratosITek offers speeds of up to 2 Mbps and is available in several configurations that allow it to be installed on maritime vessels or moved quickly and easily from location to location on land.

StratosNet®

Stratos' Internet e-mail system, *StratosNet*, is an Internet service optimized for cost-effective mobile communications through multiple mobile satellite networks. *StratosNet* allows you to transmit data at 2.4 kbps or higher while also gaining from the benefits of compression. *StratosNet* makes the Inmarsat-C service extremely efficient for e-mail at sea on any size vessel.

Swift 64™

A Stratos-provided Inmarsat service that provides global in-flight data communications services to commercial and private aircraft at speeds up to 64kbps. Swift 64 services have been designed to meet the needs of aircraft passengers, corporate users and the flight deck, and are designed to take advantage of existing Inmarsat Aero H/H+ installations already found on a large number of aircraft.

VSAT

Very Small Aperture Terminal. A relatively small satellite antenna used for satellite-based point-to-multipoint data communications.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

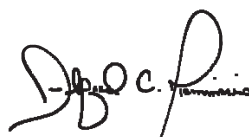
Management is responsible for the integrity and objectivity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The financial information presented elsewhere in this Report is consistent with that shown in the accompanying consolidated financial statements.

Management is also responsible for developing and maintaining the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and that the financial records form a reliable base for the preparation of accurate and timely financial information.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee of the Board of Directors, which consists solely of non-management directors, reviews the consolidated financial statements and recommends them to the Board for approval. The Corporation's auditors (as appointed by the shareholders) have full and unrestricted access to the Board of Directors and the Audit Committee and meet periodically with them (and, separately, in the absence of management) to discuss audit, financial reporting and related matters.



James J. Parm
President and Chief Executive Officer



Alfred C. Giammarino
Executive Vice-President and Chief Financial Officer

To the Shareholders of
Stratos Global Corporation

The Audit Committee oversees the financial reporting process on behalf of the Board of Directors. The Committee is composed entirely of independent Directors, as determined under new corporate governance guidelines introduced by Canadian securities regulatory authorities. In order to carry out this responsibility, the Committee reviews and recommends for approval to the Board of Directors, the Corporation's annual and quarterly financial statements, including management's discussion and analysis of financial condition and results of operations. The Audit Committee also oversees the Corporation's internal audit process and reviews, on a continuing basis, any reports prepared by the Corporation's external auditors relating to its accounting policies and procedures, as well as its internal controls. Financial information prepared for securities regulatory authorities is also examined by the Audit Committee prior to filing. The Committee meets independently with management and the external auditors to review the involvement of each in the financial reporting process. These meetings are designed to facilitate any private communication with the Committee desired by each party. In accordance with the new Audit Committee charter established by the Board of Directors in 2004, the Audit Committee reviews the external auditor's engagement, recommends to the Board of Directors the appointment of the Corporation's external auditors, who are appointed annually by the Corporation's shareholders, and pre-approves all services to be provided by the external auditor.



Josef J. Fridman
Chairman of the Audit Committee

To the Shareholders of
Stratos Global Corporation

We have audited the consolidated balance sheets of Stratos Global Corporation as at December 31, 2004 and 2003 and the consolidated statements of operations, shareholders' equity and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
January 21, 2005


Chartered Accountants

CONSOLIDATED BALANCE SHEETS
As at December 31 (U.S. dollars; in thousands)
Incorporated under the laws of Canada

	2004	2003 (Note 2(b))
Assets (Notes 7 and 8)		
Current		
Cash and cash equivalents	\$ 80,682	\$ 11,469
Accounts receivable (Note 17)	53,349	69,917
Unbilled revenue	23,635	25,251
Inventory	4,719	5,819
Prepays and other	15,416	14,918
Future income taxes (Note 13)	2,746	3,963
	180,547	131,337
Capital assets (Note 3)	134,290	141,723
Goodwill and other intangible assets (Note 4)	207,550	207,684
Other assets (Note 5)	7,258	5,053
	\$ 529,645	\$ 485,797
Liabilities		
Current		
Payables and accruals (Note 6)	\$ 61,623	\$ 60,467
Deferred revenue	7,478	8,865
Current portion of long-term debt (Note 8)	1,651	27,984
	70,752	97,316
Long-term debt (Note 8)	149,176	112,711
Other liabilities (Note 9)	6,085	4,404
Future income taxes (Note 13)	22,263	17,552
Total liabilities	248,276	231,983
Shareholders' equity	281,369	253,814
	\$ 529,645	\$ 485,797

Commitments and contingencies (Note 18)

On Behalf of the Board



Director



Director

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS
Year ended December 31 (U.S. dollars; in thousands, except per share amounts)

	2004	2003 (Note 2(b))
Revenue	\$ 367,753	\$ 397,188
Cost of goods and services	246,278	259,195
Gross margin	121,475	137,993
Operating expenses	43,330	49,222
Interest expense (Note 11)	11,745	15,275
Depreciation and amortization	28,988	29,492
Other costs (income) (Note 12)	3,574	(6,762)
	87,637	87,227
Earnings before income taxes	33,838	50,766
Income tax expense (Note 13)	8,717	12,677
Net earnings	\$ 25,121	\$ 38,089
Basic and diluted earnings per share (Note 14)	\$ 0.51	\$ 0.77

See accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Year ended December 31 (U.S. dollars; in thousands)

	2004	2003 (Note 2(b))
Retained earnings (deficit), beginning of year	\$ 1,042	\$ (36,140)
Retroactive application of change in accounting policy (Note 2(b))	-	(907)
Retained earnings (deficit), beginning of year, as restated	1,042	(37,047)
Net earnings	25,121	38,089
Retained earnings, end of year	26,163	1,042
Capital stock (Note 10)	254,147	252,474
Contributed surplus (Note 10)	1,059	298
Total shareholders' equity	\$ 281,369	\$ 253,814

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOW
Year ended December 31 (U.S. dollars; in thousands)

	2004	2003 (Note 2(b))
Operating activities		
Net earnings	\$ 25,121	\$ 38,089
Items not requiring (generating) cash		
Depreciation and amortization	28,988	29,492
Gain on sale of Inmarsat investment	-	(9,845)
Adjustment to allowance for uncollectability	(1,500)	(5,857)
Write-off of deferred acquisition costs	-	7,285
Asset impairment charges	2,220	5,500
Foreign exchange loss (gain)	337	(37)
Future income tax expense	5,928	6,847
Amortization of deferred financing costs (Note 11)	2,891	1,528
Other	1,002	563
	64,987	73,565
Change in non-cash working capital items related to operating activities (Note 15)	20,821	(5,540)
	85,808	68,025
Investing activities		
Proceeds on sale of Inmarsat investment	-	26,481
Capital asset expenditures	(22,544)	(19,639)
Deferred costs	(5,277)	(6,137)
	(27,821)	705
Financing activities		
Long-term debt repayments	(139,941)	(74,068)
Long term debt proceeds	150,000	-
Capital stock issuances (Note 10)	1,663	7
Other liabilities	(496)	(4,728)
	11,226	(78,789)
Change in cash and cash equivalents during the year	69,213	(10,059)
Cash and cash equivalents, beginning of year	11,469	21,528
Cash and cash equivalents, end of year	\$ 80,862	\$ 11,469
Supplementary cash flow information		
Interest paid	\$ 8,558	\$ 19,146
Income taxes paid	\$ 5,402	\$ 5,639

See accompanying notes



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003 (U.S. dollars;

tabular amounts in thousands except share and per share amounts)

1. DESCRIPTION OF THE BUSINESS

Nature of Operations and Ownership

Stratos Global Corporation (the "Corporation" or "Stratos") provides mobile and fixed telecommunication services to customers operating beyond the reach of traditional terrestrial telecommunication networks. With its extensive portfolio of advanced satellite and microwave technologies, the Corporation provides Internet Protocol, data, and voice solutions to an array of diverse markets worldwide, which primarily include government and military, oil and gas, and maritime. The Corporation provides communications services and solutions for its customers through wholesale arrangements with a number of satellite system operators and its owned and operated telecommunications facilities.

In December 2003, Aliant Inc. ("Aliant") sold all of its 53.2% controlling interest in the outstanding common shares of the Corporation. The outstanding shares of the Corporation are now widely held.

Regulation

Stratos' U.S. subsidiaries are subject to regulation by the U.S. Federal Communications Commission ("FCC"), which is responsible for most aspects of U.S. regulation of telecommunication services provided by private companies, including licensing of services and equipment, assigning of frequencies, regulatory implementation of communications statutes and adjudicating complaints alleging violation of those statutes. Stratos' U.S. subsidiaries hold a number of U.S. common carrier and spectrum licenses to provide mobile satellite, fixed satellite and microwave services.

Stratos' U.K. subsidiaries are subject to regulation by the U.K. Office of Communications ("Ofcom"), which in late 2003 replaced and consolidated the activities of several regulatory bodies, including the Office of Telecommunications and the Radiocommunications Agency, with respect to the provision of telecommunications services, operation of networks, and use of radio spectrum. Pursuant to a number of European Union directives, the U.K. adopted the Communications Act 2003 effective July 17, 2003, substantially replacing the Telecommunications Act 1984. Under this new regulatory regime, telecommunications licenses that were required under the previous legislation to operate networks or provide telecommunications services have been revoked and replaced with a series of general conditions of authorization to which all providers of public telecommunications networks and services (including Stratos Global Limited, the primary U.K. operating subsidiary) are subject. However, Stratos Global Limited is still required to hold a number of spectrum licenses for operation of satellite earth stations, which are issued by Ofcom.

Stratos provides telecommunications services in New Zealand through its operating subsidiary, Stratos New Zealand Limited. Satellite services in New Zealand are governed and regulated by two different industry-specific statutes: the Telecommunications Act 2001 and the Radiocommunications Act 1989. Except for radio and spectrum licenses required under the Radiocommunications Act 1989, no licenses or registrations are required to own or operate land earth stations or to provide public telecommunications services in New Zealand.

The Corporation's Canadian subsidiary, Stratos Wireless Inc., is subject to regulation by the Canadian Radio-television and Telecommunications Commission ("CRTC") with respect to the regulation of telecommunications in Canada and by Industry Canada with respect to the management and allocation of radio spectrum in

1. DESCRIPTION OF THE BUSINESS (cont'd)

Canada and the certification of radio equipment. It holds an international telecommunications service license issued by the CRTC and a spectrum license, various radio equipment certifications and various radio licenses issued by Industry Canada in respect of its satellite assets and services in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES

a) Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and are in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP") except as described in Note 21.

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. As at December 31, 2004, the principal operating subsidiaries of the Corporation, all of which are directly or indirectly wholly owned, are as follows:

- Stratos Wireless Inc.
- Stratos Mobile Networks, Inc.
- Stratos Mobile Networks (USA), L.L.C.
- Stratos Communications, Inc.
- Stratos VSAT, Inc.
- Stratos Offshore Services Company
- Stratos Telecom, Inc.
- Stratos Global Limited
- Stratos Aeronautical Limited
- Stratos Services Limited
- Stratos New Zealand Limited
- Stratos Communications (Australia) Pty Limited

Translation of Foreign Currencies

The Corporation and each of its subsidiaries use the U.S. dollar as their currency of measurement and reporting as a substantial portion of the Corporation's ongoing business is conducted in U.S. dollars.

Transactions which have occurred in currencies other than U.S. dollars have been converted to U.S. dollars at the exchange rate in effect at the transaction date. Carrying values of monetary assets and liabilities in currencies other than U.S. dollars have been converted at the U.S. rate at the balance sheet date and the resulting exchange gain or loss included in income. Monetary assets and liabilities denominated in foreign currencies and translated at year-end exchange rates have been translated to U.S. dollars at Cdn \$1.00 = U.S. \$0.82; 1.00 GBP = U.S. \$1.94 (2003 - Cdn \$1.00 = U.S. \$0.76; 1.00 GBP = U.S. \$1.75).

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments with original maturities of less than 90 days. The fair value of cash and cash equivalents equals the amounts shown in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (cont'd)

Unbilled Revenue

Unbilled revenue represents the amounts receivable for telecommunications services provided to customers, which will become billable in accordance with contractual trade terms.

Inventory

Inventory consists of telecommunications equipment held for resale and is carried at the lower of average cost and net realizable value.

Capital Assets

Capital assets are recorded at cost. Depreciation is computed using either the straight-line or declining-balance methods at rates that will reduce original cost to estimated residual value over the useful lives of the assets, principally as follows:

	Basis	Rate
Telecommunications equipment	Declining-balance	5% – 20%
Earth station equipment	Straight-line	10 – 12 years
Computer hardware and software	Declining-balance	30%
Furniture and other	Straight-line	5 years
Buildings	Declining-balance	4% – 5%

Goodwill

Goodwill represents the excess of the cost of investments in subsidiaries over the fair value of the net identifiable assets acquired.

The Corporation reviews the goodwill of all its reporting units on at least an annual basis to ensure its fair value is in excess of its carrying value. Any impairment in the value of goodwill is charged to income in the period such impairment is determined.

Licenses

Licenses reflect the cost of acquiring the right to transmit radio signals in a given licensed area. These are amortized over the shorter of the duration of the license term and their estimated economic lives ranging from two to ten years.

Deferred Financing Costs

Costs incurred in connection with securing debt financing have been deferred and are amortized over the terms of the related debt.

Deferred Start-up Costs

Costs incurred in the start-up period of new business ventures are deferred until commercial viability is attained. These costs are amortized over a period not to exceed five years commencing on completion of the start-up period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (cont'd)

Research and Development Costs

Research costs are charged as an expense in the period in which they are incurred. Development costs are also expensed in the period incurred, unless they meet specified criteria related to technical, financial and market feasibility. Where these criteria are met, the costs are recorded as deferred development costs and amortized on a straight-line basis over the shorter of the product's estimated life cycle and three years.

Government Assistance

Government assistance related to capital assets is recorded as a deferred credit and amortized to income on the same basis as the related capital assets are depreciated.

Government assistance related to development costs is recorded as a deferred credit and amortized to income on the same basis as the related cost.

Revenue Recognition

The Corporation derives revenue principally from the sale of airtime, typically pursuant to service agreements or fixed-term contracts. The Corporation provides its customers with telecommunications services that are typically usage based, determined on metered bases such as the number of dedicated circuits or data lines provided or leased, data units transmitted, or minutes used. Revenues are recognized at the time service is provided to customers. Estimates are included to provide for that portion of fixed-to-mobile revenue that has not been reported or confirmed by domestic carriers. Revenue is subject to final determination and settlement with these carriers.

Revenues generated from sales of communications equipment are recognized as products are shipped. Revenues related to service agreements are recognized as the services are performed.

Payments received in advance for services to be provided in future periods are recorded in current or long-term deferred revenue in accordance with the duration of the service period and are recognized in revenue as the services are provided.

Employee Benefits

The Corporation has defined contribution pension plans covering substantially all of its employees whereby the Corporation matches a portion of employee contributions to the plan. The Corporation's contributions to the defined contribution pension plans for the year ended December 31, 2004 were \$1.4 million (2003 – \$1.6 million). The Corporation does not provide defined benefit pension arrangements for its employees nor does it provide other post-retirement benefits.

The cost of compensated absences and other employment benefits, such as health care, dental, and similar employee benefit plans, are expensed as employment services are rendered.

Income Taxes

The Corporation follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using substantively enacted tax rates

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (cont'd)

and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding for the year. Diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents.

Stock-based Compensation Plans

The Corporation has two stock-based compensation plans which are described in Note 10.

(i) Stock Option Plan

The Corporation records compensation expense for stock options issued on or after January 1, 2003 using the fair value method. The Corporation discloses pro forma net earnings and earnings per share using the fair value method for stock-based compensation awards granted in 2002.

(ii) Deferred Share Unit Plan

Effective in the second quarter of 2004, the Corporation established a deferred share unit ("DSU") plan for the directors of the Corporation with respect to a portion of directors' compensation.

The Corporation uses the fair value method to determine compensation expense associated with its DSUs. The DSU obligation is valued at the current market price of a common share. Changes in the market value of the DSU during the period are recorded in operating income and result in an increase or decrease in compensation expense.

Derivative Financial Instruments

Derivative financial instruments may be utilized by the Corporation in the management of its foreign currency and interest rate exposures. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation periodically enters into hedges of its foreign currency exposures on foreign currency denominated investing and financing commitments by entering into offsetting forward exchange contracts, when it is deemed appropriate. The Corporation does not enter into forward exchange contracts to manage exposure to exchange rate fluctuations pertaining to its future net cash flows from operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (cont'd)

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency investing and financing commitments are recorded as an adjustment to the applicable investing or financing activity.

The Corporation also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Corporation designates its interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument and is not replaced, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Use of Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of the allowance for uncollectability of accounts receivable and revenue adjustments; the useful life of capital and intangible assets; the impairment of long-lived assets and the provision for income taxes. Actual results could differ from those estimates.

Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

b) Accounting Changes

Asset Retirement Obligation

Effective January 1, 2004, the Corporation implemented the recommendations of the CICA with respect to asset retirement obligations. Under this new policy, the fair value of legal obligations associated with the retirement of tangible long-lived assets must be recognized in the financial statements in the period in which the liability is incurred. Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset, which is subsequently amortized to income over the remaining useful life of the asset. Following the initial recognition of an asset retirement obligation, the carrying amount of the liability is increased for the passage of time by applying an interest method of allocation to the liability with a corresponding accretion cost reflected in operating expenses. This standard was applied retroactively with restatement of prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (cont'd)

Revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized each period as an adjustment to the carrying amount of the asset retirement obligation and the related long-lived asset.

As a result of this change in accounting policy, the Corporation reduced opening retained earnings on January 1, 2003 by \$0.9 million; with a corresponding increase in capital assets of \$1.6 million; an increase in the liability for the asset retirement obligation of \$2.8 million; and a decrease in future income taxes of \$0.3 million. The impact of this change in accounting policy on net earnings for the year ended December 31, 2004 was a decrease of \$0.4 million.

The following outlines the net earnings and basic and diluted earnings per share impact for the year ended December 31, 2003 as a result of adoption of the new accounting policy.

	2003
Reported net earnings	\$ 38,479
Accretion expense	(257)
Depreciation and amortization	(243)
Income tax	110
Adjusted net earnings	\$ 38,089
Reported basic and diluted earnings per share	\$ 0.78
Restated basic and diluted earnings per share	\$ 0.77

Impairment of Long-lived Assets

Effective January 1, 2004, the Corporation implemented the recommendations of the CICA accounting standard with respect to the impairment of long-lived assets. The recommendations were applied prospectively.

Under the new policy, impairment is assessed using a two step approach. Under the first step, the impairment of capital assets and finite-life intangible assets is tested when events or changes in circumstances indicate that the asset's carrying value is not recoverable and may be in excess of its fair value. The carrying amount of a long-lived asset is not recoverable if its carrying value exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition.

If the asset's carrying amount is in excess of the undiscounted cash flows, step two of the asset impairment test must be performed. Under step two of the test, impairment is measured as the excess of an asset's carrying value over fair value. Fair value is measured using a discounted cash flow approach.

Impairment charges recorded in 2003 and 2004 did not result from the adoption of the new accounting policy (Note 12).

Segment Earnings

Effective January 1, 2004, the Corporation changed its method of determining segment earnings in order to more closely align segment earnings to amounts used by the Corporation's chief operating decision maker in managing segments. As a result of this change, segment earnings no longer include an allocation of depreciation and amortization.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (cont'd)

This change resulted in an increase in segment earnings in the Mobile Satellite Services ("MSS") segment for the year ended December 31, 2004 of \$18.5 million (year ended December 31, 2003 – \$18.5 million). The increase in segment earnings in the Broadband Services ("Broadband") segment as a result of this change, for the year ended December 31, 2004, was \$10.5 million (year ended December 31, 2003 – \$11.0 million).

Hedging Relationships

Effective January 1, 2004, the Corporation implemented the recommendations of the CICA accounting guideline which outlines the requirements for identification, designation, documentation and effectiveness testing of hedging relationships in order to meet the conditions for applying hedge accounting to certain financial instruments. Implementation of this guideline did not have an impact on the Corporation's earnings or financial position at December 31, 2004.

3. CAPITAL ASSETS

	2004		
	Cost	Accumulated Depreciation	Net Book Value
Telecommunications equipment	\$ 127,701	\$ 66,853	\$ 60,848
Earth station equipment	85,751	36,614	49,137
Computer hardware and software	37,867	21,107	16,760
Furniture and other	6,277	5,136	1,141
Buildings	8,323	2,925	5,398
Land	1,006	-	1,006
	\$ 266,925	\$ 132,635	\$ 134,290
	2003		
	Cost	Accumulated Depreciation	Net Book Value
Telecommunications equipment	\$ 121,117	\$ 52,808	\$ 68,309
Earth station equipment	80,861	26,652	54,209
Computer hardware and software	27,600	16,678	10,922
Furniture and other	5,973	4,311	1,662
Buildings	7,904	2,289	5,615
Land	1,006	-	1,006
	\$ 244,461	\$ 102,738	\$ 141,723

Depreciation expense related to capital assets for the year ended December 31, 2004 was \$27.8 million (2003 – \$27.9 million). Accumulated amortization for the year ended December 31, 2004 includes \$2.2 million (2003 – \$3.0 million) related to an impairment of capital assets (Note 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

4. GOODWILL AND OTHER INTANGIBLE ASSETS

	2004	2003
Goodwill	\$ 203,440	\$ 203,440
Licenses	4,110	4,244
	\$ 207,550	\$ 207,684

Effective January 1, 2002, goodwill is no longer amortized. Accumulated amortization related to goodwill was \$15.6 million for the years ended December 31, 2004 and 2003.

Amortization expense related to licenses for the year ended December 31, 2004 was \$0.7 million (December 31, 2003 – \$0.9 million). Accumulated amortization related to licenses was \$5.3 million for the year ended December 31, 2004 (2003 – \$4.6 million). Included in accumulated amortization for 2003 was \$2.5 million related to an impairment in the value of licenses (Note 12). Estimated aggregate amortization expense related to licenses for the next five years from December 31 is as follows:

	2005	2006	2007	2008	2009
	\$ 773	\$ 743	\$ 682	\$ 560	\$ 560

5. OTHER ASSETS

	2004	2003
Deferred financing costs	\$ 3,116	\$ 2,449
Deferred start-up costs	858	1,374
Deferred acquisition costs	641	–
Deferred development costs	47	168
Other	2,596	1,062
	\$ 7,258	\$ 5,053

Amortization of other assets for the year ended December 31, 2004 was \$0.5 million (2003 – \$0.7 million).

6. PAYABLES AND ACCRUALS

	2004	2003
Trade accounts payable	\$ 52,842	\$ 52,576
Accrued employee costs	5,629	6,708
Other accrued liabilities	3,152	1,183
	\$ 61,623	\$ 60,467

7. BANK INDEBTEDNESS

The Corporation has in place a revolving operating facility providing available credit totalling \$25.0 million. Letters of credit totalling \$0.6 million were in place at year end leaving \$24.4 million of credit available to the Corporation at December 31, 2004. The revolving operating facility is available to the Corporation in Canadian or U.S. dollars and bears interest at varying base rates plus 100 – 225 basis points per annum, based on the Corporation's leverage ratios as set out in the credit agreement. As at December 31, 2004, if any amounts had been drawn on the revolving operating facility, the applicable interest rate would have

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

7. BANK INDEBTEDNESS (cont'd)

been LIBOR plus 100 basis points. The unused balance on the revolving operating facility at December 31, 2004 is subject to an annual standby fee of 25 basis points. This rate is subject to change based on the Corporation's leverage ratio as set out in the credit agreement. The facility is subject to the terms and conditions described for the credit facilities in Note 8.

8. LONG-TERM DEBT

	Interest Rate at December 31, 2004	2004	2003
Term B facility	LIBOR + 2.25%	\$ 150,000	\$ -
Term facility	-	-	139,300
Mortgage obligation	7.59%	743	772
Atlantic Canada Opportunities Agency	-	-	386
Capital lease obligations	7.10%	84	237
		150,827	140,695
Less: long-term debt due within one year		1,651	27,984
		\$ 149,176	\$ 112,711

Credit Facilities

Up to December 3, 2004, the Corporation's credit facilities were provided by a syndicate of Canadian chartered banks ("Term Lenders") and consisted of a \$15.0 million revolving operating facility and a non-revolving term facility due on December 31, 2005. The Corporation repaid \$17.5 million during the year on the term facility in accordance with scheduled repayment terms. Effective December 3, 2004, the Corporation completed a refinancing of its credit facilities. The new credit facility consists of a \$150.0 million non-revolving Term B facility provided by a group of U.S. institutional lenders ("Term B Lenders") with an amortization period of six years. Proceeds from the Term B debt were principally used to repay the remaining \$121.8 million of the term facility then outstanding. The new facility also includes a \$25.0 million revolving operating facility with a term of five years which replaces the \$15.0 million revolving operating facility available under the former credit facility. The operating facility is provided by a syndicate of five lending institutions.

The debt under the Term B facility matures December 2010, and bears interest at LIBOR plus 225 basis points per annum based on the Corporation's senior secured credit rating. An improvement in this rating could result in a reduction of the margin rate to 200 basis points as defined in the credit agreement. The applicable LIBOR rates at December 31, 2004 and 2003 were 2.56% and 1.13%, respectively. At December 31, 2004, the Corporation had in place interest rate swap agreements to exchange LIBOR floating interest rates on \$66.7 million of its Term B facility for fixed interest rates of 5.43% per annum (Note 20). The effective interest rate for the year ended December 31, 2004 was 6.65% (2003 - 7.40%).

As collateral for the Term B facility, Stratos has provided a first priority perfected security interest over all of the assets of the Corporation and its subsidiaries. In addition to the scheduled repayments, specified proceeds from new debt and equity issues by Stratos, as well as certain excess cash flows, as defined in the credit agreement, are to be applied to the debt balance then outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

8. LONG-TERM DEBT (cont'd)

Under the credit facilities, the Corporation is subject to certain financial covenants. The Corporation is permitted to make additional borrowings, payments related to dividends, as well as redemptions and repurchases of equity interests of the Corporation provided it maintains certain financial covenants as set out in the credit agreement.

In prior years, a guarantee in respect of the former term facility had been provided by the Corporation's then majority shareholder, Aliant, in return for a guarantee fee of 2% per annum. In December 2003, the Corporation paid \$4.6 million to Aliant in respect of the guarantee fee. The balance of \$0.6 million, representing interest on the guarantee fee, was payable to Aliant when all debts and obligations of the Corporation to the Term Lenders were discharged in full and therefore was repaid in December 2004 upon repayment of the term facility.

Mortgage Obligation

The first mortgage bears interest at a rate of 7.59% per annum, is repayable in blended monthly installments of \$15.0 thousand, matures in April 2011, is amortized over a 10 year period, and is collateralized by land and a building owned by the Corporation. The mortgage obligation is denominated in Canadian dollars. The Canadian dollar equivalent was \$0.9 million at December 31, 2004 (2003 – \$1.0 million).

Atlantic Canada Opportunities Agency

Amounts owing to Atlantic Canada Opportunities Agency consisted of two non-interest bearing, uncollateralized loans, which were fully repaid in December 2004.

Capital Lease Obligations

Capital lease obligations bear interest at a rate of 7.10% per annum, are repayable in monthly installments, mature in March 2007, and are collateralized by specific assets of the Corporation.

Repayment Requirements

The following outlines the annual principal repayment requirements over the next five years from December 31:

	2005	2006	2007	2008	2009	Thereafter
	\$ 1,651	\$ 1,628	\$ 1,614	\$ 1,619	\$ 1,628	\$ 142,687

9. OTHER LIABILITIES

	2004	2003
Asset retirement obligation	\$ 3,329	\$ 3,058
Deferred revenue	1,962	–
Government assistance, net of accumulated amortization of \$985 (2003 – \$929)	591	647
Payable to Aliant Inc. (Note 8)	–	647
Other	203	52
	\$ 6,085	\$ 4,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

9. OTHER LIABILITIES (cont'd)

In the MSS segment, the Corporation has lease contracts in connection with its Inmarsat Land Earth Stations ("LESs"). Long-lived assets employed at these sites include various LES and telecommunications equipment. Upon termination of these lease contracts, the Corporation is required to satisfy certain asset retirement obligations including removal of equipment such as antennas from the buildings and land and restoration of land and premises to their original condition.

The total estimated undiscounted cash flows at December 31, 2004 required to settle the asset retirement obligations in the MSS segment are \$2.4 million. These obligations are expected to be settled over various future periods as follows:

Range of Expected Settlement Dates	Estimated Undiscounted Cash Flows
2009 – 2010	\$ 404
2014 – 2015	2,008
	\$ 2,412

Credit adjusted risk-free rates, based on the period over which the liability will be settled, used to discount these cash flows ranged from 9.16% to 9.61%.

In the Broadband segment, the Corporation has microwave equipment and towers installed at various leased customer sites. Asset retirement obligations relate to the requirement for removal of the equipment upon termination of the leases.

The total estimated undiscounted cash flows at December 31, 2004 required to settle the asset retirement obligations in the Broadband segment are \$4.2 million. These obligations are expected to be settled over various future periods as follows:

Range of Expected Settlement Dates	Estimated Undiscounted Cash Flows
2005 – 2006	\$ 693
2007 – 2010	809
2011 – 2015	2,701
	\$ 4,203

Credit adjusted risk-free rates, based on the period over which the liability will be settled, used to discount these cash flows ranged from 8.51% to 9.43%.

The asset retirement obligation associated with long-lived assets is as follows:

	2004	2003
Asset retirement obligation, beginning of period	\$ 3,058	\$ 2,801
Accretion expense	271	257
Asset retirement obligation, end of period	\$ 3,329	\$ 3,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

10. CAPITAL STOCK

The Corporation is authorized to issue an unlimited number of preferred shares, issuable in series, and an unlimited number of common shares. No preferred shares have been issued, while at December 31, the issued common shares were as follows:

	2004		2003	
	Number	Stated Value	Number	Stated Value
Beginning of year	49,119,703	\$ 252,474	49,118,703	\$ 252,458
Issued pursuant to exercise of options	259,400	1,663	1,000	7
Transfers from contributed surplus related to exercise of options	-	10	-	9
End of year	49,379,103	\$ 254,147	49,119,703	\$ 252,474

Stock Based Compensation

(i) Stock Option Plan

The Corporation has a stock-based compensation plan under which stock options to acquire common shares in the Corporation have been granted to certain senior employees, officers and directors. Effective February 11, 2003 stock options are no longer granted to directors under the Corporation's Stock Option Plan.

Total common shares reserved for issuance under the Corporation's stock option plan is 5,500,000, of which 974,315 common shares remain available for grant at December 31, 2004. The options are granted at exercise prices equivalent to or above the fair market value of the Corporation's common shares as of the date the options are granted, and have varying vesting terms. The maximum term over which options may be held under the Plan before they are exercised is 10 years from the date of grant.

Pursuant to an amendment to the Plan implemented in the second quarter of 2004, tandem stock appreciation rights ("SARs") may be issued at or after the grant of the related stock options. The SARs entitle the participant to receive an amount equal to the excess of the fair market value of a common share over the exercise price of the related option, which is payable at the discretion of the Board, in cash or common shares. In the event the participant elects to exercise the SAR, the related option is cancelled.

Tandem SARs were attached to 562,100 of the options granted during the year ended December 31, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

10. CAPITAL STOCK (cont'd)

Details of stock options outstanding are as follows:

	2004		2003	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of year	2,225,739	\$ 9.11	2,207,245	\$ 7.93
Granted	688,100	\$ 8.34	398,000	\$ 7.81
Exercised	(259,400)	\$ 7.76	(1,000)	\$ 7.78
Forfeited, cancelled or expired	(589,904)	\$ 9.74	(378,506)	\$ 9.23
Outstanding at end of year	2,064,535	\$ 9.59	2,225,739	\$ 9.11
Exercisable at end of year	757,351	\$ 10.28	1,053,475	\$ 9.14
Weighted average fair value of options granted during the year		\$ 3.64		\$ 5.05

The following table summarizes information about stock options outstanding and exercisable at December 31, 2004:

Options Outstanding Range of exercise price	Number outstanding	Weighted average remaining life (years)	Options Exercisable		
			Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 2.00 – \$ 4.49	5,000	-	\$ 2.66	5,000	\$ 2.66
\$ 4.50 – \$ 6.99	45,500	-	\$ 6.95	45,500	\$ 6.95
\$ 7.00 – \$ 9.49	1,428,700	6	\$ 8.14	323,950	\$ 8.32
\$ 9.50 – \$ 14.75	585,335	6	\$ 12.14	382,901	\$ 11.75
	2,064,535		\$ 9.59	757,351	\$ 10.28

The Corporation issues stock options with both U.S. and Canadian dollar exercise prices. The Corporation's common shares and stock options are denominated in Canadian dollars. Exercise prices have been translated to U.S. dollars at the period end exchange rates disclosed in Note 2(a).

Stock-based compensation expense recognized in income for the year ended December 31, 2004 related to stock options granted on or after January 1, 2003 was \$0.8 million (2003 – \$0.3 million) with a corresponding increase in contributed surplus.

The following outlines the pro forma net earnings and basic and diluted earnings per share impact for the years ended December 31, 2004 and 2003 had the Corporation used the fair market value method of accounting for stock-based compensation awards issued in 2002. The pro forma adjustments presented below exclude stock options granted in 2003 and 2004, for which compensation expense was recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

10. CAPITAL STOCK (cont'd)

	2004	2003
Reported net earnings	\$ 25,121	\$ 38,089
Stock based compensation expense	(663)	(415)
Adjusted net earnings	\$ 24,458	\$ 37,674
Adjusted basic earnings per share	\$ 0.50	\$ 0.77
Adjusted diluted earnings per share	\$ 0.49	\$ 0.76

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for options granted during 2004 and 2003.

	2004			2003		
	September	June	March	September	June	March
Risk free interest rate	4.15%	4.28%	4.54%	4.53%	5.02%	5.16%
Expected life	6.00 yrs	6.00 yrs	7.00 yrs	7.00 yrs	8.00 yrs	8.30 yrs
Expected volatility	39.5%	44.4%	46.6%	53.9%	78.2%	80.2%
Expected dividends	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

(ii) Deferred Share Unit Plan

Effective in the second quarter of 2004, members of the Board of Directors are required to receive a minimum of 50% of their directors' compensation in the form of deferred share units ("DSUs"). Directors may elect to receive a greater proportion of their compensation in DSUs by filing an election with the Corporation. The number of DSUs granted is determined by dividing the portion of the fees to be paid in DSUs by the market value of the DSU. The market value of a DSU on any particular date is equal to the average closing price of a common share of the Corporation on the preceding five trading days on the Toronto Stock Exchange. Additional DSUs are to be granted if dividends are paid.

The DSUs vest immediately upon issue and are required to be settled in cash. DSUs are redeemed when a director ceases to be a member of the Board of Directors. The cash value to be paid for each DSU is equivalent to the market value of the DSU on the redemption date.

DSUs, in respect of directors' fees, payable for the quarter ended December 31, 2004, will be issued in January 2005. At December 31, 2004, the amount recorded in current liabilities related to DSUs issued during the year was \$0.3 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

11. INTEREST EXPENSE

The components of interest expense for the years ended December 31 are as follows:

	2004	2003
Long-term debt	\$ 8,657	\$ 13,046
Guarantee fee (Note 8)	-	543
Amortization of deferred financing costs	2,891	1,528
Bank indebtedness and other	197	158
	\$ 11,745	\$ 15,275

Amortization of deferred financing costs includes \$1.5 million related to the write-off of costs deferred in connection with credit facilities in place prior to the refinancing on December 3, 2004.

12. OTHER COSTS (INCOME)

Other costs (income) are comprised of the following:

	2004	2003
Severance and other costs	\$ 2,854	\$ 3,155
Asset impairment charges	2,220	5,500
Adjustment to allowance for uncollectability	(1,500)	(5,857)
Gain on sale of Inmarsat investment	-	(9,845)
Receipt from former controlling shareholder	-	(7,000)
Write-off of deferred acquisition costs	-	7,285
	\$ 3,574	\$ (6,762)

Severance and Other Costs

Severance and other costs in 2004 and 2003 were associated with workforce reductions in the MSS and Broadband divisions and at the corporate level as well as the consolidation of certain finance and operational functions in the Broadband and MSS divisions. These costs consisted of severance, retention, relocation, travel and other expenses associated with restructuring activities.

As at December 31, 2004, the remaining unpaid balance related to severance and other costs was \$1.1 million (December 31, 2003 – \$0.5 million).

Asset Impairment Charges

During 2004, the Corporation recorded asset impairment charges of \$1.9 million in the Broadband division including \$0.7 million which resulted from the termination of a contract which utilized specific assets that are not being redeployed by the Corporation due to the nature of the technology. The remaining \$1.2 million resulted from the consolidation of certain telecommunication switches in the Broadband division to achieve efficiencies and improve customer service. An impairment charge of \$0.3 million was recorded in the MSS division in 2004. The planned rationalization of MSS network infrastructure to improve operational efficiency and reduce operating costs resulted in the impairment of certain assets that are of no further productive use to the Corporation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

12. OTHER COSTS (INCOME) (cont'd)

During 2003, the Corporation completed a review of its aeronautical business and operations. As a result of this review, an asset impairment charge of \$5.5 million was recorded relating to an impairment in the carrying value of capital assets (\$3.0 million) and licenses (\$2.5 million).

Adjustment to Allowance for Uncollectability

Management regularly conducts a detailed evaluation of the allowance for doubtful accounts. Better than anticipated collections have resulted in a significant reduction in overall account balances, an improvement in the aging of accounts receivable, and a reduction in the concentration of accounts receivable due from certain large customers. Accordingly, management has revised its estimate of the required allowance for uncollectability of accounts receivable, resulting in a \$1.5 million reduction included in income during the fourth quarter of 2004.

During the fourth quarter of 2003, the Corporation completed an evaluation of the allowance for uncollectability of accounts receivable including those made in connection with the BT A&M business acquired in December 2000. Successful collection activities and better than expected settlements with certain customers, resulted in a revision of management's estimate of the required allowance for uncollectability of accounts receivable. As a result, a \$5.9 million reduction was recorded in income in 2003.

Gain on Sale of Inmarsat Investment

In December 2003, the Corporation disposed of its 1.76% ownership interest investment in Inmarsat Ventures plc, a provider of global satellite services, for gross proceeds of \$26.5 million, resulting in a gain of \$9.8 million.

Receipt from Former Controlling Shareholder

During the third quarter of 2003, the Corporation's then controlling shareholder and holder of 53.2% of the outstanding common shares, Aliant, announced it had entered into an agreement to sell to a syndicate of underwriters 26,141,024 subscription receipts, each of which entitled the holder to acquire one share of Stratos upon receipt of applicable regulatory approval of the FCC. In connection with the Aliant subscription receipt offering, Stratos and Aliant entered into an agreement pursuant to which Aliant agreed to make a payment of \$7.0 million to Stratos in recognition of certain costs expected to be incurred by Stratos as a result of it ceasing to be a subsidiary of Aliant and becoming a widely held company. This payment had been contingent on receipt of the FCC approval. As a result of obtaining this approval in the fourth quarter of 2003, the Corporation had met its performance obligations under the agreement and, therefore, recognized the \$7.0 million receipt in income in 2003.

Write-off of deferred acquisition costs

The Corporation incurred and deferred costs in 2002 and 2003 aggregating \$7.3 million related to the pursuit of a significant acquisition opportunity. As at December 31, 2003, the successful completion of this transaction was no longer more likely than not, and as a result the deferred acquisition costs were written off in 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

13. INCOME TAXES

Reconciliation to Statutory Rates

The following is a reconciliation of income taxes, calculated at the Canadian combined federal and provincial statutory income tax rates, to the income tax provision recorded in the consolidated statements of operations for the years ended December 31:

	2004	2003
Earnings before income taxes	\$ 33,838	\$ 50,766
Income tax expense based upon statutory rates	12,182	19,291
Increase (decrease) in income taxes resulting from:		
Taxable (non-taxable) items	2,204	(1,805)
Benefit of previous years' non-capital losses	(6,921)	(6,359)
Difference in foreign tax rates	674	898
Capital tax	578	652
Income tax expense	\$ 8,717	\$ 12,677

Provision for income taxes

The components of the provision for income taxes are as follows:

	2004	2003
Canadian		
Current taxes	\$ 453	\$ 502
Future income taxes	2,246	-
	2,699	502
Foreign		
Current taxes	2,336	5,328
Future income taxes	3,682	6,847
	6,018	12,175
Income tax expense	\$ 8,717	\$ 12,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

13. INCOME TAXES (cont'd)

Future income taxes

The tax effects of temporary differences which give rise to future tax assets and liabilities are as follows:

	2004	2003
Loss carry-forwards	\$ 9,180	\$ 17,148
Capital assets	(9,582)	(8,996)
Goodwill	(14,799)	(9,988)
Current assets	2,191	3,735
Asset retirement obligation	1,174	1,119
Share issue costs	104	244
Other	833	228
Valuation allowance	(8,618)	(17,079)
Total future income taxes	\$ (19,517)	\$ (13,589)

Future income taxes comprise:

	2004	2003
Future income tax asset – current portion	\$ 2,746	\$ 3,963
Future income tax liability – long-term portion	(22,263)	(17,552)
Net future income tax liability	\$ (19,517)	\$ (13,589)

Tax Losses

The Corporation has estimated non-capital tax losses carried forward at December 31, 2004 amounting to approximately \$18.2 million expiring at various dates from 2007 to 2020. The use of approximately \$3.6 million of these losses is limited to an annual amount on a straight line basis over twenty years as prescribed by tax legislation. The Corporation has a net capital loss of \$6.6 million which can only be utilized against capital gains. The net capital loss will be available in 2007.

The change in the valuation allowance primarily represents the utilization of losses carried forward and the recognition of previously unrecognized loss carry forwards. The valuation allowance primarily relates to the potential future benefits in respect of net loss carryforwards of \$7.0 million or \$2.1 million of the valuation allowance (December 31, 2003 – \$27.9 million or \$10.0 million of the valuation allowance) and in respect of other deductible differences of \$21.5 million or \$6.4 million of the valuation allowance (December 31, 2003 – \$25.3 million or \$7.1 million of the valuation allowance). These tax assets will be recognized in future periods when it becomes more likely than not that the benefits will be realized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

14. PER SHARE INFORMATION

	2004	2003
Net earnings	\$ 25,121	\$ 38,089
Weighted average common shares used in the calculation of basic earnings per share	49,337	49,119
Incremental common shares calculated in accordance with the treasury stock method	163	205
Weighted average common shares used in the calculation of diluted earnings per share	49,500	49,324
Basic and diluted earnings per share	\$ 0.51	\$ 0.77

Options to purchase 2,064,535 common shares were outstanding at December 31, 2004 (2003 – 2,225,739). Options to purchase 1,117,135 common shares were not included in the computation of diluted earnings per share for the year ended December 31, 2004 (2003 – 1,240,606) because the exercise prices of such options were greater than or equal to the average market price of the common shares during the period.

15. CHANGE IN NON-CASH WORKING CAPITAL

	2004	2003
Accounts receivable	\$ 18,398	\$ (14,020)
Unbilled revenue	1,616	(188)
Inventory	749	950
Prepays and other	(1,410)	294
Payables and accruals	893	7,496
Deferred revenue	575	(72)
	\$ 20,821	\$ (5,540)

16. BUSINESS SEGMENTS

The Corporation's reportable segments are MSS and Broadband.

The MSS segment includes the sale of airtime and equipment for Stratos' Inmarsat, MSAT, Iridium, aeronautical and other mobile satellite operations. The Broadband segment includes the sale of airtime, equipment and services for Stratos' microwave and VSAT operations.

The Corporation evaluates performance and allocates resources based on segment earnings before interest expense, depreciation and amortization, other costs (income) and income taxes ("Segment earnings"). Intersegment transactions are not significant and are eliminated upon consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

16. BUSINESS SEGMENTS (cont'd)

	2004	2003
Revenue		
MSS	\$ 265,772	\$ 300,810
Broadband	101,981	96,378
	\$ 367,753	\$ 397,188
Segment earnings		
MSS	\$ 56,144	\$ 67,398
Broadband	22,001	21,373
	\$ 78,145	\$ 88,771
Interest expense	\$ 11,745	\$ 15,275
Depreciation and amortization	28,988	29,492
Other costs (income)	3,574	(6,762)
	\$ 44,307	\$ 38,005
Earnings before income taxes	\$ 33,838	\$ 50,766
Total identifiable assets at December 31	2004	2003
MSS	\$ 205,083	\$ 184,720
Broadband	121,122	97,637
	\$ 326,205	\$ 282,357
Goodwill		
MSS	\$ 162,591	\$ 162,591
Broadband	40,849	40,849
	\$ 203,440	\$ 203,440
	\$ 529,645	\$ 485,797

Geographic Information - Revenue

	2004	2003
United States	\$ 223,536	\$ 250,760
United Kingdom	69,001	69,387
Canada	16,374	21,128
Other	58,842	55,913
	\$ 367,753	\$ 397,188

Geographic Information - Capital Assets and Goodwill

	2004	2003
United States	\$ 101,207	\$ 105,820
United Kingdom	158,325	167,166
Canada	51,574	43,911
Other	26,624	28,266
	\$ 337,730	\$ 345,163

Revenues are attributed to different countries based on the billing address of the customer for whom the service was provided.

17. FINANCIAL INSTRUMENTS

Risk Management

The Corporation's earnings and cash flow may be negatively impacted by fluctuations in interest and foreign currency exchange rates. In special investing and financing situations, the Corporation enters into foreign currency forward contracts in order to mitigate earnings volatility associated with foreign currency fluctuations and match the timing of cash flow requirements.

Derivative financial instruments entered into by the Corporation are subject to standard credit terms and conditions, financial controls, and risk monitoring procedures. The Corporation does not hold or issue derivative financial instruments for trading purposes.

Interest Rate Exposures

Long-term debt is mainly issued at floating rates of interest and is therefore subject to risks associated with fluctuating interest rates. The Corporation has entered into, for hedging purposes, two interest rate swap transactions (the "Swap Transactions") with two Canadian chartered banks. The Swap Transactions expire on December 30, 2005. They involve the exchange of the underlying three-month U.S. dollar LIBOR floating interest rates for fixed interest rates of 5.43% per annum. The notional amount of the Swap Transactions at December 31, 2004 was \$33.4 million and \$33.3 million, respectively for a total of \$66.7 million (2003 – \$65.0 million each for a total of \$130.0 million).

Transactions are reduced in varying quarterly amounts over the term to December 30, 2005. The fair value of the Swap Transactions, which represents the amount that would be paid by the Corporation if the transactions were terminated at December 31, 2004 was \$1.1 million (2003 – \$5.5 million).

Foreign Currency Exposures

The Corporation has long-term debt that is denominated primarily in U.S. dollars, as disclosed in Note 8, which is therefore not subject to risks associated with fluctuating foreign currency rates of exchange since the Corporation's reporting and functional currency is U.S. dollars.

The Corporation operates internationally and is therefore exposed to market risks related to foreign currency exchange rate fluctuations. The Corporation does not enter into forward contracts to manage exposure to exchange rate fluctuations pertaining to its future net cash flows of currencies from operations. However in special situations the Corporation enters into forward contracts in order to manage exchange rate fluctuations pertaining to its future net cash flows of currencies from investing and financing activities. There were no forward contracts entered into for investing or financing activities in 2004 or 2003.

Credit Exposure

The Corporation is exposed to credit risk in the event of non-performance by counter parties to its derivative financial instruments. Non-performance is not anticipated since these counter parties are highly rated financial institutions.

The Corporation is also exposed to credit risk with respect to accounts receivable from customers. The Corporation provides services to many customers across different geographic areas. No customer accounted for 10% or more of the Corporation's accounts receivable at December 31, 2004 (December 31, 2003 – 14%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

17. FINANCIAL INSTRUMENTS (cont'd)

The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis. The allowance for uncollectability of accounts receivable and revenue adjustments at December 31, 2004 was \$10.8 million (December 31, 2003 – \$20.8 million). During the year ended December 31, 2004, \$8.7 million of accounts receivable were offset against the allowance for uncollectability of accounts receivable.

Fair Values

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgment.

The carrying values of financial instruments included in current assets and current liabilities in the consolidated balance sheets approximate their fair values, reflecting the short-term maturity and normal trade credit terms of these instruments. The fair value of the long-term debt is based on current pricing of financial instruments with comparable terms. This fair value reflects a point-in-time estimate that may not be relevant in predicting the Corporation's future income or cash flows. As at December 31, 2004 and 2003, the estimated fair value of long-term debt corresponds to its carrying value.

18. COMMITMENTS AND CONTINGENCIES

Commitments

The estimated future minimum payments for operating leases, maintenance contracts, committed capital expenditures and purchase obligations for the next five years and thereafter from December 31, 2004 are \$130.5 million, payable as follows:

2005	\$	51.9
2006	\$	38.2
2007	\$	15.8
2008	\$	6.5
2009	\$	6.1
Thereafter	\$	12.0

Telecommunications Agreements

The Corporation is party to various telecommunications service agreements in the normal course of business, as required to interconnect with other carriers and to allow Stratos to provide diverse multi-network telecommunications services to its customers. These agreements are subject to normal commercial terms as negotiated from time to time, which establish the terms of service and settlement with regards to interconnection and other services provided.

Contingencies

In the normal course of operations, the Corporation is subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

19. RELATED PARTY TRANSACTIONS

Transactions with related parties occurred in the normal course of operations and have been measured at the amounts exchanged.

As at December 31, 2002, BCE Inc. beneficially owned approximately 53.1% of the total outstanding common shares of Aliant, which in turn owned approximately 53.2% of the outstanding common shares of the Corporation. In December 2003, Aliant sold its interest in the Corporation. As a result, Aliant is no longer a shareholder of the Corporation and Aliant and BCE are no longer related parties. Transactions and balances with Aliant and BCE to the date of disposition in December 2003 included revenue of \$1.6 million; other costs (income) of (\$7.0) million and purchases of equipment of \$7.2 million. The payable to related parties at December 31, 2003 was \$1.0 million. There were no transactions with related parties during the year ended December 31, 2004.

20. SUBSEQUENT EVENTS

In January 2005, the Corporation announced two strategic acquisitions designed to strengthen its vertical market and geographic presence. The Corporation has entered into a definitive agreement to acquire 100 percent of Plenexis Holding GmbH, a European VSAT service provider headquartered in Bonn, Germany. The purchase price of the Plenexis shares together with the assumption of debt and estimated transaction costs is \$8.7 million. The Corporation closed the transaction on January 31, 2005. Additionally, the Corporation has acquired a 49 percent ownership interest in Navarino Telecom SA and NTS Maritime Ltd. (collectively referred to as "Navarino"), a strategic maritime distributor operated from Athens, Greece. The purchase price for the minority interest in Navarino is \$6.3 million, including estimated transaction costs.

On January 13, 2005, the Corporation announced an issuer bid involving an offer to repurchase for cancellation up to 7,400,000 common shares of the Corporation for a purchase price ranging from \$10.75 Cdn to \$12.00 Cdn per common share representing a premium of up to 12% above the closing price on January 12, 2005. The offer represents approximately 15% of the total number of issued and outstanding common shares of the Corporation at December 31, 2004, and expires on February 18, 2005 unless extended by the Corporation. The Corporation will fund any purchase of shares pursuant to the issuer bid from available cash on hand and the proceeds received under a new \$25.0 million non-revolving incremental term facility available under the Corporation's existing credit agreement. The Corporation has received commitments for this facility from a syndicate of lending institutions.

On January 14, 2005, the Corporation entered into an interest rate swap with a notional amount of \$75.0 million to hedge the interest payments on a portion of its long-term debt. The swap involves the exchange of the underlying three month U.S. dollar LIBOR rates for a fixed rate of 3.95%. The swap transaction expires January 14, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with Canadian GAAP which differ in certain respects from those principles that the Corporation would have followed had its financial statements been prepared in accordance with U.S. GAAP. This note summarizes these differences as they relate to the Corporation.

a) The reconciliation of net earnings in accordance with Canadian GAAP to conform to U.S. GAAP for the year ended December 31 is as follows:

	2004	2003
Net earnings in accordance with Canadian GAAP	\$ 25,121	\$ 38,089
Interest rate swap (i)	4,470	5,268
Deferred start-up costs (iii)	516	682
Deferred development costs (iii)	121	605
Deferred financing costs (iv)	1,028	(247)
Stock-based compensation costs (v)	(33)	(265)
Income tax impact of the above (i, iii, iv, viii)	5,891	42
Net earnings in accordance with U.S. GAAP	\$ 37,114	\$ 44,174

The impact of these adjustments on the shareholders' equity accounts of the Corporation at December 31 is as follows:

	2004	2003
Shareholders' equity in accordance with Canadian GAAP	\$ 281,369	\$ 253,814
Interest rate swap (i)	(1,055)	(5,525)
Business combinations (ii)	(20,802)	(20,802)
Deferred start-up costs (iii)	(858)	(1,374)
Deferred development costs (iii)	(47)	(168)
Deferred financing costs (iv)	-	(1,028)
Income tax impact of the above (i, ii, iii, iv, viii)	6,500	609
Shareholders' equity in accordance with U.S. GAAP	\$ 265,107	\$ 225,526

The components of shareholders equity at December 31 are as follows:

	2004	2003
Capital Stock	\$ 256,185	\$ 254,134
Retained earnings (deficit)	11,648	(25,466)
Contributed surplus (v)	1,100	684
Other comprehensive income	(3,826)	(3,826)
Shareholders' equity in accordance with U.S. GAAP	\$ 265,107	\$ 225,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

**21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES (cont'd)**

The balance sheets in accordance with U.S. GAAP at December 31 are as follows:

	2004		2003	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets				
Current				
Cash and cash equivalents	\$ 80,682	\$ 80,682	\$ 11,469	\$ 11,469
Accounts receivable	53,349	53,349	69,917	69,917
Unbilled revenue	23,635	23,635	25,251	25,251
Inventory	4,719	4,719	5,819	5,819
Prepays and other	15,416	15,416	14,918	14,918
Future income taxes	2,746	2,746	3,963	3,963
	180,547	180,547	131,337	131,337
Capital assets	134,290	134,290	141,723	141,723
Goodwill (ii)	203,440	182,638	203,440	182,638
Other assets (iii, iv)	11,368	10,463	9,297	6,727
	\$ 529,645	\$ 507,938	\$ 485,797	\$ 462,425
Liabilities				
Current				
Payables and accruals	\$ 61,623	\$ 61,623	\$ 60,467	\$ 60,467
Derivative instruments (i)	-	1,055	-	5,525
Deferred revenue	7,478	7,478	8,865	8,865
Current portion of long-term debt	1,651	1,651	27,984	27,984
	70,752	71,807	97,316	102,841
Long-term debt	149,176	149,176	112,711	112,711
Other liabilities	6,085	6,085	4,404	4,404
Future income taxes (ii, iii, viii)	22,263	15,763	17,552	16,943
Total liabilities	248,276	242,831	231,983	236,899
Shareholders' equity	281,369	265,107	253,814	225,526
	\$ 529,645	\$ 507,938	\$ 485,797	\$ 462,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003 (U.S. dollars;
tabular amounts in thousands except share and per share amounts)

**21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES (cont'd)**

Following are statements of operations for the year ended December 31 in accordance with U.S. GAAP:

	2004	2003
Revenue	\$ 367,753	\$ 397,188
Costs of goods and services	243,189	255,631
Gross margin	124,564	141,557
Selling, general and administrative	39,107	44,740
Rental expense	5,076	4,903
Bad debt expense	1,295	2,158
Depreciation and amortization	28,988	29,492
Write-off of deferred acquisition costs	-	7,285
Asset impairment charge (Note 12)	2,220	5,500
Foreign exchange loss (gain)	337	(37)
Other costs	2,854	3,155
	79,877	97,196
Earnings from operations	44,687	44,361
Interest expense	10,717	15,522
Interest rate swap	(4,470)	(5,268)
Gain on sale of Inmarsat investment (Note 12)	-	(9,845)
Adjustment to allowance for uncollectability (Note 12)	(1,500)	(5,857)
Receipt from former controlling shareholder (Note 12)	-	(7,000)
Net earnings before income taxes	39,940	56,809
Income tax expense	2,826	12,635
Net earnings	\$ 37,114	\$ 44,174
Basic and diluted earnings per share in accordance with U.S. GAAP	\$ 0.75	\$ 0.90

i) *Derivative Instruments*

The interest rate swap transactions described in Note 17 meet the criteria for hedge accounting and are accounted for as hedges under Canadian GAAP. Under U.S. GAAP all derivatives are recorded on the balance sheet at fair values and Statement of Financial Accounting Standards ("SFAS") 133, *Accounting for Derivative Instruments and Hedging Activities* establishes certain criteria to be met and documentation to be in place in order to designate a derivative instrument as a hedge and to deem a hedge as effective. As certain elements of the prescribed documentation were not in place in accordance with the U.S. GAAP, for the years ended December 31, 2004 and 2003, the interest rate swaps were not eligible for hedge accounting.

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

As a result, under U.S. GAAP, any changes in fair value of the swaps are reflected as a charge or credit to income in the period. Documentation in place for the new swap transaction entered into on January 14, 2005 (Note 20) meets the requirements for hedge accounting under both Canadian and U.S. GAAP.

In addition, in connection with the equity offering of common shares in 2002, the Corporation entered into a forward exchange contract in order to fix the U.S. dollar value of the anticipated net proceeds from the offering. Under Canadian GAAP, this forward contract was accounted for as a hedge of the Canadian dollar denominated net proceeds from the offering. Therefore, the proceeds from the offering were credited to capital stock at the contracted exchange rate. Under U.S. GAAP, this forward exchange contract did not meet the criteria necessary to be classified as a hedge. Therefore, under U.S. GAAP the proceeds from the offering were recorded at the exchange rate prevailing at the date the proceeds were received, and the loss on the forward exchange contract was charged to income in 2002.

ii) Business Combinations

As part of the business combinations completed prior to January 1, 2001, transition and integration costs, employee retention bonuses, and impairments in value of certain redundant assets of the Corporation were included as acquisition costs and accounted for using the purchase method. Under U.S. GAAP, transition and integration costs and asset impairment losses related to redundant assets of the acquirer Corporation are expensed as incurred. Accordingly, the goodwill related to these acquisitions under U.S. GAAP is lower than that recorded under Canadian GAAP.

iii) Deferred Start-up and Development Costs

Under Canadian GAAP, start-up costs are deferred and amortized over periods not exceeding five years based on the expected period and pattern of benefit of the deferred expenditures. Certain development costs are capitalized and amortized over their estimated useful lives if they meet the criteria for deferral. Under U.S. GAAP, these costs are charged to expense in the period incurred. The difference between U.S. GAAP and Canadian GAAP represents the start-up and deferred development costs capitalized in the respective year, net of the reversal of amortization expense recorded for Canadian GAAP relating to amounts previously capitalized. This adjustment also resulted in a change in the future income tax liability for the period.

iv) Deferred Financing Costs

Under Canadian GAAP, costs incurred in connection with securing debt financing are deferred and amortized to income on a straight line basis over the term of the related debt. Under U.S. GAAP, such deferred financing costs are amortized to income using the effective interest rate method.

v) Stock-based Compensation Costs

As described in Note 2, during 2003 the Corporation elected to adopt the fair value method of accounting for stock options granted to directors, officers and employees on or after January 1, 2003 under Canadian GAAP. The Corporation also adopted fair value accounting for U.S. GAAP purposes under the prospective method.

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

In accordance with the transitional provisions available under Canadian GAAP, the Corporation provides pro forma disclosures of net earnings and related per share amounts using the fair value method of accounting for such stock options granted on or after January 1, 2002. Under U.S. GAAP these pro forma disclosures are required to reflect, to the extent applicable, the impact of all options granted to directors, officers and employees since December 15, 1995, the effective date of SFAS 123, *Accounting for Stock-based Compensation*. Prior to January 1, 2003, the Corporation used the intrinsic value method of accounting for such stock options under U.S. GAAP.

In 2001, the Corporation reduced the exercise price of certain outstanding options to the then current market price of the Corporation's common shares. As a result, all 137,500 of these repriced options are subject to variable accounting under the intrinsic value method until such time as they are exercised, expire or are forfeited. Consequently, any increases in the market price of the Corporation's common shares subsequent to the date of the repricing are reflected as additional stock-based compensation costs and amortized to expense over the remaining vesting period of such repriced options. Any subsequent decreases in the market price of the Corporation's common shares result in a reversal of previously recognized stock-based compensation expense. As of December 31, 2004, there were 32,300 such options outstanding (December 31, 2003 – 137,500) with an exercise price of \$10.25 per share.

For options granted in 2001 and prior periods, option grants to some individuals have been modified by the Corporation to extend the option life or accelerate the vesting period upon termination of employment. These modifications are measured by calculating a new intrinsic value for the awards concerned on the date of modification. Certain of these modifications have resulted in an additional expense and contributed surplus in the current and prior periods under U.S. GAAP.

Contributed surplus was reduced by \$0.4 million in 2004, with a corresponding increase in capital stock related to options exercised for which the related expense was credited to contributed surplus.

The following table sets out the pro forma net earnings and related basic and diluted earnings per share figures for the year ended December 31 in accordance with U.S. GAAP:

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

	2004	2003
Net earnings as per U.S. GAAP	\$ 37,114	\$ 44,174
Stock-based compensation expense included in reported net income determined under the intrinsic value based method	33	265
Stock-based compensation expense included in reported net income determined under the fair value based method	770	307
Total stock-based compensation expense determined under the fair value based method for all awards	(4,604)	(3,677)
Adjusted net earnings as per U.S. GAAP	\$ 33,313	\$ 41,069
Adjusted basic earnings per share	\$ 0.68	\$ 0.84
Adjusted diluted earnings per share	\$ 0.67	\$ 0.83

vi) Impairment of Long-lived Assets

The Corporation reviews its long-lived assets, which consist of capital assets and other assets, for impairment when events or changes in circumstances indicate that the carrying value of the related assets may not be recoverable. Prior to adoption of the new accounting standard for impairment of long-lived assets on January 1, 2004, if an asset's carrying value was in excess of the net undiscounted future cash flows expected to be generated by the assets, an impairment loss was recognized in the amount of such excess under Canadian GAAP. Under U.S. GAAP, if the carrying value of the asset exceeds the net undiscounted future cash flows an impairment loss is recognized, however, the amount of the impairment loss is determined as the excess of the carrying value of the assets over their fair value. Fair value is measured using a discounted cash flow approach. With respect to the impairment charges recorded in 2003, the application of the methodology under U.S. GAAP for measurement of asset impairment charges did not produce a different result than the methodology under Canadian GAAP.

Effective January 1, 2004, the Corporation implemented the accounting recommendations of the CICA with respect to impairment of long lived assets. As a result of adopting this standard, there is no longer a difference between Canadian and U.S. GAAP with respect to measurement of asset impairment charges.

vii) Change in Reporting Currency

Effective January 1, 2001, the Corporation changed both its functional and reporting currencies from the Canadian dollar to the U.S. dollar. Under Canadian GAAP, financial statements of all periods prior to January 1, 2001 were translated into U.S. dollars in accordance with the translation of convenience method using the exchange rate as at December 31, 2000.

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

Under U.S. GAAP, these prior period financial statements are translated into U.S. dollars using the current rate method, as if the reporting currency had always been the U.S. dollar. The application of this change resulted in differences in individual balances within shareholders' equity between Canadian and U.S. GAAP as of January 1, 2001; however, total shareholders' equity was unchanged.

The balance of accumulated other comprehensive income arose solely as a result of this translation method, therefore, the balance has not changed since January 1, 2001.

viii) Income Taxes

Under Canadian GAAP in the third quarter of 2004, the Corporation recognized a future tax asset in respect of previously unrecognized tax loss carryforwards as outlined in Note 13. Under U.S. GAAP the amount of the previously unrecognized benefit of tax loss carryforwards is increased due to the cumulative effect of prior years adjustments. The Corporation has determined that it is more likely than not that these unrecognized benefits will be realized in the future.

ix) Statement of Operations

Under U.S. GAAP, certain line items in the statements of operations, such as depreciation and amortization, write-off of deferred acquisition costs, asset impairment charges and other costs would be included in the determination of operating income.

x) Advertising Costs

Advertising costs are expensed as incurred.

b) The consolidated statements of cash flow comply with International Accounting Standard 7. However, there are certain differences under U.S. GAAP as a result of other reconciling items. A summary cash flow statement for the years ended December 31 in accordance with U.S. GAAP is presented below.

	2004	2003
Cash flows from operating activities in accordance with U.S. GAAP	\$ 86,445	\$ 69,312
Cash flows from investing activities in accordance with U.S. GAAP	\$ (28,458)	\$ (582)
Cash flows from financing activities in accordance with U.S. GAAP	\$ 11,226	\$ (78,789)