



**For Immediate Release:**

## Stratos Announces 2008 Year-End Results

BETHESDA, MD (February 24, 2009) – Stratos Global Corporation, the world’s trusted leader in delivering vital voice, data and IP communication services today announced financial results for the year ended December 31, 2008.

### Financial Highlights

(in millions of U.S. dollars, except per share amounts)

	Year ended December 31	
	2008	2007
Revenue	\$ <b>639.0</b>	\$ 594.3
EBITDA*	\$ <b>116.5</b>	\$ 104.5
Net earnings	\$ <b>20.9</b>	\$ 2.0
Basic and diluted earnings per share	\$ <b>0.50</b>	\$ 0.05

\* EBITDA (a non-GAAP measure) is defined by the Corporation as earnings before interest expense, income taxes, other (income) costs, management long-term incentive expense, depreciation and amortization, non-controlling interest and equity in earnings of investee.

The audited consolidated financial statements and management’s discussion and analysis of financial condition and results of operation are available on SEDAR, [www.sedar.com](http://www.sedar.com) and the Corporation’s website, [www.stratosglobal.com](http://www.stratosglobal.com)

For the year ended December 31, 2008, the Corporation achieved revenue of US\$639.0 million, an 8 percent increase compared with US\$594.3 million in 2007. The increased revenue resulted primarily from increased Inmarsat leasing and aeronautical revenue, increased sales of mobile terminals and equipment and increased Iridium handheld revenues in the Mobile Satellite Services (“MSS”) segment, partially offset by a decrease in revenues in the Broadband segment. EBITDA for year ended December 31, 2008 increased by 11 percent to US\$116.5 million compared with US\$104.5 million for 2007. The significant improvement in EBITDA for the year ended December 31, 2008 was driven by the increased MSS revenue and cost reductions resulting from the network integration and other initiatives to reduce costs and improve operating efficiencies.

Net earnings for the year ended December 31 2008 were US\$20.9 million, or US\$0.50 per share, compared with net earnings of US\$2.0 million, or US\$0.05 per share in 2007. The results for 2007 were negatively impacted by US\$16.7 million, or US\$0.40 per share, of after-tax financial advisory, legal, and other costs related to the transaction with CIP Canada, which were partially offset by an after-tax gain of US\$3.8 million, or US\$0.09 per share, related to an hurricane insurance settlement.

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Cash flow from operations (including working capital changes) in 2008 totaled US\$78.0 million compared with US\$57.3 million generated in 2007. The improvement primarily reflects the higher net earnings.

## About Stratos

Stratos is the world's trusted leader for vital communications. Stratos offers the most powerful and extensive portfolio of remote communications solutions including mobile and fixed satellite and microwave services. More than 20,000 customers use Stratos products and industry-leading value added services to optimize communication performance. Stratos serves U.S. and international government, military, first responder, NGO, oil and gas, industrial, maritime, aeronautical, enterprise, and media users on seven continents and across the world's oceans. For more information visit [www.stratosglobal.com](http://www.stratosglobal.com)

## Caution Concerning Forward-Looking Statements

*Documents related to this release contain statements and information about potential future circumstances and developments. Such statements and information are qualified by the inherent risks and uncertainties surrounding future expectations generally and may differ materially from Stratos Global Corporation's actual future results. For additional information with respect to these risks and uncertainties, reference should be made to the Corporation's continuous disclosure materials filed with the Canadian Securities Administrators. Stratos Global Corporation disclaims any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events, or otherwise.*

## Investor Contact:

Paula Sturge, FCA  
Executive Vice President & CFO  
709-724-5227  
[paula.sturge@stratosglobal.com](mailto:paula.sturge@stratosglobal.com)



*Consolidated Financial Statements of*

**STRATOS GLOBAL CORPORATION**

*As at December 31, 2008 and 2007*

## AUDITORS' REPORT

To the Shareholder of  
**Stratos Global Corporation**

We have audited the consolidated balance sheets of **Stratos Global Corporation** as at December 31, 2008 and 2007 and the consolidated statements of operations, shareholder's equity, comprehensive earnings 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, 2008 and 2007 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

St. John's, Canada,  
February 10, 2009.

*Ernst + Young LLP*

Chartered Accountants



## Consolidated Balance Sheets

As at December 31 (U.S. dollars; in thousands)

Incorporated under the laws of Canada

	2008	2007
<b>Assets (Note 9(a))</b>		
Current		
Cash and cash equivalents	\$ 104,906	\$ 63,878
Accounts receivable (Notes 20 and 22)	90,486	89,233
Unbilled revenue	36,129	34,263
Inventory (Note 4)	14,814	10,930
Prepays and other	23,942	19,689
Future income taxes (Note 15)	8,388	3,553
	<b>278,665</b>	<b>221,546</b>
Investments (Note 6)	6,415	6,755
Property, plant and equipment (Note 5)	117,489	126,117
Goodwill and other intangible assets (Note 7)	384,511	396,783
Other assets	2,192	1,314
	<b>\$ 789,272</b>	<b>\$ 752,515</b>
<b>Liabilities</b>		
Current		
Payables and accruals (Note 8)	\$ 157,722	\$ 136,486
Deferred revenue	13,108	11,017
Current portion of long-term debt (Note 9)	2,379	11,649
	<b>173,209</b>	<b>159,152</b>
Long-term debt (Note 9)	350,522	350,781
Other liabilities (Note 10)	10,079	14,037
Future income taxes (Note 15)	32,321	27,478
Total liabilities	<b>566,131</b>	<b>551,448</b>
Non-controlling interest	497	448
<b>Shareholder's equity</b>	<b>222,644</b>	<b>200,619</b>
	<b>\$ 789,272</b>	<b>\$ 752,515</b>

Commitments and contingencies (Note 21)

(signed) "Charles Bissegger"

Director

(signed) "James Parm"

Director

See accompanying notes



## Consolidated Statements of Operations

Years ended December 31 (U.S. dollars; in thousands, except per share amounts)

	2008	2007
<b>Revenue</b>	<b>\$ 638,994</b>	\$ 594,337
Cost of goods and services	<b>462,763</b>	428,073
<b>Gross margin</b>	<b>176,231</b>	166,264
Operating expenses	<b>73,345</b>	65,225
Interest expense (Note 13)	<b>33,032</b>	33,379
Depreciation and amortization	<b>39,303</b>	41,138
Other (income) costs (Note 14)	<b>1,673</b>	11,403
Non-controlling interest	<b>49</b>	(52)
Equity in earnings of investees	<b>(796)</b>	(1,079)
	<b>146,606</b>	150,014
<b>Earnings before income taxes</b>	<b>29,625</b>	16,250
Income tax expense (Note 15)	<b>8,737</b>	14,236
<b>Net earnings</b>	<b>\$ 20,888</b>	\$ 2,014
<b>Basic and diluted earnings per share (Note 16)</b>	<b>\$ 0.50</b>	\$ 0.05

See accompanying notes

## Consolidated Statements of Shareholder's Equity

Years ended December 31 (U.S. dollars; in thousands)

	2008	2007
<b>Deficit, beginning of year</b>	<b>\$ (18,881)</b>	\$ (21,175)
Financial instruments – recognition and measurement	-	280
Net earnings	<b>20,888</b>	2,014
<b>Retained earnings (deficit), end of year</b>	<b>2,007</b>	(18,881)
Capital stock (Note 11(a))	<b>216,153</b>	216,153
Contributed surplus (Note 11(b))	<b>4,563</b>	4,563
Accumulated other comprehensive loss (Note 12)	<b>(79)</b>	(1,216)
<b>Total shareholder's equity</b>	<b>\$ 222,644</b>	\$ 200,619

See accompanying notes



## Consolidated Statements of Comprehensive Earnings

Years ended December 31 (U.S. dollars; in thousands)

	2008	2007
<b>Net earnings</b>	<b>\$ 20,888</b>	<b>\$ 2,014</b>
Other comprehensive earnings (loss):		
Reclassification adjustment for losses (gains) included in net earnings, net of income tax expense (recovery) of \$(390) (2007 - \$13)	757	(6)
Net gain (loss) on derivatives designated as cash flow hedges, net of income tax expense of \$184 (2007 - \$(932)) (Note 2(a))	380	(1,844)
	<b>1,137</b>	<b>(1,850)</b>
<b>Comprehensive earnings</b>	<b>\$ 22,025</b>	<b>\$ 164</b>
See accompanying notes		



## Consolidated Statements of Cash Flow

Years ended December 31 (U.S. dollars; in thousands)

	2008	2007
<b>Operating activities</b>		
Net earnings	\$ 20,888	\$ 2,014
Items not requiring (generating) cash		
Depreciation and amortization	39,303	41,138
Foreign exchange loss	1,286	815
Future income tax expense	1,431	9,906
Amortization of deferred financing costs (Note 13)	1,946	1,728
Equity in earnings of investees – net of dividends	360	(95)
Stock-based compensation expense	-	1,628
Gain on insurance proceeds (Note 14)	-	(4,502)
Gain on disposal of property, plant and equipment	(484)	(1,000)
Management incentive plan expense (Note 10)	11,434	-
Other	561	1,226
	76,725	52,858
Change in non-cash working capital items related to operating activities (Note 18)	1,262	4,446
	77,987	57,304
<b>Investing activities</b>		
Business acquisition (Note 3)	-	(20,000)
Equity accounted investment (Note 6)	(19)	-
Purchases of property, plant and equipment	(24,377)	(22,234)
Proceeds from disposal of property, plant and equipment	760	240
Proceeds from insurance on disposal of property, plant and equipment	-	4,502
Other assets	(770)	33
	(24,406)	(37,459)
<b>Financing activities</b>		
Long-term debt repayments	(11,389)	(2,382)
Deferred financing costs	-	(755)
Other liabilities	(1,164)	(945)
	(12,553)	(4,082)
<b>Change in cash and cash equivalents during the year</b>	<b>41,028</b>	<b>15,763</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>63,878</b>	<b>48,115</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 104,906</b>	<b>\$ 63,878</b>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 26,472	\$ 31,779
Income taxes paid	\$ 2,334	\$ 5,602
See accompanying notes		



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 1. Description of the business

#### Nature of operations and ownership

Stratos Global Corporation (the "Corporation" or "Stratos") provides advanced mobile and fixed-site remote telecommunications services to customers operating beyond the reach of traditional terrestrial telecommunications 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.

#### 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 telecommunications 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.

The Corporation's subsidiaries in the Netherlands are subject to regulation under the Telecommunications Act 1998, which was revised on May 19, 2004 and is enforced by the Independent Post and Telecommunications Authority. On July 26, 2004, Xantic B.V. was granted registrations as a public telecommunications network provider and a provider of telecommunications 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.

The Corporation's Australian earth station operations are regulated by the Radiocommunications Act 1992 and the Telecommunications Act 1997. The Radiocommunications Act provides for the licensing and management of the radio frequency spectrum used to transmit and receive services to and from land earth stations,



## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### **1. Description of the business (cont'd.)**

satellites and any mobile earth station situated in Australia. The Telecommunications Act regulates the use of land earth stations and satellite equipment to the extent that they are used to provide telecommunications services within Australia. The Corporation's subsidiaries hold all required licenses under these Acts.

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 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.

The Corporation's German subsidiaries are subject to regulation by the German Telecommunications Act 2004 in respect of very small aperture terminal ("VSAT") satellite services. Stratos' German subsidiaries hold various licenses in Germany, including a Class II license from the German telecommunications and postal regulatory authority, authorizing the operation of telecommunications services via satellite.

The Corporation's Russian subsidiary is subject to regulation by the Russian communications ministry and holds various licenses in Russia in respect of its satellite communications operations.

### **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 25.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 2. Summary of significant accounting policies and accounting changes (cont'd.)

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. As at December 31, 2008, the principal operating subsidiaries of the Corporation, all of which are directly or indirectly wholly owned unless otherwise noted below, are as follows:

- Stratos Wireless Inc.
- Stratos Mobile Networks, Inc.
- Stratos Mobile Networks (USA), L.L.C.
- Stratos Government Services Inc.
- Stratos Communications, Inc.
- Stratos Offshore Services Company
- Stratos Global Limited
- Stratos Services Limited
- Stratos New Zealand Limited
- Stratos Communications (Australia) Pty Limited
- Stratos Gesellschaft Fur Satelliten – Kommunikation mbH
- Moskowskij Teleport (75% ownership interest)
- Xantic B.V.
- Xantic Sales B.V.

#### 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 earnings. Monetary assets and liabilities denominated in foreign currencies and translated at exchange rates in effect at December 31, 2008 have been translated to U.S. dollars at Cdn \$1.00 = U.S. \$0.82; 1.00 Euro = U.S. \$1.42 (December 31, 2007 – Cdn \$1.00 = U.S. \$1.02; 1.00 Euro = U.S. \$1.46).

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with original maturities of less than 90 days that are readily convertible to known amounts of cash and are subject to an insignificant risk of a material change in value.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 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.

#### Property, plant and equipment

Property, plant and equipment 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%

#### Impairment of long-lived assets

Impairment of long-lived assets is assessed using a two step approach. Under the first step, the impairment of property, plant and equipment and finite-life intangible assets is tested when events or changes in circumstances indicate that the asset's carrying value is not recoverable. 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.

#### Asset retirement obligation

The fair value of legal obligations associated with the retirement of tangible long-lived assets is 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



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 2. Summary of significant accounting policies and accounting changes (cont'd.)

amortized to earnings 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.

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.

#### Investments

Long-term investments through which the Corporation exerts significant influence over the investee are accounted for by the equity method. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro-rata share of post acquisition earnings of the investee. When there has been a decline in the value of an investment that is other than a temporary decline, the investment is written down to estimated net realizable value.

#### Goodwill and other intangible assets

Goodwill represents the excess of the cost of investments in subsidiaries over the fair value of the net identifiable tangible and intangible 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. The annual impairment test is as of November 30. Any impairment in the value of goodwill is charged to earnings in the period such impairment is determined.

Other intangible assets consist of licenses and customer relationships and contracts which have a limited life. 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 three to ten years. Customer contracts represent the fair value of order backlogs and contracts acquired. Customer contracts acquired in connection with the acquisition of Plenexis Holding GmbH and its subsidiaries ("Plenexis") were fully amortized as at January 31, 2008. Customer relationships acquired in connection with the acquisition of Xantic B.V. and its subsidiaries ("Xantic") are being amortized at varying percentages of cost based on the expected benefit to be derived in each year determined using the undiscounted cash flows expected from the customer relationships for the period from 2006 to 2018. As a percentage of the original cost, the annual average percentages used to determine amortization expense for customer relationships from 2006 to 2018 is as follows:

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2006 – 2009	10%
2010 – 2013	9%
2014 – 2018	5%

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### **2. Summary of significant accounting policies and accounting changes (cont'd.)**

#### **Deferred financing costs**

Costs incurred in connection with obtaining debt financing have been deferred and are recorded as a reduction to the principal amount of the debt. The costs are amortized over the terms of the related debt using the effective interest rate method.

#### **Government assistance**

Government assistance related to property, plant and equipment is recorded as a deferred credit and amortized to earnings on the same basis as the related property, plant and equipment are depreciated.

#### **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. Revenue is 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.

Revenue generated from sales of communications equipment is recognized when the risks and rewards of ownership are transferred to the purchaser. Revenue related to service agreements is 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, 2008 were \$2.0 million (2007 - \$1.9 million).

As part of the acquisition of Plenexis, the Corporation assumed defined benefit pension plans which are unfunded. The unfunded defined benefit pension liability at December 31, 2008 was \$0.1 million and covers three former employees (2007 - \$0.2 million). In valuing pension obligations for its defined benefit pension plans, the Corporation uses the projected unit credit method.



## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### **2. Summary of significant accounting policies and accounting changes (cont'd.)**

As part of the acquisition of Xantic, the Corporation also assumed defined benefit pension plans administered by KPN N.V. ("KPN") for employees in the Netherlands. The assets of these plans are not segregated from the assets of other KPN administered plans and therefore they are treated as multi-employer plans and are accounted for in the same manner as defined contribution plans. Pension expense for these plans for the year ended December 31, 2008 was \$0.7 million (2007 - \$0.9 million).

The Corporation also assumed Xantic's early retirement plan in the Netherlands. This is a defined benefit plan that is neither funded nor insured through a third party, but is paid directly to employees upon early retirement. The Corporation recognizes a provision for all benefits that will become a payment obligation in accordance with the then prevailing collective labour agreement. The provision for early retirement is calculated using the projected unit credit method. Pension (recovery) expense for this plan for the year ended December 31, 2008 was \$(1.8) million (2007 - \$0.3 million) (Note 24).

The Corporation does not 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 and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be realized or settled.

The effect of a change in substantively enacted income tax rates on future income tax assets and liabilities is recognized in earnings 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.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 2. Summary of significant accounting policies and accounting changes (cont'd.)

#### Stock-based compensation plans

The Corporation had three stock-based compensation plans which are described in Note 11.

(i) *Stock option plan*

The Corporation recorded 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*

The Corporation has a deferred share unit ("DSU") plan for the non-employee 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 DSUs. The DSU obligation is valued at the fair value of a common share. Changes in the fair value of the DSU during the period are recorded in earnings and result in an increase or decrease in compensation expense.

(iii) *Performance share unit plan*

The Corporation had a performance share unit ("PSU") plan for certain senior employees. The Corporation uses the fair value method to determine compensation expense associated with such PSUs.

#### Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are initially recorded in the balance sheet at fair value. In subsequent periods, loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost; held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net earnings, and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive earnings (loss) until the instrument is derecognized or impaired. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale, normal purchase exemption. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive earnings (loss).

The Corporation classifies its financial assets and liabilities as follows:

- Cash and cash equivalents are classified as held-for-trading financial assets. These assets are measured at fair value and changes in fair value are recognized in consolidated earnings.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 2. Summary of significant accounting policies and accounting changes (cont'd.)

- Trade accounts receivable are classified as loans and receivables and are measured at amortized cost, which is generally the amount on initial recognition.
- Long-term investments accounted for by the equity method are specifically excluded from the requirements of Section 3855(a).
- Payables and accruals are classified as other financial liabilities and are measured at amortized cost, which is generally the amount on initial recognition.
- Senior credit facilities, senior unsecured notes and mortgage obligation are classified as other financial liabilities and are measured at amortized cost, using the effective interest rate method. Transaction costs relating to other financial liabilities are applied against the carrying amount of the related financial liabilities.

#### 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.

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.

Previously realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, remain in accumulated other comprehensive loss and are recognized in earnings 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 previously recorded in accumulated other comprehensive loss is recognized in earnings.

The Corporation enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its floating rate long-term debt. The fair value of these derivatives are recorded on the balance sheet. 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 cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. The change in value of the effective portion of the hedges is recognized in other comprehensive earnings (loss). Any ineffectiveness



## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### **2. Summary of significant accounting policies and accounting changes (cont'd.)**

within an effective cash flow hedge is recognized in earnings as it arises in the same income account as the hedged items when realized.

The Corporation periodically uses foreign exchange forward contracts to manage foreign exchange risks. The forward contracts are classified as held for trading and re-measured at fair value with the change in fair value recognized in earnings in the current period.

#### **Comprehensive income**

The Corporation records unrealized gains and losses resulting from changes in fair value of its cash flow hedge accounted financial instruments in comprehensive earnings (loss).

#### **Use of accounting estimates**

The preparation of financial statements in conformity with Canadian and U.S. 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant areas requiring the use of management's estimates include the determination of the allowance for uncollectability of accounts receivable and revenue adjustments; the valuation of property, plant and equipment, intangible assets and goodwill and income tax expense. 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**

##### **Capital disclosures**

On January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, "Capital Disclosures". The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. As a result of implementing this standard, the Corporation has included the additional disclosure in Note 17 to the financial statements.

##### **Financial instruments – disclosures and presentation**

On January 1, 2008, the Corporation adopted the CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation". These sections replace existing Handbook Section 3861, "Financial Instruments – Disclosures and



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 2. Summary of significant accounting policies and accounting changes (cont'd.)

Presentation". Section 3862 requires disclosure by class of financial instruments that enables users to evaluate the significance of financial instruments for the Corporation's financial position and performance. Disclosures are also required of qualitative and quantitative information that enable users of financial statements to evaluate the nature and extent of the Corporation's exposure to the risks arising from financial instruments, specifically credit, liquidity and market risks and how the Corporation manages those risks. As a result of implementing this standard, the Corporation has included additional disclosure in Note 20 to the financial statements.

Section 3863 carries forward the presentation requirements of Section 3861 already adopted by the Corporation. As a result, the adoption of this Section had no impact on the financial statements.

#### Inventories

On January 1, 2008, the Corporation adopted CICA Handbook Section 3031, "Inventories", which has replaced Section 3030 with the same title. The new section establishes that inventory should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The adoption of this section had no impact on the financial statements.

#### c) Recent accounting pronouncements

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new section will be adopted effective January 1, 2009. It establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, "Intangible Assets". The adoption of this standard is not expected to have a material impact on the Corporation's future financial position or results of operations.

### 3. Business acquisition

#### Xantic

On February 14, 2006, the Corporation acquired all the issued and outstanding equity interests in Xantic for an aggregate purchase price of \$185.3 million, including transaction costs of \$7.2 million, net of cash acquired of \$33.2 million. The cash purchase price paid at closing of \$191.3 million was subject to post-closing adjustments. On February 2, 2007, the Corporation paid a purchase price adjustment of \$20.0 million pursuant to a final settlement agreement with the former owners of Xantic.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 4. Inventory

	2008	2007
Finished goods	<b>\$ 14,814</b>	\$ 10,930

During 2008, the Corporation recognized losses from reductions in inventory values of \$1.0 million (2007 - \$0.1 million). The total value of inventory expensed to cost of goods for the year ended December 31, 2008 was \$46.0 million (2007 - \$36.0 million).

### 5. Property, plant and equipment

	2008		
	Cost	Accumulated Depreciation	Net Book Value
Telecommunications equipment	\$ 137,865	\$ 94,827	\$ 43,038
Earth station equipment	85,566	44,251	41,315
Computer hardware and software	68,584	44,053	24,531
Furniture and other	6,823	6,728	95
Buildings	12,797	5,293	7,504
Land	1,006	-	1,006
	<b>\$ 312,641</b>	<b>\$ 195,152</b>	<b>\$ 117,489</b>

  

	2007		
	Cost	Accumulated Depreciation	Net Book Value
Telecommunications equipment	\$ 137,362	\$ 84,960	\$ 52,402
Earth station equipment	79,788	37,911	41,877
Computer hardware and software	57,073	36,741	20,332
Furniture and other	9,001	6,285	2,716
Buildings	12,325	4,541	7,784
Land	1,006	-	1,006
	<b>\$ 296,555</b>	<b>\$ 170,438</b>	<b>\$ 126,117</b>

Depreciation expense related to property, plant and equipment for the year ended December 31, 2008 was \$28.9 million (2007 - \$30.2 million).

During 2008, the Corporation sold certain of its Broadband Services ("Broadband") segment's telecommunications equipment located in Hameln, Germany. As a result of the sale, property, plant and equipment cost and accumulated depreciation decreased by \$3.9 million and \$1.9 million, respectively (Note 14).

During the third quarter of 2008, both onshore and offshore telecommunications equipment in the Broadband segment sustained damage by Hurricanes Gustav and Ike in the Gulf of Mexico. As a result, the Corporation wrote-off property, plant and equipment cost and accumulated depreciation of \$3.2 million and \$1.5 million, respectively (Note 14).

Property, plant and equipment under development totaling \$0.5 million (2007 - \$0.6 million) will commence amortization when they are put into productive use.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 6. Investments

The Corporation owns a 49% ownership interest in Navarino Telecom SA and NTS Maritime Limited (together, "Navarino"). The Corporation had an option to acquire the remaining ownership interest in Navarino, which expired January 13, 2008. The long-term investment in Navarino is recorded using the equity method and had a value of \$6.5 million at December 31, 2008 (2007 - \$6.8 million). Cash dividends received for the year ended December 31, 2008 totaled \$1.2 million (2007 - \$1.0 million).

During 2008, the Corporation acquired a 26.67% interest in JSAT Mobile Communications Inc. for cash consideration totaling ¥2.0 million (U.S. \$19 thousand). The long-term investment in JSAT is recorded using the equity method and had a value of \$(0.1) million at December 31, 2008.

### 7. Goodwill and other intangible assets

	2008	2007
Goodwill	\$ 323,873	\$ 325,869
Customer relationships, contracts and other	59,711	69,694
Licenses	927	1,220
	<b>\$ 384,511</b>	<b>\$ 396,783</b>

During 2008, the Corporation recognized \$2.0 million of previously unrecognized income tax assets acquired in the acquisition of Xantic. In accordance with CICA Handbook Section 3465, "Income Taxes", the value of these income tax assets was applied to reduce the carrying amount of goodwill related to the acquisition.

Amortization expense related to intangible assets for the year ended December 31, 2008 was \$10.3 million (2007 - \$10.8 million). Accumulated amortization related to intangible assets was \$35.3 million at December 31, 2008 (2007 - \$24.9 million).

Estimated aggregate amortization expense related to intangible assets for the next five years from December 31 is as follows:

	2009	2010	2011	2012	2013
	\$ 9,455	\$ 8,802	\$ 8,164	\$ 7,475	\$ 6,712

### 8. Payables and accruals

	2008	2007
Trade accounts payable	\$ 127,449	\$ 114,967
Accrued employee costs	15,241	17,963
Management incentive plan - current portion (Note 10)	11,756	-
Derivative financial instruments	879	-
Other accrued liabilities	2,397	3,556
	<b>\$ 157,722</b>	<b>\$ 136,486</b>



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 9. Long-term debt

	Interest Rate at December 31, 2008	2008	2007
Senior credit facilities	LIBOR + 2.50%	\$ 211,500	\$ 222,750
Senior unsecured notes	9.875%	150,000	150,000
Mortgage obligation	7.03%	316	541
		<b>361,816</b>	373,291
Less: long-term debt due within one year		<b>2,379</b>	11,649
Less: unamortized financing costs		<b>8,915</b>	10,861
		<b>\$ 350,522</b>	\$ 350,781

#### a) Senior credit facilities

Effective February 13, 2006, the Corporation entered into an amended and restated credit agreement to finance a portion of the Xantic acquisition and refinance its existing credit facilities. The refinanced senior credit facilities consist of a five year \$25.0 million revolving operating facility and a six year Term B facility of \$225.0 million. The refinanced senior credit facilities are provided by a syndicate of financial institutions. A five year Term A facility of up to \$20.0 million included in the amended and restated credit agreement was terminated by the Corporation on January 31, 2007.

##### *Term B facility*

The indebtedness under the amended and restated Term B facility is repayable in annual principal payments of \$2.3 million with the balance due at maturity in February 2012 and bears interest at LIBOR plus an applicable margin, which currently is 250 basis points per annum based on the Corporation's leverage ratio. As at March 31, 2008, the Corporation's total leverage ratio improved beyond the 3.5:1 threshold indicated in the credit agreement (Note 17). As a result, the Corporation's margin rate was reduced from 275 basis points per annum at December 31, 2007 to 250 basis points per annum effective June 30, 2008. This rate can fluctuate based on the leverage ratios maintained. The applicable LIBOR rates at December 31, 2008 and 2007 were 1.46% and 4.83%, respectively. At December 31, 2008, the Corporation had in place an interest rate swap agreement to exchange a LIBOR floating interest rate on \$75.0 million of its amended and restated Term B facility. The LIBOR floating rate was exchanged for a fixed rate of 3.95% on a notional amount of \$75.0 million (Note 20).

##### *Revolving operating facility*

The amended and restated revolving operating facility has a term of five years and matures in February 2011. 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 ratio as set out in the credit agreement. As at December 31, 2008 and 2007, no amounts were drawn on the revolving operating facility. If any amounts had been drawn on the revolving operating facility, as at December 31, 2008, the applicable interest rate would have been LIBOR plus 185 basis points. The \$25.0 million revolving operating facility at December 31, 2008 is subject to an annual standby fee of 40 basis points. This rate is subject to change based on the



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 9. Long-term debt (cont'd.)

Corporation's leverage ratio as set out in the credit agreement. Letters of credit totaling \$0.2 million were in place at December 31, 2008 (2007 - \$1.1 million), leaving \$24.8 million of credit available to the Corporation at December 31, 2008 (2007 - \$23.9 million).

As collateral for the amended and restated revolving operating facility and the amended and restated Term B facility, the Corporation has provided a first priority perfected security interest over all of the assets of the Corporation and its subsidiaries, with the exception of Plenexis, Stratos Communications (Australia) Pty Limited and Stratos Global (Japan) KK. Concurrent with the acquisition of Xantic, the Corporation supplemented the collateral securing the credit facilities with a first priority perfected security interest on its equity interest in Xantic. As additional security, all of the subsidiaries of the Corporation other than Plenexis, Xantic, Stratos Communications (Australia) Pty Limited and Stratos Global (Japan) KK have guaranteed obligations under the refinanced senior credit facilities.

Under the refinanced senior 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 connection with the arrangement transaction with CIP Canada Investment, Inc. ("CIP Canada") (Note 23), the Corporation obtained a waiver of the change of control provision and related ancillary amendment from the lenders under the senior credit facilities during the second quarter of 2007.

In addition to scheduled repayments, if leverage ratios exceed certain thresholds, specified proceeds from new debt and equity issuances as well as a stated percentage of excess cash flows, as defined in the credit agreement, are to be applied to indebtedness outstanding under the facilities. The Corporation's leverage ratios did not exceed these thresholds during the year ended December 31, 2008. Based on the calculation of excess cash flows for the year ended December 31, 2007, the Corporation repaid \$9.0 million of the senior credit facilities on March 31, 2008.

#### b) Senior unsecured notes

On February 13, 2006, the Corporation issued \$150.0 million of senior unsecured notes (the "Notes") to finance the remainder of the Xantic acquisition. The Notes are due at maturity on February 15, 2013 and bear interest at a rate of 9.875% per annum, payable semi-annually in arrears on February 15 and August 15, commencing August 15, 2006.

The Notes are unsecured obligations of the Corporation and are subordinated to all existing and any future secured indebtedness of the Corporation including borrowings under the senior credit facilities. The Notes rank equally with any future, unsecured, unsubordinated senior indebtedness of the Corporation. The Notes are guaranteed jointly and severally by the same subsidiaries which have guaranteed the Corporation's obligations under the refinanced senior credit facilities.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 9. Long-term debt (cont'd.)

At any time before February 15, 2009, the Corporation had an option to redeem up to 35% of the aggregate principal amount of the Notes within 60 days of an equity offering, with the net proceeds of such offering, at a redemption price of 109.875% of the principal amount thereof, plus accrued and unpaid interest, provided that immediately after giving effect to such redemption, at least 65% of the original principal amount of the Notes remain outstanding. The Corporation did not exercise this option.

In addition, at any time, the Corporation may at its option redeem all or part of the Notes at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest. On December 11, 2007, CIP Canada acquired all of the issued and outstanding common shares of the Corporation (Note 23). Under the terms of the indenture governing the Notes, the Corporation was required to make an offer to note holders to repurchase all notes at a purchase price in cash equal to not less than 101% of the aggregate principal amount plus accrued and unpaid interest to the date of repurchase. The offer was made on December 12, 2007 and expired on January 14, 2008. Prior to the expiration date, \$1.0 thousand aggregate principal amount of the Notes was validly tendered. CIP Canada purchased all of the tendered Notes pursuant to the offer to purchase, with the Notes so purchased held in trust by an independent trustee for the benefit of CIP Canada.

During 2008, a related party of the Corporation, Inmarsat Finance III Limited ("Inmarsat III"), acquired \$57.7 million of the outstanding aggregate principal amount of the Notes (Note 22).

#### c) Mortgage obligation

The first mortgage bears interest at a rate of 7.03% per annum, is repayable in blended monthly installments of Cdn \$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 \$0.4 million at December 31, 2008 (2007 - \$0.6 million).

#### d) Repayment requirements

The following outlines the annual principal repayment requirements related to the total debt obligations over the next five years from December 31:

2009	2010	2011	2012	2013	Thereafter
\$ 2,379	\$ 2,388	\$ 2,299	\$ 204,750	\$150,000	\$ -

The weighted average interest rate on total debt for the year ended December 31, 2008 was 8.55% (2007 – 8.47%).



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 10. Other liabilities

	2008	2007
Asset retirement obligation	\$ 3,418	\$ 3,515
Government assistance, net of accumulated amortization of \$1,370 (2007 - \$1,371)	468	467
Defined benefit pension obligation	143	247
Defined benefit pension obligation – early retirement plan (Note 24)	3,660	6,657
Other employment benefits	666	360
Management incentive plan	11,756	322
Other	1,724	2,469
	<b>21,835</b>	<b>14,037</b>
Less: management incentive plan due within one year (included in payables and accruals)	11,756	-
	<b>\$ 10,079</b>	<b>\$ 14,037</b>

#### Asset retirement obligation

In the Mobile Satellite Services (“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, 2008 required to settle the asset retirement obligations in the MSS segment are \$0.7 million (2007 - \$0.9 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	\$ 428
2015	223
	<b>\$ 651</b>

Credit adjusted risk-free rates, based on the period over which the liability will be settled, used to discount these cash flows ranged from 6.84% to 9.61%.

In the Broadband segment, the Corporation has microwave equipment, rental 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.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 10. Other liabilities (cont'd.)

The total estimated undiscounted cash flows at December 31, 2008 required to settle the asset retirement obligations in the Broadband segment are \$4.9 million (2007 - \$5.3 million). These obligations are expected to be settled over various future periods as follows:

Range of Expected Settlement Dates	Estimated Undiscounted Cash Flows
2009 – 2011	\$ 204
2015 – 2016	4,121
2021	572
	<b>\$ 4,897</b>

Credit adjusted risk-free rates, based on the period over which the liability will be settled, used to discount these cash flows ranged from 5.50% to 9.43%.

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

	2008	2007
Asset retirement obligation, beginning of year	<b>\$ 3,763</b>	\$ 4,819
Revision in estimated cash flows and timing of settlement	<b>(245)</b>	93
Settlement of asset retirement obligation	<b>(348)</b>	(1,387)
Accretion expense	<b>251</b>	238
Asset retirement obligation, end of year	<b>3,421</b>	3,763
Less: asset retirement obligation due within one year (included in payables and accruals)	<b>3</b>	248
	<b>\$ 3,418</b>	\$ 3,515

### Management incentive plan

As a result of the Arrangement Transaction (Note 23), the Corporation introduced a long-term Management Incentive Plan ("MIP") for certain senior employees. The MIP, in conjunction with a separate agreement executed between the Corporation and the employee, gives the employee the right to receive cash compensation, subject to the achievement of performance targets and the conditions specified in the MIP, which will be measured and achieved annually in each of 2007, 2008 and 2009. Amounts payable under the MIP are generally expected to vest by April 30, 2010, however, awards are subject to earlier settlement under certain conditions. The deferred compensation arrangement will be recognized over the vesting period. The amount of compensation expense recorded in earnings during 2008 was \$11.4 million (2007 - \$0.3 million). As at December 31, 2008, the accrued obligation of \$11.8 million is recorded in payables and accruals (2007 - \$0.3 million recorded in long term liabilities). The maximum amounts expected to be paid at the end of the vesting period related to achievement of performance targets for 2008 and 2007 are \$11.0 million and \$10.9 million, respectively.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 11. Capital stock

#### a) Capital stock

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

	2008		2007	
	Number	Stated Value	Number	Stated Value
Beginning of year	41,998,207	\$ 216,153	41,998,207	\$ 216,153
End of year	41,998,207	\$ 216,153	41,998,207	\$ 216,153

#### b) Contributed surplus

The following is a summary of changes in contributed surplus which consist entirely of stock based compensation transactions:

	2008	2007
Balance, beginning of year	\$ 4,563	\$ 2,935
Stock-based compensation	-	1,628
Balance, end of year	\$ 4,563	\$ 4,563

#### c) Stock-based compensation

##### (i) Stock option plan

The Corporation had a stock-based compensation plan under which stock options to acquire common shares in the Corporation had been granted to certain senior employees, officers and directors.

Pursuant to the change of control provisions in the Corporation's stock option agreements, the vesting date of all outstanding unvested stock options was accelerated to immediately prior to the shareholder vote in respect of the proposed arrangement transaction with CIP Canada (Note 23). As a result, on June 12, 2007, the Corporation vested 360,465 stock options, representing all of its outstanding unvested stock options, and recorded compensation expense of \$0.8 million. Under the individual stock option agreements, these options were expected to vest over a graded vesting period up to March 2009. Subsequently, on December 11, 2007, CIP Canada acquired all of the issued and outstanding common shares of the Corporation. During 2007, no options were exercised prior to such change of control. On December 11, 2007, all outstanding options were cancelled and the Corporation's stock option plan was terminated.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 11. Capital stock (cont'd.)

Details of stock options outstanding are as follows:

	2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise Price
Outstanding, beginning of year	-	\$ -	1,849,290	\$ 9.84
Forfeited, cancelled or expired	-	\$ -	(1,849,290)	\$ 11.32
Outstanding, end of year	-	\$ -	-	\$ -
Exercisable, end of year	-	\$ -	-	\$ -
Weighted average fair value of options granted during the year		\$ -		\$ -

Stock-based compensation expense recognized in earnings for the year ended December 31, 2007 related to stock options granted on or after January 1, 2003 was \$1.6 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, 2008 and 2007 had the Corporation used the fair value method of accounting for stock-based compensation awards issued in 2002. The pro forma adjustments presented below exclude stock options granted after 2002, for which compensation expense was recorded.

	2008	2007
Reported net earnings	\$ 20,888	\$ 2,014
Stock-based compensation expense	-	(105)
Adjusted net earnings	\$ 20,888	\$ 1,909
Adjusted basic and diluted earnings per share	\$ 0.50	\$ 0.05

The fair value of each option grant was estimated on the date of grant using the Black Scholes option-pricing model. There were no options granted during the years ended December 31, 2008 or 2007.

#### (ii) Deferred share unit plan

The Corporation had established a DSU plan requiring non-employee members of the Board of Directors to receive a minimum of 50% of their directors' compensation in the form of DSUs. The number of DSUs granted was 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 a particular date was 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 were to be granted if dividends were paid. On December 11, 2007, CIP Canada acquired all of the issued and outstanding common shares of the Corporation (Note 23). On December 13, 2007, the Corporation's common shares were delisted from the Toronto Stock Exchange. Effective with the close of the transaction, the Corporation ceased to compensate its directors in the form of DSUs.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 11. Capital stock (cont'd.)

With the completion of the Plan of Arrangement, certain members of the Board of Directors resigned. As DSUs are redeemed when a director ceases to be a member of the Board of Directors, the Corporation settled, in cash, its outstanding obligations under the DSU plan with the departing directors in 2008. Pursuant to its power to administer, interpret and amend the DSU plan, the Board of Directors determined the redemption price for DSUs redeemed from such departing directors to be Cdn \$7.00, which was based on the cash purchase price of Cdn \$7.00 per share paid by CIP Canada.

No compensation expense was recognized in earnings for the year ended December 31, 2008 related to DSUs. Compensation expense recognized in earnings for the year ended December 31, 2007 related to DSUs that had been issued up to December 11, 2007 was \$1.2 million. The amount recorded in current liabilities at December 31, 2008 related to DSUs was \$1.0 million (2007 - \$1.9 million).

#### (iii) Performance share unit plan

The Corporation had established a PSU plan for certain senior employees. The PSU plan, in conjunction with a separate Grant Agreement executed between the Corporation and the employee, gave the employee the right to receive compensation, subject to the achievement of performance targets specified in the agreement. The compensation consisted of shares of the Corporation, or at the Corporation's discretion, a cash payment equal to the fair market value of the PSU. As a result of CIP Canada acquiring all of the issued and outstanding common shares of the Corporation on December 11, 2007 (Note 23), the Corporation settled its outstanding obligations under the PSU plan. The settlement amounts were determined using a market value of Cdn \$7.00 per share, equal to the cash purchase price per share paid by CIP Canada. The PSU plan was terminated upon the closing of the CIP Canada transaction. The amount of compensation expense recognized in earnings for the year ended December 31, 2007 related to PSUs was \$1.7 million.

### 12. Accumulated other comprehensive loss

Accumulated other comprehensive loss for the year December 31 is comprised of the following:

	2008	2007
Balance, beginning of year	\$ (1,216)	\$ -
Financial instruments – recognition and measurement, net of income tax expense of nil (2007 - \$320)	-	634
Other comprehensive earnings (loss)	1,137	(1,850)
Balance, end of year	\$ (79)	\$ (1,216)

The net amount of gains recorded in accumulated other comprehensive loss to be reclassified to net earnings within the next 12 months is estimated to be nil.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 13. Interest expense

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

	2008	2007
Long-term debt	\$ 30,892	\$ 31,393
Amortization of deferred financing costs	1,946	1,728
Bank indebtedness	194	258
	<b>\$ 33,032</b>	<b>\$ 33,379</b>

### 14. Other (income) costs

Other (income) costs for the years ended December 31 are comprised of the following:

	2008	2007
Costs related to the arrangement transaction	\$ 1,609	\$ 17,144
Severance and other costs	133	1,420
Loss resulting from hurricanes	90	-
Gain on sale of property, plant and equipment	(159)	(1,000)
Gain from insurance settlements	-	(6,161)
	<b>\$ 1,673</b>	<b>\$ 11,403</b>

#### Costs related to the arrangement transaction with CIP Canada

During the years ended December 31, 2008 and 2007, the Corporation incurred financial advisory, legal, and other costs associated with the sale of the Corporation by way of a plan of arrangement (Note 23).

#### Severance and other costs

Severance and other costs during 2008 included \$0.3 million of severance and other costs related to restructuring measures as a result of a reorganization, and a \$(0.2) million adjustment to the asset retirement obligation estimate for the former Land Earth Station in Goonhilly, England. The Corporation has completed the remediation of this site and the total cost incurred was less than the asset retirement obligation previously recorded.

Severance and other costs in 2007 included losses totaling \$0.4 million on the disposal of certain property, plant and equipment and costs of \$0.4 million to move property, plant and equipment from Goonhilly, England to Burum, the Netherlands. In addition, severance and other costs included severance, consultant and other costs related to corporate wide restructuring measures designed to reduce costs.

As at December 31, 2008, the remaining unpaid balance related to severance and other costs incurred in the current and prior periods was \$0.6 million (2007 - \$0.3 million).



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 14. Other (income) costs (cont'd.)

#### Loss resulting from hurricanes

During the third quarter of 2008, both onshore and offshore telecommunications equipment in the Broadband segment sustained damage by Hurricanes Gustav and Ike in the Gulf of Mexico. As a result, offshore equipment with a net book value of \$1.7 million was written-off. The Corporation recorded insurance proceeds receivable of \$1.7 million representing the net damage claim after deductible. Losses of \$0.1 million representing the net book value and recovery costs related to onshore equipment damage were also recorded. No insurance claim has been made in respect of the onshore damage.

#### Gain on sale of property, plant and equipment

On June 27, 2008, the Corporation sold certain of its Broadband segment's telecommunications equipment located in Hameln, Germany. In exchange for the sale of the telecommunications assets the Corporation will receive from the buyer certain services for a two year period from the June 27, 2008 closing date. The fair value of the transaction was determined on the basis of the fair value of services the Corporation will receive. The sale meets the definition of a non-monetary transaction under Canadian GAAP.

Gain on sale of property, plant and equipment in 2007 relates to the sale of certain aeronautical equipment. Total proceeds were \$1.0 million, resulting in a gain of \$1.0 million, as the equipment had been fully depreciated by the Corporation.

#### Gain from insurance settlements

Gain from insurance settlements during 2007 relate to Hurricanes Katrina and Rita. The settlements are comprised of \$4.5 million related to property, plant and equipment disposed of and \$1.7 million related to business interruption.

### 15. 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 rate, to the income tax expense recorded in the consolidated statements of operations for the years ended December 31:

	2008	2007
Earnings before income taxes	\$ 29,625	\$ 16,250
Income tax expense based upon statutory rate	9,925	5,850
Increase (decrease) in income taxes resulting from:		
Benefit of current year's non-capital losses not recognized	1,310	5,829
Non-deductible CIP arrangement costs	516	5,495
Difference in foreign tax rates	(1,238)	(3,112)
Other (non-taxable) non-deductible items	(1,893)	358
Effect of substantively enacted income tax rate changes	-	(267)
Capital tax	117	83
Income tax expense	\$ 8,737	\$ 14,236



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 15. Income taxes (cont'd.)

#### Income tax expense

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

	2008	2007
Canadian		
Current taxes	\$ (244)	\$ 2,216
Future income taxes	(702)	(126)
	<b>\$ (946)</b>	<b>\$ 2,090</b>
Foreign		
Current taxes	\$ 7,550	\$ 2,115
Future income taxes	2,133	10,031
	<b>\$ 9,683</b>	<b>\$ 12,146</b>
Income tax expense	<b>\$ 8,737</b>	<b>\$ 14,236</b>

#### Future income taxes

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

	2008	2007
Loss carry-forwards	\$ 34,080	\$ 47,571
Property, plant and equipment	310	(261)
Goodwill and other intangible assets	(36,586)	(40,758)
Current assets	2,256	2,116
Asset retirement obligation	1,074	1,181
Other	(4,101)	1,480
Current liabilities	5,037	348
Valuation allowance	(26,003)	(35,602)
Total future income taxes	<b>\$ (23,933)</b>	<b>\$ (23,925)</b>

Future income taxes comprise:

	2008	2007
Future income tax asset – current portion	\$ 8,388	\$ 3,553
Future income tax liability – long-term portion	(32,321)	(27,478)
Net future income tax liability	<b>\$ (23,933)</b>	<b>\$ (23,925)</b>

#### Tax losses

The Corporation has estimated non-capital tax losses carried forward at December 31, 2008 amounting to approximately \$110.5 million (2007 - \$139.5 million), of which \$54.9 million (2007 - \$61.0 million) arises in subsidiaries outside Canada, the U.S. and the Netherlands and can be carried forward indefinitely, subject to certain limitations. The balance of \$55.6



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 15. Income taxes (cont'd.)

million (2007 - \$78.5 million) arises in subsidiaries in Canada, the U.S. and the Netherlands, and expires at various dates from 2011 to 2028. The use of approximately \$1.3 million (2007 - \$14.3 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 \$0.6 million (2007 - \$6.2 million) which can only be utilized against capital gains.

The valuation allowance at December 31, 2008 primarily relates to the potential future benefits in respect of net loss carryforwards of \$52.3 million or \$15.7 million of the valuation allowance (2007 - \$83.4 million or \$24.7 million of the valuation allowance) and in respect of other deductible differences of \$34.3 million or \$10.3 million of the valuation allowance (2007 - \$36.3 million or \$10.9 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.

During 2008, the Corporation recognized \$2.0 million of previously unrecognized income tax assets acquired in the acquisition of Xantic. In accordance with CICA Handbook section 3465, "Income Taxes", the value of these income tax assets was applied to reduce the carrying amount of goodwill related to the acquisition.

### 16. Per share information

	2008	2007
Net earnings	\$ 20,888	\$ 2,014
Weighted average common shares used in the calculation of basic earnings per share and diluted earnings per share	41,998	41,998
Basic and diluted earnings per share	\$ 0.50	\$ 0.05

There were no stock options outstanding at December 31, 2008 or 2007.

### 17. Capital management

The Corporation defines capital that it manages as the aggregate of its shareholder's equity and interest bearing debt. The primary objectives of the Corporation's capital management are to ensure it maintains strong credit ratings and exceeds its borrowing covenants in order to support its business and to provide returns to the shareholder and benefits to other stakeholders.

The Corporation manages its capital structure in a manner to ensure that certain covenants comply with the requirements within the senior credit facility agreement and note indenture agreement. In particular, the Corporation monitors the consolidated debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio as well as the consolidated EBITDA to cash interest ratio and fixed charge ratio. EBITDA is calculated as the gross margin less operating expenses plus management incentive plan expense plus equity in earnings of investee less non-controlling interest.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 17. Capital management (cont'd.)

The consolidated debt to EBITDA ratio, also defined as the total leverage ratio, is calculated as long-term debt, including the current portion of long-term debt, divided by EBITDA. Under the credit agreement, this ratio must be less than 5.00:1. The consolidated debt to EBITDA ratio at December 31, 2008 was 3.14:1 (December 31, 2007 - 3.64:1). The consolidated EBITDA to cash interest ratio is calculated as EBITDA divided by cash interest paid. This ratio must exceed 2.50:1. The consolidated EBITDA to cash interest ratio at December 31, 2008 was 3.89:1 (December 31, 2007 – 3.23:1). The fixed charge ratio is calculated as EBITDA less cash purchases of property, plant and equipment and cash income taxes divided by cash interest expense plus the current portion of long-term debt. This ratio must exceed 1.10:1. The fixed charge ratio at December 31, 2008 was 2.95:1 (December 31, 2007 – 1.91:1).

### 18. Change in non-cash working capital

	2008	2007
Accounts receivable	\$ (2,013)	\$ 9,481
Unbilled revenue	(1,866)	(2,253)
Inventory	(3,884)	(748)
Prepays and other	(1,636)	1,265
Payables and accruals	8,570	(2,993)
Deferred revenue	2,091	(306)
	<b>\$ 1,262</b>	<b>\$ 4,446</b>

### 19. Business segments

The Corporation's reportable segments are MSS and Broadband. The Corporation changed the reporting of its operating segments whereby corporate operating costs are no longer allocated to the operating segments and have now been presented separately. Comparative segmented information has been restated to reflect this change in reporting.

The MSS segment includes the sale of airtime and equipment for Stratos' Inmarsat, Iridium, aeronautical and other mobile satellite operations. The Broadband segment includes the sale of airtime, equipment and services for Stratos' microwave and VSAT operations. Unallocated corporate costs include general and administrative costs associated with corporate management, billing, credit, accounting and information technology, corporate governance, and related legal, audit and other professional fees.

The Corporation evaluates performance and allocates resources based on segment earnings before unallocated corporate costs, interest expense, depreciation and amortization, other (income) costs, non-controlling interest, equity in earnings of investees, and income taxes ("Segment earnings"). Intersegment transactions are not significant and are eliminated upon consolidation.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 19. Business segments (cont'd.)

	2008	2007
Revenue		
MSS	\$ 533,623	\$ 472,232
Broadband	105,371	122,105
	<b>\$ 638,994</b>	<b>\$ 594,337</b>
Segment earnings		
MSS	\$ 124,770	\$ 111,134
Broadband	18,038	22,332
	<b>142,808</b>	<b>133,466</b>
Unallocated corporate costs	<b>(39,922)</b>	<b>(32,427)</b>
Segment earnings after unallocated corporate costs	<b>\$ 102,886</b>	<b>\$ 101,039</b>
Interest expense	\$ 33,032	\$ 33,379
Depreciation and amortization	39,303	41,138
Other (income) costs	1,673	11,403
Non-controlling interest	49	(52)
Equity in earnings of investees	(796)	(1,079)
	<b>\$ 73,261</b>	<b>\$ 84,789</b>
Earnings before income taxes	<b>\$ 29,625</b>	<b>\$ 16,250</b>
	2008	2007
Total identifiable assets		
MSS	\$ 359,791	\$ 325,892
Broadband	105,608	100,754
	<b>\$ 465,399</b>	<b>\$ 426,646</b>
Goodwill		
MSS	\$ 276,135	\$ 278,131
Broadband	47,738	47,738
	<b>\$ 323,873</b>	<b>\$ 325,869</b>
	<b>\$ 789,272</b>	<b>\$ 752,515</b>
<b>Geographic Information – Revenue</b>		
	2008	2007
United States	\$ 210,844	\$ 203,230
United Kingdom	82,656	70,746
Canada	33,927	29,325
Australia	49,638	60,348
Other	261,929	230,688
	<b>\$ 638,994</b>	<b>\$ 594,337</b>

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



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 19. Business segments (cont'd.)

#### Geographic Information – Property, plant and equipment, Goodwill and Other intangible assets

	2008	2007
United States	\$ 86,199	\$ 92,949
United Kingdom	123,093	123,070
Canada	51,189	50,236
Netherlands	197,991	208,669
Other	43,528	47,976
	<b>\$ 502,000</b>	<b>\$ 522,900</b>

For the year ended December 31, 2008, total purchases of property, plant and equipment of \$24.4 million were comprised of \$15.4 million in the MSS segment and \$9.0 million in the Broadband segment (2007 - \$16.0 million, MSS segment and \$6.2 million, Broadband segment).

### 20. 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 certain circumstances, the Corporation enters into foreign exchange 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 speculative or trading purposes.

#### a) Market risk

##### Interest rate exposures

The Term B facility is issued at floating rates of interest and is therefore subject to risks associated with fluctuating interest rates. The Corporation had entered into, for hedging purposes, three interest rate swap transactions. The fair values of these instruments were recorded on the consolidated balance sheet and the change in value is reflected in other comprehensive earnings (loss), net of income taxes.

One of the swap transactions was entered into with a U.S. bank and expired on January 14, 2009. This swap transaction involved the exchange of the underlying three month U.S. dollar LIBOR rate for a fixed rate of 3.95%. The notional amount of this swap transaction was \$75.0 million, which remained fixed throughout its term. The fair value of this swap transaction at December 31, 2008 was (\$0.1) million and was recorded on the balance sheet in payables and accruals. The fair value of this swap transaction at December 31, 2007 was \$0.1 million and was recorded on the balance sheet in other assets.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 20. Financial instruments (cont'd.)

The Corporation entered into the remaining two swap transactions with a Canadian chartered bank. One swap transaction involved the exchange of the underlying three month U.S. dollar LIBOR rate for a fixed rate of 4.28% and expired on March 31, 2008. The notional amount of this swap transaction was \$50.0 million, which remained fixed throughout its term.

The third swap transaction involved the exchange of the underlying three month U.S. dollar LIBOR rate for a fixed rate of 5.15% and expired on December 31, 2008. The notional amount of this swap transaction was \$75.0 million, which remained fixed throughout its term.

The amount of remaining variable rate debt at December 31, 2008 was \$136.5 million. If the LIBOR rate was to increase or decrease by 1%, the Corporation's net earnings for the year ended December 31, 2008 would decrease or increase by approximately \$0.9 million based on this level.

#### Foreign currency exposures

The Corporation has long-term debt that is denominated primarily in U.S. dollars, as disclosed in Note 9, which is therefore not subject to risks associated with fluctuating foreign currency rates of exchange since the Corporation's functional currency is U.S. dollars.

The Corporation operates internationally and is therefore exposed to market risks related to foreign currency exchange rate fluctuations. Such exposure arises from revenue and expenditures in currencies other than U.S. dollars. Approximately 10% to 15% of the Corporation's revenue and expenditures are denominated in currencies other than U.S. dollars.

To perform a sensitivity analysis, the Corporation assessed the risk of loss in fair values due to the impact of hypothetical changes in foreign currency exchange rates on monetary assets and liabilities denominated in currencies other than U.S. dollars. The Corporation's primary exposures to foreign currency exchange rate fluctuations are Euro/U.S. dollar and Canadian dollar/U.S. dollar. For the year ended December 31, 2008, the potential decrease or increase in earnings from a hypothetical instantaneous 10% increase or decrease in the December 31, 2008 quoted foreign currency spot rates applied to Euro and Canadian dollar denominated monetary assets and liabilities included in the December 31, 2008 balance sheet would have been approximately \$0.2 million and \$0.1 million, respectively.

To mitigate the potential risk with respect to foreign currency exchange rate fluctuations, the Corporation matches cash inflows and outflows by currency, thereby minimizing net currency exposures. In addition, during 2008 the Corporation entered into Canadian Dollar and Euro foreign exchange forward contracts. These contracts were put in place to manage exposure to exchange rate fluctuations pertaining to the Corporation's net future cash flows from operations for 2009. These forward contracts, shown below in the currencies in which they are denominated, expire monthly in increments of Cdn \$1.25 million and Euro 0.8 million.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 20. Financial instruments (cont'd.)

	Outstanding at December 31, 2008	To Expire 2009	Average Rate (USD)
Cdn purchase forwards	\$ 15,000	\$ 15,000	0.8333
Euro purchase forwards	€ 10,000	€ 10,000	1.4373

During 2008, the Corporation recorded unrealized losses of \$0.7 million representing the fair value change in the foreign exchange forward contracts during the year. The fair value of these forward contracts at December 31, 2008 was \$(0.7) million, and was recorded in payables and accruals.

For the year ended December 31, 2008, the potential increase or decrease in earnings from a hypothetical instantaneous 10% increase or decrease in the December 31, 2008 quoted foreign currency spot rates applied to Canadian dollar and Euro foreign exchange forward contracts would have been approximately \$1.8 million and \$1.7 million, respectively.

#### b) Credit risk

The Corporation is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments. Non-performance is not anticipated since these counterparties 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 a large and diverse customer base across different geographic areas, which minimizes the concentration of credit risk. No customer accounted for 10% or more of the Corporation's accounts receivable at December 31, 2008 or 2007.

The Corporation has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilizes both internal and third party collections processes for overdue accounts. The Corporation also 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, 2008 was \$13.9 million (December 31, 2007 - \$14.6 million).

Details of the Corporation's consolidated trade accounts receivable are as follows:

	As at December 31, 2008
Not past due	\$ 72,925
Past due 0-30 days	16,279
Past due 31-120 days	7,650
Past due 121 days and over	7,502
	<b>104,356</b>
Less: Allowance for uncollectability and revenue adjustments	<b>(13,870)</b>
Total accounts receivable	<b>\$ 90,486</b>



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 20. Financial instruments (cont'd.)

#### c) Liquidity risk

The Corporation is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. The Corporation manages liquidity risk by maintaining adequate cash and cash equivalents, and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Corporation believes that cash and cash equivalents on hand, future cash flows generated by operations and availability under its revolving operating facility will be adequate to meet its financial obligations.

The Corporation has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2008 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Long-term debt	\$ 2,379	\$ 2,388	\$ 357,049	\$ -	\$ 361,816
Interest on long-term debt (at current rates)	26,533	23,036	41,569	-	91,138
Derivative financial instruments	879	-	-	-	879
Payables and accruals	147,922	-	-	-	147,922
Other liabilities	188	197	89	1,251	1,725
	<b>\$ 177,901</b>	<b>\$ 25,621</b>	<b>\$ 398,707</b>	<b>\$ 1,251</b>	<b>\$ 603,480</b>

#### 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 earnings or cash flows. The estimated fair values of the Corporation's senior credit facilities and senior unsecured notes as at December 31 are as follows:

	2008	2007
Senior credit facilities	\$ 175,545	\$ 216,068
Senior unsecured notes	141,188	158,250
	<b>\$ 316,733</b>	<b>\$ 374,318</b>



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 21. Commitments and contingencies

#### Commitments

The estimated future minimum payments for operating leases, maintenance contracts, committed purchases of property, plant and equipment and purchase obligations for the next five years and thereafter from December 31, 2008 are \$49.5 million, payable as follows:

2009	\$ 23.9
2010	\$ 10.4
2011	\$ 4.2
2012	\$ 2.8
2013	\$ 1.9
Thereafter	\$ 6.3

#### 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 third parties, customers, suppliers, and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

### 22. Related party transactions

In the normal course of operations, the Corporation engages in transactions with its equity owned investees, Navarino Telecom SA and NTS Maritime Limited (together, "Navarino"). These transactions represent sales of airtime and equipment and are measured at the amounts exchanged. Revenue from the related parties for the year ended December 31, 2008 was \$21.4 million (December 31, 2007 - \$18.6 million) The amount receivable from the related parties at December 31, 2008 was \$8.0 million (December 31, 2007 - \$7.0 million).

As described in Note 23, Inmarsat plc is required to consolidate the financial results of CIP Canada Investment Inc. ("CIP Canada"), which include the results of the Corporation. As such, the Corporation considers transactions with Inmarsat plc to meet the definition of a related party transaction under CICA Handbook Section 3840 "Related Party Disclosures". Transactions with Inmarsat plc represent purchases of on demand and leasing airtime ("airtime") and are measured at the amounts exchanged. Total costs of goods and services



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 22. Related party transactions (cont'd.)

related to purchases of airtime from Inmarsat plc for the year ended December 31, 2008 was \$266.9 million (2007 - \$235.5 million). The amount payable to Inmarsat plc at December 31, 2008 was \$69.7 million (2007 - \$60.9 million).

During 2008 Inmarsat III acquired \$57.7 million of the outstanding aggregate principal amount of the Corporation's senior unsecured notes.

### 23. Arrangement Transaction with CIP Canada

On December 11, 2007, the Corporation completed an Arrangement Agreement (the "Arrangement Agreement") and was acquired by CIP Canada, a wholly-owned subsidiary of Communications Investments Partners Limited ("CIP"), a professional investment company with a focus on satellite services.

Under the terms of the Arrangement Agreement, CIP Canada acquired beneficial ownership of 100 percent of the Corporation's common shares through a plan of arrangement under the *Canada Business Corporations Act* (the "Arrangement"). The transaction was indirectly financed by Inmarsat III, a wholly-owned subsidiary of Inmarsat plc. CIP granted Inmarsat III an option (the "Call Option") to acquire the entire issued share capital of CIP Canada. The Call Option is only exercisable after April 14, 2009, when certain of Inmarsat's distribution agreements expire, and terminates on December 31, 2010. Following the acquisition of the Corporation by CIP Canada, and until such time as a decision is made to exercise the Call Option, Inmarsat plc has no control over the financial and operating policies and decisions of the Corporation, which has continued its current operations and business as usual since the acquisition. The Corporation's shares acquired under the Arrangement are registered in the name of, and under the control and direction of, an independent third party trustee pending the exercise of the Call Option.

On January 19, 2009, the FCC issued an order approving the transfer of Stratos' FCC licenses from an irrevocable trust to Inmarsat plc. The exercise of the Inmarsat plc Call Option remains subject to certain other governmental approvals, which the parties expect to obtain in advance of the April 15, 2009 exercise date.

Although Inmarsat plc does not hold an equity interest in, nor have any control over the financial and operating policies of CIP Canada, it is required to consolidate the financial results of CIP Canada, which include the financial results of the Corporation, as it is deemed to bear the risks and economic benefits of CIP Canada by virtue of the combination of the loan facility to CIP and the Call Option.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 24. Employee pension plans

The majority of the Corporation's employees are covered by defined contribution pension plans 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, 2008 were \$2.0 million (2007 - \$1.9 million).

As part of the acquisition of Plenexis, the Corporation assumed defined benefit pension plans which are unfunded. The unfunded defined benefit pension liability at December 31, 2008 was \$0.1 million (2007 - \$0.2 million) and covers three former employees. In valuing the pension obligations for these defined benefit pension plans, the Corporation uses the projected unit credit method.

As part of the acquisition of Xantic, the Corporation assumed defined benefit pension plans that are administered by KPN. The assets of these plans are not segregated from the assets of other KPN administered plans and therefore they are treated as multi-employer plans and accounted for in the same manner as defined contribution plans. Pension expense for these plans, which represent the premiums charged by KPN, for the year ended December 31, 2008 was \$0.7 million (2007 - \$0.9 million).

Also, the Corporation assumed Xantic's early retirement plan. This is a defined benefit plan that is neither funded nor insured through a third party, but is paid directly to employees upon early retirement. The Corporation recognizes a provision for all benefits that will become a payment obligation in accordance with the then prevailing collective labour agreement. The provision for early retirement is calculated using the projected unit credit method. The changes in the accrued benefit obligations for the early retirement plan during the years ended December 31 were as follows:

	<b>2008</b>	2007
Balance, beginning of year	<b>\$ 7,690</b>	\$ 7,572
Service charges during the year	<b>165</b>	269
Interest charges during the year	<b>336</b>	307
Benefits paid during the year	<b>(1,264)</b>	(703)
Actuarial gains	<b>(2,300)</b>	(301)
Revaluation (foreign exchange)	<b>53</b>	546
Balance, end of year	<b>4,680</b>	7,690
Less: Included in current liabilities – payables and accruals	<b>1,020</b>	1,033
Long-term defined benefit pension obligation	<b>\$ 3,660</b>	\$ 6,657



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 24. Employee pension plans (cont'd.)

The most recent actuarial valuation of the early retirement plan was as of December 31, 2008.

The actuarial assumptions used in the calculation of the defined benefit obligation and the pension charges are:

	2008	2007
Discount rate	3.6%	4.5%
Expected salary increases	3.8%	2.8%

Actuarial gains and losses are immediately recognized in the current year.

The net benefit (recovery) expense for the year ended December 31, 2008 is \$(1.8) million (2007 - \$0.3 million).

	2008	2007
The components of this expense are:		
Current service costs	\$ 165	\$ 269
Interest costs	336	307
Actuarial gains	(2,300)	(301)
	<b>\$ (1,799)</b>	<b>\$ 275</b>



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 25. 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 years ended December 31 is as follows:

	2008	2007
<b>Net earnings in accordance with Canadian GAAP</b>	<b>\$ 20,888</b>	\$ 2,014
Stock-based compensation costs (iii)	-	(105)
<b>Net earnings in accordance with U.S. GAAP</b>	<b>\$ 20,888</b>	\$ 1,909

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

	2008	2007
<b>Shareholder's equity in accordance with Canadian GAAP</b>	<b>\$ 222,644</b>	\$ 200,619
Business combinations (ii)	<b>(20,802)</b>	(20,802)
Income tax impact of the above (i, ii)	<b>6,027</b>	6,027
<b>Shareholder's equity in accordance with U.S. GAAP</b>	<b>\$ 207,869</b>	\$ 185,844

The components of shareholder's equity at December 31 are as follows:

	2008	2007
Capital stock	<b>\$ 218,191</b>	\$ 218,191
Deficit	<b>(11,718)</b>	(32,606)
Contributed surplus (iii, iv)	<b>5,303</b>	5,303
Accumulated other comprehensive loss (iv)	<b>(3,907)</b>	(5,044)
<b>Shareholder's equity in accordance with U.S. GAAP</b>	<b>\$ 207,869</b>	\$ 185,844



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 25. Differences between Canadian and United States generally accepted accounting principles (cont'd.)

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

	2008		2007	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
<b>Assets</b>				
Current				
Cash and cash equivalents	\$ 104,906	\$ 104,906	\$ 63,878	\$ 63,878
Accounts receivable	90,486	90,486	89,233	89,233
Unbilled revenue	36,129	36,129	34,263	34,263
Derivative instruments (i)	-	-	69	69
Inventory	14,814	14,814	10,930	10,930
Prepays and other	23,942	23,942	19,620	19,620
Future income taxes	8,388	8,388	3,553	3,553
	<b>278,665</b>	<b>278,665</b>	221,546	221,546
Derivative instruments (i)	-	-	44	44
Investments	6,415	6,415	6,755	6,755
Property, plant and equipment	117,489	117,489	126,117	126,117
Goodwill and other intangible assets (ii)	384,511	363,709	396,783	375,981
Other assets (i)	2,192	11,107	1,270	12,131
	<b>\$ 789,272</b>	<b>\$ 777,385</b>	\$ 752,515	\$ 742,574
<b>Liabilities</b>				
Current				
Payables and accruals (vi)	\$ 156,843	\$ 149,280	\$ 135,662	\$ 129,182
Derivative instruments (i)	879	879	824	824
Deferred revenue	13,108	13,108	11,017	11,017
Current portion of long-term debt	2,379	2,379	11,649	11,649
	<b>173,209</b>	<b>165,646</b>	159,152	152,672
Long-term debt (i)	350,522	359,437	350,781	361,642
Other liabilities (vi)	10,079	17,642	14,037	20,970
Future income taxes (ii, vi)	32,321	26,294	27,478	20,998
Total liabilities	<b>566,131</b>	<b>569,019</b>	551,448	556,282
Non-controlling interest	497	497	448	448
Shareholder's equity	222,644	207,869	200,619	185,844
	<b>\$ 789,272</b>	<b>\$ 777,385</b>	\$ 752,515	\$ 742,574



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 25. Differences between Canadian and United States generally accepted accounting principles (cont'd.)

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

	2008	2007
<b>Revenue</b>	<b>\$ 638,994</b>	\$ 594,337
Cost of goods and services	<b>457,003</b>	422,288
<b>Gross margin</b>	<b>181,991</b>	172,049
Selling, general and administrative	<b>67,731</b>	61,686
Rental expense	<b>8,252</b>	8,639
Bad debt expense (recovery)	<b>1,836</b>	(25)
Depreciation and amortization	<b>39,303</b>	41,138
Equity in earnings of investees	<b>(796)</b>	(1,079)
Foreign exchange loss	<b>1,286</b>	815
Non-controlling interest	<b>49</b>	(52)
Other (income) costs	<b>1,673</b>	11,403
	<b>119,334</b>	122,525
<b>Earnings from operations</b>	<b>62,657</b>	49,524
Interest expense	<b>33,032</b>	33,379
Earnings before income taxes	<b>29,625</b>	16,145
Income tax expense	<b>8,737</b>	14,236
<b>Net earnings</b>	<b>\$ 20,888</b>	\$ 1,909
Basic and diluted earnings per share in accordance with U.S. GAAP	<b>\$ 0.50</b>	\$ 0.05

i) Financial instruments

Effective January 1, 2007, the Corporation adopted Section 3855 of the CICA Handbook. Consistent with U.S. GAAP, Canadian GAAP now requires all derivatives be recorded on the balance sheet at fair value. The interest rate swap transactions described in Note 20 meet the criteria for hedge accounting and are accounted for as hedges under Canadian and U.S. GAAP. In prior periods, Canadian GAAP did not require the balance sheet recognition of derivatives designated as hedges.

Under Canadian GAAP, Section 3855, transaction costs relating to financial instruments are capitalized and consequently are classified as other financial liabilities and applied against the carrying amount of the related financial liability and amortized into income using the effective interest rate method. Under U.S. GAAP, transaction costs are recognized as deferred assets and amortized to earnings using the effective interest rate method. While this difference has no impact on the statement of operations in the current or future periods, it does create a classification difference on the balance sheet.

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 25. Differences between Canadian and United States generally accepted accounting principles (cont'd.)

In addition, in connection with the equity offering of common shares in 2002, the Corporation entered into a foreign exchange forward 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 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 contract was charged to earnings 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 related to business combinations 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) Stock-based compensation costs

As described in Note 2(a), 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.

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 in 2002.

Effective January 1, 2006, the Corporation adopted the fair value recognition provisions of SFAS 123 (R), *Share-Based Payment*, using the modified prospective transition method. Stock-based compensation expense recognized for the year ended December 31, 2007 includes compensation cost for all stock options issued prior to January 1, 2006 but not yet vested as of January 1, 2006 as well as compensation cost for options issued on or after January 1, 2006.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

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### 25. Differences between Canadian and United States generally accepted accounting principles (cont'd.)

iv) 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.

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 Shareholder's equity between Canadian and U.S. GAAP as of January 1, 2001; however, total shareholder's equity was unchanged.

Accumulated other comprehensive loss includes \$3.8 million which arose as a result of this translation method. This amount has not changed since January 1, 2001.

v) Advertising costs

Advertising costs are expensed as incurred.

vi) Income taxes

The Corporation adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", or FIN 48, on January 1, 2007. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

Although the implementation of FIN 48 did not impact the amount of the Corporation's liability for unrecognized tax benefits, the Corporation reclassified \$7.6 million of its liability for unrecognized tax benefits from payables and accruals and future income taxes to other long term liabilities at December 31, 2008 (2007 - \$6.9 million) to conform with the balance sheet presentation requirements of FIN 48.

The Corporation files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Various jurisdictions' tax years remain open for examination for varying periods.

During the year ended December 31, 2008, the unrecognized tax benefit decreased by \$5.6 million as the 2004 taxation year became statute barred in one of the Corporation's reporting jurisdictions.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 25. Differences between Canadian and United States generally accepted accounting principles (cont'd.)

During the year ended December 31, 2008, the unrecognized tax benefit decreased by \$1.7 million as a result of the impact of foreign exchange on some of the amounts.

The Corporation recognizes interest accrued related to unrecognized tax benefits in income tax expense. As of December 31, 2007, interest accrued was approximately \$1.2 million. No penalties have been accrued. Additional interest of \$1.2 million was accrued in the year ended December 31, 2008.

#### Liability for unrecognized tax benefits

	<b>2008</b>
Opening balance	\$ 6,933
Reduction due to items for statute barred years	(5,647)
Increase in liability	6,818
Additional interest accrued	1,155
Foreign exchange adjustment	(1,696)
Ending balance	<b>\$ 7,563</b>

- b) A summary consolidated statement of cash flow for the years ended December 31 in accordance with U.S. GAAP is presented below.

	<b>2008</b>	<b>2007</b>
Cash flows from operating activities in accordance with U.S. GAAP	<b>\$ 77,987</b>	\$ 57,304
Cash flows from investing activities in accordance with U.S. GAAP	<b>\$ (24,406)</b>	\$ (38,214)
Cash flows from financing activities in accordance with U.S. GAAP	<b>\$ (12,553)</b>	\$ (3,327)

### 26. Supplemental guarantor financial information

Certain of the Corporation's subsidiaries (collectively, the "Guarantors") have guaranteed the Corporation's obligations to pay principal and interest with respect to the credit facilities outlined in Note 9. Separate financial statements of the Guarantors are not presented as the Corporation believes the summarized financial information for the years ended December 31, 2008 and 2007 which follows is more meaningful in understanding the financial position of the Guarantors.

The Corporation accounts for its investments in subsidiaries under the equity method in the following summarized financial information. U.S. GAAP was employed in the preparation of the summarized financial information.



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 26. Supplemental guarantor financial information (cont'd.)

	As at December 31, 2008				
	Stratos Global Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
Current					
Cash and cash equivalents	\$ 9,040	\$ 72,098	\$ 23,768	\$ -	\$ 104,906
Accounts receivable	-	55,936	34,550	-	90,486
Unbilled revenue	-	22,189	13,940	-	36,129
Due from affiliated companies	57,109	-	36,772	(93,881)	-
Inventory	-	12,557	2,257	-	14,814
Prepays and other	82	17,148	6,712	-	23,942
Future income taxes	-	5,184	3,204	-	8,388
	66,231	185,112	121,203	(93,881)	278,665
Investments	163,022	205,951	(65)	(362,493)	6,415
Property, plant and equipment	-	75,686	41,803	-	117,489
Due from affiliated companies	246,673	7,955	2,779	(257,407)	-
Goodwill and other intangible assets	-	183,471	180,238	-	363,709
Other assets	962	9,624	521	-	11,107
	\$ 476,888	\$ 667,799	\$ 346,479	\$ (713,781)	\$ 777,385
<b>Liabilities</b>					
Current					
Payables and accruals	\$ 7,561	\$ 64,170	\$ 77,549	\$ -	\$ 149,280
Derivative instruments	-	879	-	-	879
Deferred revenue	-	4,252	8,856	-	13,108
Due to affiliated companies	-	93,881	-	(93,881)	-
Current portion of long-term debt	1,161	1,218	-	-	2,379
	8,722	164,400	86,405	(93,881)	165,646
Long-term debt	257,973	101,464	-	-	359,437
Due to affiliated companies	1,669	247,270	8,465	(257,404)	-
Other liabilities	2,624	7,617	7,401	-	17,642
Future income taxes	(286)	11,981	14,599	-	26,294
Total liabilities	270,702	532,732	116,870	(351,285)	569,019
Non-controlling interest	-	-	497	-	497
<b>Shareholder's equity</b>					
Capital stock	218,191	157,090	137,297	(294,387)	218,191
Contributed surplus	5,303	-	-	-	5,303
Accumulated other comprehensive income	(5,590)	1,683	-	-	(3,907)
(Deficit) retained earnings	(11,718)	(23,706)	91,815	(68,109)	(11,718)
	\$ 476,888	\$ 667,799	\$ 346,479	\$ (713,781)	\$ 777,385



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 26. Supplemental guarantor financial information (cont'd.)

	<b>For the year ended December 31, 2008</b>				
	Stratos Global Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenue</b>	\$ 59	\$ 468,592	\$ 206,951	\$ (36,608)	\$ 638,994
Cost of goods and services	-	344,883	129,605	(17,485)	457,003
<b>Gross margin</b>	59	123,709	77,346	(19,123)	181,991
Operating expenses	1,535	68,124	28,569	(19,123)	79,105
Interest expense	23,127	9,869	36	-	33,032
Intercompany interest expense (revenue)	(25,351)	24,735	616	-	-
Depreciation and amortization	-	21,280	18,023	-	39,303
Other (income) costs	1,542	172	(41)	-	1,673
Non-controlling interest	-	-	49	-	49
Equity in earnings of investees	(20,140)	-	85	19,259	(796)
	(19,287)	124,180	47,337	136	152,366
<b>Earnings (loss) before income taxes</b>	19,346	(471)	30,009	(19,259)	29,625
Income tax expense	(1,542)	2,455	7,824	-	8,737
<b>Net earnings (loss)</b>	\$ 20,888	\$ (2,926)	\$ 22,185	\$ (19,259)	\$ 20,888



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 26. Supplemental guarantor financial information (cont'd.)

	For the year ended December 31, 2008				
	Stratos Global Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Operating activities</b>					
Net cash flow from operations	\$ (33,992)	\$ 92,806	\$ 19,173	\$ -	\$ 77,987
<b>Investing activities</b>					
Equity accounted investment	-	-	(19)	-	(19)
Purchases of property, plant and equipment	-	(16,158)	(8,219)	-	(24,377)
Proceeds from disposal of property, plant and equipment	-	760	-	-	760
Dividends and other capital transactions	32,953	(20,428)	(12,525)	-	-
Other assets	-	(660)	(110)	-	(770)
	32,953	(36,486)	(20,873)	-	(24,406)
<b>Financing activities</b>					
Long-term debt repayments	(5,805)	(5,584)	-	-	(11,389)
Other liabilities	2,892	(2,366)	(1,690)	-	(1,164)
	(2,913)	(7,950)	(1,690)	-	(12,553)
<b>Change in cash and cash equivalents during the year</b>	(3,952)	48,370	(3,390)	-	41,028
<b>Cash and cash equivalents, beginning of year</b>	12,992	23,728	27,158	-	63,878
<b>Cash and cash equivalents, end of year</b>	\$ 9,040	\$ 72,098	\$ 23,768	\$ -	\$ 104,906



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 26. Supplemental guarantor financial information (cont'd.)

	As at December 31, 2007				
	Stratos Global Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current</b>					
Cash and cash equivalents	\$ 12,992	\$ 23,728	\$ 27,158	\$ -	\$ 63,878
Accounts receivable	-	56,469	32,764	-	89,233
Unbilled revenue	-	21,657	12,606	-	34,263
Due from affiliated companies	27,952	-	11,226	(39,178)	-
Derivative instruments	69	-	-	-	69
Inventory	-	9,936	994	-	10,930
Prepays and other	240	13,580	5,800	-	19,620
Future income taxes	-	2,947	606	-	3,553
	41,253	128,317	91,154	(39,178)	221,546
Derivative instruments	-	44	-	-	44
Investments	176,895	218,475	-	(388,615)	6,755
Property, plant and equipment	-	82,110	44,007	-	126,117
Due from affiliated companies	337,110	96,380	2,000	(435,490)	-
Goodwill and other intangible assets	-	183,829	192,152	-	375,981
Other assets	1,173	10,908	50	-	12,131
	\$ 556,431	\$ 720,063	\$ 329,363	\$ (863,283)	\$ 742,574
<b>Liabilities</b>					
<b>Current</b>					
Payables and accruals	\$ 11,322	\$ 43,211	\$ 74,649	\$ -	\$ 129,182
Derivative instruments	824	-	-	-	824
Deferred revenue	-	3,275	7,742	-	11,017
Due to affiliated companies	-	34,171	-	(34,171)	-
Current portion of long-term debt	5,934	5,715	-	-	11,649
	18,080	86,372	82,391	(34,171)	152,672
Long-term debt	259,005	102,637	-	-	361,642
Due to affiliated companies	89,220	337,710	8,561	(435,491)	-
Other liabilities	5,620	5,831	9,519	-	20,970
Future income taxes	(286)	9,871	11,413	-	20,998
	371,639	542,421	111,884	(469,662)	556,282
Non-controlling interest	-	-	448	-	448
<b>Shareholder's equity</b>					
Capital stock	218,191	178,207	138,881	(317,088)	218,191
Contributed surplus	5,303	-	-	-	5,303
Accumulated other comprehensive income	(6,096)	1,052	-	-	(5,044)
Retained earnings (deficit)	(32,606)	(1,617)	78,150	(76,533)	(32,606)
	\$ 556,431	\$ 720,063	\$ 329,363	\$ (863,283)	\$ 742,574



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 26. Supplemental guarantor financial information (cont'd.)

<b>For the year ended December 31, 2007</b>					
	Stratos Global Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenue</b>	\$ 291	\$ 412,335	\$ 215,882	\$ (34,171)	\$ 594,337
Cost of goods and services	-	307,822	132,326	(17,860)	422,288
<b>Gross margin</b>	291	104,513	83,556	(16,311)	172,049
Operating expenses	4,333	56,239	26,854	(16,311)	71,115
Interest expense	23,801	9,524	54	-	33,379
Intercompany interest expense (revenue)	(27,613)	26,846	767	-	-
Depreciation and amortization	-	22,885	18,253	-	41,138
Other (income) costs	15,204	(4,130)	329	-	11,403
Non-controlling interest	-	-	(52)	-	(52)
Equity in earnings of investees	(20,228)	-	-	19,149	(1,079)
	(4,503)	111,364	46,205	2,838	155,904
<b>Earnings (loss) before income taxes</b>	4,794	(6,851)	37,351	(19,149)	16,145
Income tax expense	2,885	1,350	10,001	-	14,236
<b>Net earnings (loss)</b>	\$ 1,909	\$ (8,201)	\$ 27,350	\$ (19,149)	\$ 1,909



## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (U.S. dollars; tabular amounts in thousands, except share and per share amounts)

### 26. Supplemental guarantor financial information (cont'd.)

	<b>For the year ended December 31, 2007</b>				
	Stratos Global Corporation	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Operating activities</b>					
Net cash flow from operations	\$ 20,264	\$ (3,121)	\$ 40,161	\$ -	\$ 57,304
<b>Investing activities</b>					
Business acquisition (net of cash acquired)	-	(20,000)	-	-	(20,000)
Purchases of property, plant and equipment	-	(14,653)	(7,581)	-	(22,234)
Proceeds from disposal of property, plant and equipment	-	240	-	-	240
Proceeds from insurance on disposal of property, plant and equipment	-	4,502	-	-	4,502
Dividends	-	39,080	(39,080)	-	-
Deferred financing costs	(229)	(526)	-	-	(755)
Other assets	-	26	7	-	33
	(229)	8,669	(46,654)	-	(38,214)
<b>Financing activities</b>					
Long-term debt repayments	(1,162)	(1,220)	-	-	(2,382)
Other liabilities	(419)	1,121	(1,647)	-	(945)
	(1,581)	(99)	(1,647)	-	(3,327)
<b>Change in cash and cash equivalents during the year</b>	18,454	5,449	(8,140)	-	15,763
<b>Cash and cash equivalents, beginning of year</b>	(5,462)	18,279	35,298	-	48,115
<b>Cash and cash equivalents, end of year</b>	\$ 12,992	\$ 23,728	\$ 27,158	\$ -	\$ 63,878

**Stratos Global Corporation**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the Year Ended December 31, 2008**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our Audited Consolidated Financial Statements and related notes thereto as at and for the years ended December 31, 2008 and 2007 (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 25 to our Consolidated Financial Statements as at and for the years ended December 31, 2008 and 2007.*

*As a result of rounding adjustments, the figures or percentages presented in one or more columns included in any of the tabular presentations or information presented in this MD&A may not add up to the total for that column.*

*Throughout this MD&A, "we", "us", "our" and "Stratos" refer to Stratos Global Corporation and its subsidiaries and operating segments.*

*This MD&A contains statements and other forward looking information including, but not limited to potential future circumstances, results and developments. Forward-looking information is typically identified by the words "believe", "expect", "anticipate", "intend", "estimate" and other similar expressions, or future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. Such statements and information are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally and may differ materially from actual future results or events. Factors which could cause results or events to differ from current expectations include, among other things: changes in our business that could result in early 2009 following the exercise by Inmarsat of the call option resulting in Stratos becoming an indirect subsidiary of Inmarsat plc, changes in our commercial relationship with Inmarsat plc, changes in technology and industry participants in the remote communications industry, major satellite system failures or natural disasters, frequent new product and service introductions, changing or evolving customer requirements, price competition, changes in product mix, general industry and global economic conditions, and our ability to sustain and improve our financial performance. For additional information with respect to certain of these risks or factors, reference should be made to the risks set out in this MD&A and also to our continuous disclosure materials filed with the Canadian Securities Administrators.*

*Stratos disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, unless required by any law or regulation of any securities commission.*

***Reported in U.S. dollars unless otherwise stated.***

*This MD&A has been prepared as at February 24, 2009.*

*Additional information regarding Stratos, including copies of our continuous disclosure materials filed with the Canadian Securities Administrators, is available on our website at [www.stratosglobal.com](http://www.stratosglobal.com) or through the SEDAR website maintained by the Canadian Securities Administrators at [www.sedar.com](http://www.sedar.com).*

*A glossary of terms used in this MD&A is included at the end of this MD&A.*

## **Arrangement Transaction with CIP**

On December 11, 2007, Stratos completed an Arrangement Agreement (the “Arrangement Agreement”) and was acquired by CIP Canada Investment Inc. (“CIP Canada”), a wholly-owned subsidiary of Communications Investments Partners Limited (“CIP”), a professional investment company with a focus on satellite services.

Under the terms of the Arrangement Agreement, CIP Canada acquired beneficial ownership of 100 percent of our common shares through a plan of arrangement under the *Canada Business Corporations Act* (the “Arrangement”). The transaction was indirectly financed by Inmarsat Finance III Limited (“Inmarsat III”), a wholly-owned subsidiary of Inmarsat plc (“Inmarsat”). CIP granted Inmarsat III an option (the “Call Option”) to acquire the entire issued share capital of CIP Canada. The Call Option is only exercisable after April 14, 2009, when certain of Inmarsat’s distribution agreements expire, and terminates on December 31, 2010. Following the acquisition of Stratos by CIP Canada, and until such time as a decision is made to exercise the Call Option, Inmarsat has no control over the financial and operating policies and decisions of Stratos, which has continued its current operations and business as usual since the acquisition. The Stratos shares acquired under the Arrangement are registered in the name of, and under the control and direction of, an independent third party trustee pending the exercise of the Call Option.

On January 19, 2009, the U.S. Federal Communications Commission (“FCC”) issued an order approving the transfer of Stratos’ FCC licenses from an irrevocable trust, in which CIP Canada deposited Stratos’ shares, to Inmarsat. The exercise of the Inmarsat call option remains subject to certain other governmental approvals, which the parties expect to obtain in advance of the April 15, 2009 exercise date.

Although Inmarsat does not hold an equity interest in, nor have any control over the financial and operating policies of CIP, it is required to consolidate the financial results of CIP, which include the financial results of Stratos, as it is deemed to bear the risks and economic benefits of CIP by virtue of the combination of the loan facility to CIP and the Call Option.

## **Overview**

We are a leading global provider of advanced mobile and fixed-site remote telecommunications services. We provide Internet Protocol (“IP”), high-speed data and voice services to end-users typically operating beyond the reach of traditional wireline and terrestrial wireless telecommunications networks. The primary end-users of our services consist of governmental agencies and military forces, maritime organizations and oil and gas companies.

We offer a broad portfolio of remote telecommunications solutions to our customers, offering services over the mobile and fixed satellite systems of a number of the leading global and regional satellite system operators and through our owned and operated microwave and satellite telecommunications facilities. We also provide customized turnkey remote telecommunications solutions, value-added services, equipment and engineering services.

In managing our business and for reporting purposes, we divide our business into two operating segments: Mobile Satellite Services, or MSS, and Broadband Services, or Broadband.

### ***MSS***

Our MSS segment provides mobile telecommunications services, primarily over the Inmarsat satellite system. The revenue derived from services provided over the Inmarsat satellite system accounted for approximately 79% of the MSS segment's revenue and 66% of our consolidated revenue in the year ended December 31, 2008. To provide Inmarsat services, we operate a terrestrial-based network, including land earth stations, or LESs, located in Australia, Canada, the Netherlands and New Zealand. In the first quarter of 2007, we discontinued operation of our LES located in Goonhilly, United Kingdom and transitioned the ongoing LES services to our LES in Burum, the Netherlands. Other MSS services accounted for 21% of MSS segment revenue in the year ended December 31, 2008 and primarily consist of mobile telecommunications services sourced on a wholesale basis from mobile satellite system operators such as Iridium Satellite LLC ("Iridium"), sales of mobile terminals and equipment, accounting authority services billed to customers and other ancillary services. Other MSS services, in general, have lower gross margins than Inmarsat services.

On February 14, 2006, Stratos completed the acquisition of Xantic B.V. ("Xantic"), of the Netherlands. The acquisition strengthened Stratos' MSS presence in Europe and Asia, enhanced our leading position in North America and provided us with greater reach across key market sectors.

During 2008, we along with JSAT Corporation, a leading satellite operator in Japan established a new company in Japan, JSAT Mobile Communications Inc. This company will obtain the required licensing and become a distributor of Inmarsat and other MSS services in the Japanese market. This Japanese company will provide access to large corporate and government customers in Japan and provide an opportunity to grow our business in that area.

### ***Broadband***

Our Broadband segment provides VSAT services, with space segment sourced on a wholesale basis from a number of the leading fixed satellite system operators, with our VSAT hubs located in the United States, the United Kingdom, Canada and Russia. On June 27, 2008, we sold our hub located in Hameln, Germany. In exchange for the sale of the assets, we are to receive services from the buyer for a two year period from the closing date.

Our VSAT network enables integrated data and voice telecommunications between remote fixed sites and land-based offices. In addition, our Broadband segment operates what we believe to be

the most extensive digital microwave network in the U.S. Gulf of Mexico, utilized primarily by oil and gas companies operating offshore rigs and platforms in the Gulf of Mexico. Our Broadband segment revenue also includes the sale and rental of equipment and repairs and maintenance associated with microwave and VSAT technologies. Our Broadband revenue also includes the provision of turnkey engineering services for construction and internal and external communication requirements.

### *Key Factors Affecting our Business*

Our revenue, profitability and cash flow are directly affected by the price we can charge for the products and services we sell, the volumes of certain higher gross margin products relative to certain of our lower gross margin products, and the gross margins of new products we have introduced. The price and volume of the various services we sell have been influenced by several key factors, including: price competition; introduction of new services; and changes in the mix of services we sell or lease. As a result of such factors, we expect we will need to increase the volumes of airtime we sell or lease in order to grow our revenue, profitability and cash flows. A further discussion of these factors follows.

#### *Price Competition*

We believe MSS customers, particularly distributors, make purchase decisions based largely on price, as most major competitors offer similar value-added services. A significant number of our customer contracts in our MSS segment are “on-demand” contracts which, consistent with industry practice, typically have no contractual minimum purchase requirements. On-demand services provide a cost effective option for end-users with fluctuating demand requirements and most of our distributors and end-users can readily purchase some or all of their on-demand mobile satellite services from our competitors without significant additional cost or disruption of services. Both of these factors contribute to volatility in the level of certain satellite airtime services we sell to individual customers. As a result, certain of our services are subject to competitive pricing.

Revenue in both our microwave and VSAT businesses are derived from contracts of varying lengths and from non-contractual purchases of equipment and services. In our VSAT business, competitive pricing pressures during the past several years have negatively impacted our revenue. The introduction of newer IP-based satellite technology has increased the competition from VSAT providers serving the oil and gas industry. This competition has reduced prices of both equipment and space segment in our VSAT business. In addition, certain oil and gas producers have moved to lower cost and capability VSAT solutions based primarily on price.

#### *Introduction of New Services*

Advances in satellite technologies have enabled satellite system operators to launch more sophisticated, higher-speed data services. We have observed that some of our end-use customers are migrating slowly from earlier technologies to the more sophisticated, higher-speed data services that have been recently introduced. In that regard, we have experienced, and continue to experience, a gradual migration by end-users from Inmarsat’s older mobile satellite telecommunications services to the newer digital services with higher speed capabilities.

Following the introduction of Inmarsat's BGAN service in December 2005, and with the more recent introduction of Inmarsat's FleetBroadband service in September 2007 and SwiftBroadband service in October 2007, we expect to experience further migration by end-users from legacy data products such as Inmarsat GAN to these new services and other more sophisticated, higher-speed data services expected to be introduced in the future.

Our BGAN revenue has steadily increased since introduction, reaching \$9.6 million during the fourth quarter of 2008, an increase of 93% when compared to the fourth quarter of 2007. The revenue from FleetBroadband reached \$1.2 million in the fourth quarter of 2008 bringing the total FleetBroadband revenue for of the year ended December 31, 2008 to \$2.8 million. The revenue from SwiftBroadband for 2008 is not significant due to the early stage of commercial deployment of this service. Since Inmarsat owns the LESs for its BGAN services, we expect our future gross margins associated with the revenues derived from the distribution of BGAN services, including FleetBroadband and SwiftBroadband, will be lower than for most other Inmarsat services. We believe BGAN's higher data speeds and smaller end-user terminals will encourage existing end-users to increase their usage and will also expand the market for MSS services. Growth in our Broadband segment has relied on the successful introduction of IP-based technologies for VSAT, such as the Stratos ITek VSAT and DataSat II products. Our objective is to increase the volumes of airtime and services we sell or lease in order to grow our revenue, profitability and cash flow.

#### *Product Mix*

We continue to experience a shift in the mix of services we are distributing from the higher margin airtime services, such as Inmarsat's high-speed digital services, to lower margin Inmarsat services, Iridium services for which we act as a non-facilities based distributor, and other MSS equipment and services. Overall, we believe we need to increase the volume of airtime we sell or lease in order to grow our revenue, profitability and cash flow.

In our Broadband segment, for the last several years we have been experiencing a decline in our microwave and related services revenue in the Gulf of Mexico. The hurricanes experienced in 2005 changed our product mix, decreasing microwave revenues while increasing VSAT revenues. The hurricanes experienced during the third quarter of 2008 (See "Impact of Hurricanes") are not expected to result in further changes to our product mix. In addition, we attribute the decrease in microwave revenue to the decline in oil and gas companies' exploration and development drilling activity in the shallow water areas of the Gulf of Mexico and the price competition from VSAT services. We do not purchase satellite airtime in connection with providing telecommunication services through our microwave network. As a result, a reduction in demand for our microwave services generally does not result in any significant related reduction in the cost of services and operating costs. In contrast, the increase in demand for our VSAT services results in an increase in the cost of services related to purchasing space segment from satellite operators and higher personnel costs associated with designing and delivering a customized VSAT solution. As a result, we have experienced a decline in our gross margin as a percentage of revenue as the gross margin associated with our VSAT network revenue is lower than that associated with our microwave network derived revenue.

## **Impact of Hurricanes**

During the third quarter of 2008, our Broadband microwave network and related communications infrastructure in the Gulf of Mexico were affected by Hurricanes Gustav and Ike.

Our microwave network sustained damage to both onshore and offshore equipment. Offshore communications equipment with a net book value of \$1.7 million has been written off as a result of the damage sustained. We have property insurance coverage for both onshore and offshore equipment. We have recorded insurance proceeds receivable of nearly \$1.9 million in respect of the damaged offshore equipment and recovery costs. As a result, no gain or loss related to the damaged offshore equipment has been reflected in the consolidated statement of operations included in the Consolidated Financial Statements for the year ended December 31, 2008. No insurance proceeds receivable has been recorded related to the net book value of onshore equipment written off of approximately \$34,000 as there will not be an insurance claim made for these onshore damages. This write-off, together with approximately \$56,000 of recovery costs related to onshore damage, has been reflected as a loss in the consolidated statement of operations for the year ended December 31, 2008. See "Other (Income) Costs". On January 7, 2009, we received an advance payment from the insurance carriers of \$1.9 million related to the damaged offshore equipment and recovery costs.

As a result of the hurricane damage to the microwave network and related communications equipment outlined above, communications services to energy customers were temporarily impacted. We repaired the network and restored service to customers within a two month period. As a result, the interruption in service did not have a significant impact on the revenues and segment earnings in the Broadband segment. The current estimate of the capital costs that will be incurred to restore the network is \$3.8 million and it is expected to be completed by the first quarter of 2009. As at December 31, 2008, we have incurred \$2.9 million of these capital costs.

## **How We Evaluate our Operating Results and Financial Condition**

In our public disclosure documents, we provide certain financial and related information about our business and each of our operating segments. Our objective in providing this information is to help users of our consolidated financial statements: (i) better understand our overall performance, (ii) better assess the profitability of our two operating segments, (iii) better assess our prospects for future net cash flows, and (iv) make more informed judgments about us as a whole. In our effort to achieve this objective, we provide information about segment revenues and segment earnings because these financial measures are used by our key decision makers in making operating decisions and assessing performance. We have changed the reporting of our operating segments whereby corporate operating costs are no longer allocated to the operating segments and have now been presented separately. Comparative segmented information has been restated to reflect this change in reporting. We define "segment earnings" as earnings for a segment before unallocated corporate costs, interest expense, depreciation and amortization, other (income) costs, non-controlling interest, equity in earnings of investee and income taxes. For additional information about our segment revenues and segment earnings, including a

reconciliation of these measures to our consolidated financial statements, see note 19 to our Consolidated Financial Statements.

***Comparison of Year Ended December 31, 2008 and December 31, 2007***

The following table sets forth statement of operations data and key statistics for the years ended December 31, 2008 and December 31, 2007.

	<b>Year Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
	(\$ in millions, except percentages)	
<b>Revenue</b>		
- MSS	\$ 533.6	\$ 472.2
- Broadband	105.4	122.1
	639.0	594.3
Gross margin	176.2	166.3
<i>As a % of revenue</i>	28%	28%
Operating expenses	73.3	65.2
<i>As a % of revenue</i>	11%	11%
<b>Segment earnings</b>		
- MSS	124.8	111.1
- Broadband	18.0	22.3
	142.8	133.4
Unallocated corporate costs	(39.9)	(32.4)
<b>Segment earnings after unallocated corporate costs</b>	102.9	101.0
<i>As a % of revenue</i>	16%	17%
Interest expense	33.0	33.4
Depreciation and amortization	39.3	41.1
Other (income) costs	1.7	11.4
Non-controlling interest	0.1	-
Equity in earnings of investee	(0.8)	(1.1)
Earnings before income taxes	29.6	16.2
Income tax expense	8.7	14.2
<b>Net earnings</b>	\$ 20.9	\$ 2.0

***Revenue***

Our total revenue for the year ended December 31, 2008 was \$639.0 million up \$44.7 million, or 8% from the prior year. MSS segment revenue of \$533.6 million was up \$61.4 million, or 13%, from the prior year. Broadband segment revenue decreased by \$16.7 million, or 14%, to \$105.4 million in 2008.

The increase in our MSS segment revenue for the year ended December 31, 2008 resulted primarily from increased leasing and aeronautical revenue, increased sales of mobile terminals and equipment and increased Iridium revenues. Traffic volumes also increased for certain

Inmarsat high speed data products but were partially offset by decreases related to other Inmarsat products.

The following table sets forth our Inmarsat revenues for the years ended December 31, 2008 and December 31, 2007 for our key market sectors.

	<b>Year Ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(\$ in millions)	
Revenues		
Maritime sector:		
Voice services	\$ 131.0	\$ 127.3
Data services	74.5	68.7
<b>Total maritime sector</b>	205.5	196.0
Land sector:		
Voice services	18.9	20.0
Data services	63.0	67.3
<b>Total land sector</b>	81.9	87.3
<b>Aeronautical sector</b>	32.7	25.1
<b>Leasing</b>	100.5	77.8
<b>Total Inmarsat revenue</b>	\$ 420.6	\$ 386.2

The increase of \$9.5 million in the maritime sector for the year ended December 31, 2008 is due primarily to the significant growth in our Inmarsat F high speed maritime service and the introduction of FleetBroadband revenue, partially offset by a shift of some on-demand usage to leasing contracts. Revenues in the land sector decreased \$5.4 million for the year ended December 31, 2008. This decrease is due primarily to decreases in GAN revenues, partially offset by increases in BGAN revenues. We experience volatility in usage patterns for GAN services used to a significant extent by our government and military customers operating in the land sector. In addition, there has been a shift of some on-demand GAN usage to leasing contracts and a migration of GAN revenues to BGAN revenues. The \$7.6 million increase in aeronautical revenue for the year ended December 31, 2008 is due to continued increases in revenues from our Swift 64 aeronautical service. Our leasing services enjoyed growth of \$22.7 million, or 29%, for the year ended December 31, 2008. This increase is as a result of increased usage by government and military customers and the shift of certain on-demand usage to leases as noted above.

The decrease in our Broadband segment revenue of \$16.7 million, or 14%, during 2008 is primarily due to decreased microwave revenue of \$8.9 million as a result of lower equipment, bandwidth, service and rental revenues. There is also a decrease in VSAT revenue of \$4.2 million as a result of the expiry of certain contracts and increased competition from lower cost VSAT providers and a decrease in revenue from engineering projects of \$2.4 million.

### ***Gross Margin***

Gross margin for the year ended December 31, 2008 was \$176.2 million, an increase of \$9.9 million compared to 2007. As a percentage of revenue, gross margin was 28% for both years ended December 31, 2008 and 2007.

Gross margin consists of revenue less cost of goods and services. Cost of goods and services includes variable expenses such as the cost of airtime and space segment we purchase from satellite owners, cost of equipment, materials and services we re-sell, and variable labor costs related to our repair and service workforce. Cost of goods and services also includes costs such as network infrastructure operating costs, customer support center costs, telecommunications services purchased from terrestrial providers, and rents and salaries that do not vary significantly with changes in our volumes of goods and services sold.

In the MSS segment, gross margin increased as a result of the growth in revenue from certain products and services as previously noted. As a percentage of segment revenue, gross margin in the MSS segment decreased in 2008 when compared to 2007 as a result of increased sales of mobile terminals and equipment, which have a lower gross margin, and a migration by certain customers to lower margin services such as BGAN which have no or lower volume discounts. These decreases were partially offset by lower network infrastructure operating costs resulting from the integration of our LES network.

In the Broadband segment, gross margin decreased both in absolute terms and as a percentage of revenue in 2008 when compared to 2007. This decrease was primarily attributable to the decreased revenues noted above. This was partially offset by an increase of \$1.4 million as a result of favorable commercial settlements during 2008 and losses of \$1.9 million related to fixed price engineering projects in 2007.

### ***Operating Expenses***

Operating expenses for the year ended December 31, 2008 of \$73.3 million were \$8.1 million higher than in 2007. Operating expenses represented 11% of our revenue in both 2008 and 2007. Our operating expenses increased primarily as a result of a management incentive plan expense during the year ended December 31, 2008 of \$11.4 million, as noted below. The 2008 operating expenses also included higher bad debt expense primarily as a result of increased risk relating to the volatile financial markets and increased revenue in 2008 compared to a nominal recovery of bad debts in 2007. These increases were partially offset by cost savings initiatives implemented in the prior year, primarily in the Broadband segment and lower public company costs (including reduced directors' fees) in 2008 as a result of the completion of the Arrangement.

As a result of the Arrangement, Stratos introduced a long-term Management Incentive Plan ("MIP") for certain senior employees. The MIP, in conjunction with a separate agreement executed between Stratos and the employee, gives the employee the right to receive cash compensation, subject to the achievement of performance targets and the conditions specified in the MIP, which will be measured and achieved annually in each of 2007, 2008 and 2009.

Amounts payable under the MIP are generally expected to vest by April 30, 2010, however, awards are subject to earlier settlement under certain conditions. The deferred compensation arrangement will be recognized over the vesting period. The amount of compensation expense recorded in operating expenses during the year ended December 31, 2008 was \$11.4 million.

Our operating expenses include general and administrative costs associated with our corporate management and back office billing, credit, accounting and information technology operations, public company costs, costs associated with our worldwide sales and marketing organization and related legal, audit and other professional fees we require to operate our business.

Corporate costs, which include the majority of operating expenses excluding costs associated with the administration, sales and marketing organization of each of the MSS and Broadband segments, are no longer allocated to the operating divisions and are presented separately in our segmented information. Comparative segmented information has been restated to reflect this change in reporting. Unallocated corporate costs for the year ended December 31, 2008 were \$39.9 million compared to \$32.4 million in 2007.

### ***Segment Earnings***

MSS segment earnings increased \$13.7 million, or 12%, to \$124.8 million in the year ended December 31, 2008 from the \$111.1 million achieved in the prior year. The increase was primarily a result of the increase in gross margin partially offset by an increase in the operating expenses. As a percentage of revenue, MSS segment earnings represented 23% of the MSS segment revenue in the year ended December 31, 2008 compared to 24% in 2007. When compared to the prior year, MSS segment earnings as a percentage of revenue decreased as a result of the lower gross margin percentage.

Due to the reset of the Inmarsat volume discount arrangements in the first quarter of the year, MSS gross margin and segment earnings increased throughout 2008 as higher volume discounts were achieved – see “Quarterly Information”. Based on the volume and mix of Inmarsat services provided in the year, approximately \$25.1 million of Inmarsat volume discounts were realized in 2008. In 2007, approximately \$31.0 million of volume discounts were realized.

Broadband segment earnings declined \$4.3 million to \$18.0 million in the year ended December 31, 2008 from \$22.3 million in 2007. As a percentage of segment revenue, Broadband segment earnings decreased to 17% for the year ended December 31, 2008 from 18% in the prior year. The decrease both in absolute terms and as a percentage of revenue is due primarily to the decrease in gross margin, partially offset by lower operating expenses as a result of cost savings initiatives implemented in the prior year and the disposal of assets in Hameln, Germany. See “Other (Income) Costs”.

### ***Interest Expense***

Interest expense for the year ended December 31, 2008 of \$33.0 million reflected decreases of \$0.4 million when compared to 2007. This decrease was due primarily to lower interest rates under our credit facility because of a margin rate reduction effective June 30, 2008 which resulted from an improved total leverage ratio. This decrease was partially offset by a change in amortization of the balance in accumulated other comprehensive income related to the change in fair value of a swap transaction as well as increased amortization of deferred financing costs.

### *Depreciation and Amortization*

Depreciation and amortization for the year ended December 31, 2008 decreased \$1.8 million to \$39.3 million compared to \$41.1 million for the prior year. This decrease is due primarily to reduced depreciation and amortization related to certain property, plant and equipment which were fully amortized during 2007 and reduced amortization of customer relationships acquired in the Xantic acquisition.

### *Other (Income) Costs*

Other (income) costs of \$1.7 million for the year ended December 31, 2008 included the following:

- Costs incurred for financial advisory, legal and other costs of \$1.6 million in relation to the Arrangement. See “Arrangement Transaction with CIP”.
- Gain from sale of assets of \$0.2 million related to disposal of assets in Hameln, Germany. During the second quarter of 2008, we sold certain Broadband telecommunications equipment (including our hub) located in Hameln, Germany. In exchange for the sale of such telecommunication assets, we are to receive certain services from the buyer for a two year period from the June 27, 2008 closing date. The fair value of the transaction was determined on the basis of the fair value of the services we are to receive. The sale meets the definition of a non-monetary transaction under Canadian GAAP.
- Severance and other costs of \$0.1 million included \$0.3 million of severance and other costs related to restructuring measures and a (\$0.2) million adjustment to the asset retirement obligation estimate for the LES at Goonhilly, England. We have completed the remediation of the site and the total cost incurred was less than the obligation previously recorded.
- Loss from write-off of assets and recovery costs of \$0.1 million incurred during the third quarter of 2008 related to Hurricanes Gustav and Ike. See “Impact of Hurricanes”.

Other (income) costs of \$11.4 million for the year ended December 31, 2007 consisted of the following:

- Costs incurred for financial advisory, legal and other costs of \$17.1 million in relation to the Arrangement. See “Arrangement Transaction with CIP”.
- Gain on sale of property, plant and equipment related to the sale of certain aeronautical equipment. Total proceeds were \$1.0 million, resulting in a gain of \$1.0 million, as the equipment had been fully depreciated.
- Gain from insurance settlements related to hurricanes Katrina and Rita of \$6.2 million. We reached final agreements with our insurance carriers during the year and received the final payments. The \$6.2 million of income represents total proceeds

received, including advance payments previously noted, net of deductibles, book value of assets disposed of and other costs incurred. It is comprised of \$4.5 million for property damage and \$1.7 million for business interruption.

- Severance and other costs of \$1.4 million included losses totaling \$0.4 million on the disposal of certain property, plant and equipment and costs of \$0.4 million to move property, plant and equipment from Goonhilly, United Kingdom to Burum, the Netherlands as part of the rationalization of our LES network. In addition, severance and other costs included severance, consultant and other costs related to corporate wide restructuring measures designed to reduce costs.

### ***Income Tax***

Income tax expense was \$8.7 million based on income before tax of \$29.6 million for the year ended December 31, 2008 compared to an income tax expense of \$14.2 million based on a income before tax of \$16.2 million for the year ended December 31, 2007.

The difference in the effective income tax rate from the 33.5% (2007 – 36%) Canadian statutory rate is due, in both years, primarily to losses incurred in foreign jurisdictions for which no tax benefit was recognized, expenses which are not deductible for tax purposes, as well as differences in financial reporting in some jurisdictions as compared to consolidated financial reporting. The expenses which are not deductible for tax purposes in 2007 relate primarily to \$15.2 million in costs incurred in relation to the Arrangement. In 2008, the benefit of \$7.9 million of losses or \$2.0 million of tax in the Netherlands was recognized and recorded as a reduction to goodwill. At the time of the acquisition of Xantic, it was determined that the benefit of these losses were not likely to be realized. The losses for which no benefit was recognized will be recorded in the future if their realization is determined to be more likely than not.

### ***Net Earnings***

We recorded net earnings of \$20.9 million during 2008 compared to net earnings of \$2.0 million for 2007. The basic earnings per share for the year ended December 31, 2008 was \$0.50 compared to \$0.05 in the prior year.

### **Fourth Quarter 2008**

The MSS segment results for the fourth quarter of 2008 show an increase of 16% from the fourth quarter of 2007 and a decline of 2% from the third quarter of 2008. This decrease is due primarily to seasonality which has resulted in decreased revenues resulting from lower volume for certain Inmarsat products, especially GAN, BGAN and Swift 64 and a decrease in mobile terminal and equipment sales, partially offset by increases in Inmarsat volume based discounts as a percentage of revenue.

Compared to the third quarter of 2008, the fourth quarter of 2008 includes a slight reduction in revenue and segment earnings in the Broadband segment related primarily to a change in product mix.

## Quarterly Information

The table below sets forth selected financial data related to our revenue, net earnings (loss) and earnings (loss) per common share for each of the eight most recently completed quarters. The financial data is derived from our interim unaudited consolidated financial statements and audited annual consolidated financial statements, which are prepared in accordance with Canadian GAAP.

(U.S. Dollars; in millions, except per share amounts)				
<b>2008</b>				
	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>June 30</b>	<b>Mar. 31</b>
Revenue	\$ 160.6	\$ 168.2	\$ 162.7	\$ 147.5
Net Earnings (Loss)	6.3	8.4	5.5	0.7
Basic and Diluted Earnings (Loss) Per Common Share	0.15	0.20	0.13	0.02
(U.S. Dollars; in millions, except per share amounts)				
<b>2007</b>				
	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>June 30</b>	<b>Mar. 31</b>
Revenue	\$ 145.5	\$ 154.3	\$ 149.9	\$ 144.6
Net Earnings (Loss)	(9.9)	9.5	6.6	(4.2)
Basic and Diluted Earnings (Loss) Per Common Share	(0.24)	0.23	0.16	(0.10)

Revenues in the second quarter of 2007 increased 4% when compared to the prior quarter due mainly to increased volume in certain Inmarsat products, especially GAN and Fleet, offsetting reduced microwave equipment sales. The revenues in the third quarter increased a further 3% compared to the prior quarter. This increase was due mainly to increased sales of mobile terminals and equipment and increased Iridium revenue in our MSS segment as well as increased engineering project revenue in our Broadband segment. Revenues in the fourth quarter of 2007 decreased by 6% compared to the revenues of the prior quarter. This decrease was primarily due to a decline in the volume of certain Inmarsat products, especially GAN, in our MSS segment and decreased engineering project revenue in our Broadband segment. Revenues in the first quarter of 2008 increased 1% when compared to the prior quarter due mainly to increases in leased capacity revenue and increased volume in certain other Inmarsat products, especially Fleet and Swift 64, partially offset by a decrease in volume of certain other Inmarsat products, primarily GAN. Revenues in the second quarter of 2008 increased 10% when compared to the revenues in the first quarter of 2008. This increase resulted primarily from increased mobile terminal and equipment sales and continued increases in leased capacity revenue as well as increased volume in certain other Inmarsat products, especially Swift 64, GAN and BGAN, partially offset by a decrease in volume in certain other Inmarsat products and a decrease in microwave revenue. There was a further revenue increase of 3% during the third quarter of 2008 as a result of continued increases in mobile terminal and equipment sales and leased capacity

revenue as well as increases in Iridium revenues and BGAN revenues, partially offset by a decrease in volume in certain other Inmarsat products and a decrease in Broadband revenue. Revenues in the fourth quarter of 2008 decreased by 5% compared to revenues of the prior quarter. This decrease was primarily due to a decrease in volume of certain Inmarsat products, especially GAN, BGAN and Swift 64, as well as a reduction in mobile terminal and equipment sales.

With the annual reset of the volume discount arrangements on January 1, 2007, costs of goods and services in the MSS segment for the first quarter of 2007 increased \$7.2 million when compared to the fourth quarter of 2006. As a result of accumulated volumes in the second and third quarters of 2007, we achieved reductions in the cost of goods and services of approximately \$4.6 million and \$3.5 million, respectively, when compared to similar costs in the immediately preceding quarter. In the fourth quarter of 2007, the volume discounts were \$0.6 million lower than those achieved in the third quarter as a result of a decrease in volume of certain Inmarsat products, especially GAN. With the annual reset of the volume discount arrangements on January 1, 2008, costs of goods and services in the MSS segment for the first quarter of 2008 increased \$7.6 million when compared to the fourth quarter of 2007. As a result of accumulated volumes in the second, third and fourth quarters of 2008, we achieved reductions in the cost of goods and services of approximately \$4.9 million, \$0.5 million and \$0.2 million, respectively, when compared to similar costs in the immediately preceding quarter.

The first, second, third and fourth quarters of 2007 include other costs of \$11.4 million primarily related to the Arrangement transaction which were partially offset by a gain from insurance settlements related to Hurricanes Katrina and Rita. The first, second, third and fourth quarters of 2008 include an aggregate of other costs of \$1.7 million as outlined in "Other (Income) Costs".

### Selected Annual Information

The table below sets forth selected financial data relating to the years ended December 31, 2008, 2007 and 2006. This financial data is derived from our audited consolidated financial statements for each of the years then ended, which are prepared in accordance with Canadian GAAP.

#### Income Statement Data

(U.S. Dollars; in millions, except per share amounts)	Year Ended December 31		
	2008	2007	2006
Revenue	\$ 639.0	\$ 594.3	\$ 537.8
Net earnings (loss)	20.9	2.0	(26.8)
Basic and diluted earnings (loss) per share	0.50	0.05	(0.64)

#### Balance Sheet Data

(U.S. dollars; in millions)	As at December 31		
	2008	2007	2006
Total assets	\$ 789.3	\$ 752.5	\$ 777.7
Long-term debt (excluding current portion)	350.5	350.8	373.2
Cash dividends paid	-	-	-

*Comparison of Years Ended December 31, 2008, December 31, 2007 and December 31, 2006*

Our total revenue for 2007 was \$594.3 million, an increase of \$56.5 million from the prior year. This increase resulted from a \$61.3 million increase in MSS segment revenue, partially offset by a \$4.8 decrease in Broadband segment revenue. The increase in MSS segment revenue was primarily attributable to increased traffic volumes related to certain Inmarsat high speed data products, increased sales of mobile terminals and equipment and increased Iridium revenue as well as revenue from Xantic being included for the full year ended December 31, 2007 whereas 2006 only included Xantic revenue from February 14 to December 31, 2006. The decrease in Broadband segment revenue was due primarily to decreases in VSAT revenue as a result of lower equipment sales, the expiry of certain contracts entered into during the hurricanes in 2005 and increased competition from lower cost VSAT providers, partially offset by increased revenue from engineering projects and increased microwave revenue as a result of rate increases introduced in the second half of 2006 and early 2007. In addition, Broadband segment revenues in 2006 included recoveries of \$1.7 million related to a positive experience resolving service interruption issues with certain of our microwave customers impacted by the 2005 hurricanes.

Net earnings increased \$28.8 million in 2007 when compared to 2006. The primary components of the increase were: (i) an increase in gross margin of \$23.1 million; (ii) a decrease in operating expenses of \$3.4 million; (iii) a decrease in other costs of \$19.5 million; and (iv) an increase in income tax expense of \$18.4 million.

MSS gross margin increased in 2007 primarily due to the growth in revenue and synergies realized in connection with the Xantic acquisition. This was partially offset by a decrease in Broadband gross margin. Broadband segment gross margins decreased as a result of a decrease in revenue and losses of \$1.9 million related to fixed price engineering projects in 2007, partially offset by a favorable commercial settlement with a customer for \$0.9 million. Operating expenses decreased in 2007 when compared to the prior year as a result of synergies realized from our integration activities and costs saving initiatives as well as a recovery of professional fees during 2007 of \$0.9 million from an award of fees and costs related to an arbitration proceeding with Inmarsat.

Other (income) costs in 2006 were \$30.9 million. This amount resulted from the following: (i) severance and other costs of \$7.4 million related to corporate wide restructuring measures designed to reduce costs and costs associated with the integration of Xantic and elimination of redundant positions and relocation of sales offices which existed prior to the acquisition; (ii) an asset impairment charge of \$19.4 million in connection with our capital and licenses used in our LES in Goonhilly, U.K. and certain related software assets as a result of the shut down of the Goonhilly LES and transition of services to Burum, Netherlands LES; (iii) an asset impairment charge of \$4.2 million related to the write-off of capital assets representing costs incurred under a contract to customize and integrate customer relationship management software for use within our mobile satellite business; and (iv) other income of \$0.2 million related to the successful appeal of a portion of the court ruling in favor of a former director and officer provided for in 2005. Other costs of \$11.4 million in 2007 are as described previously - see "Comparison of Year Ended December 31, 2008 and December 31, 2007 – Other (Income) Costs".

The increase in income tax expense in 2007 was due primarily to the increase in earnings before income taxes when compared to the prior year.

The decrease in long-term debt (excluding current portion) as at December 31, 2007 when compared to the prior year was due to the reclassification to current portion of \$9.3 million as the amount of repayment required under our credit agreement based on an excess cash flow calculation and the netting of unamortized financing costs of \$10.9 million against the related long term debt. The unamortized financing costs were included in other assets in 2006. A detailed explanation of the changes in long-term debt is described under “Liquidity and Capital Resources”.

The increased revenue and net earnings in 2008, as compared to 2007, are described under “Comparison of Year Ended December 31, 2008 and December 31, 2007”. The decrease in the long-term debt in 2008 as compared to 2007 is described under “Liquidity and Capital Resources”.

### **Related Party Transactions**

In the normal course of operations, we engage in transactions with our equity owned investees, Navarino Telecom SA and NTS Maritime Ltd (collectively referred to as “Navarino”), one of Stratos’ largest distributors. Sales of airtime and equipment to Navarino for the year ended December 31, 2008 were \$21.4 million compared to \$18.6 million for the prior year. These transactions are measured at the amounts exchanged. The amount receivable from Navarino at December 31, 2008 was \$8.0 million compared to \$7.0 million at December 31, 2007.

As outlined in “Arrangement Transaction with CIP”, Inmarsat is required to consolidate the financial results of CIP, which include the results of Stratos. As such, Stratos considers transactions with Inmarsat to meet the definition of a related party transaction under CICA Handbook Section 3840 “Related Party Disclosures”. Transactions with Inmarsat represent purchases of on-demand and leasing airtime (“airtime”) and are measured at the amounts exchanged. Total costs of goods and services related to purchases of airtime from Inmarsat for the year ended December 31, 2008 were \$266.9 million compared to \$235.5 million for the prior year. The amount payable to Inmarsat at December 31, 2008 was \$69.7 million compared to \$60.9 million at December 31, 2007.

During 2008, Inmarsat III acquired \$57.7 million of the outstanding aggregate principal amount of our \$150.0 million senior unsecured notes.

### **Liquidity and Capital Resources**

#### ***Operating Activities***

We generated \$76.7 million in operating cash flow (before changes in non-cash working capital) during the year ended December 31, 2008 an increase of \$23.8 million from the \$52.9 million generated for the year ended December 31, 2007. This increase primarily related to an increase in net income of \$18.9 million, an increase in non-cash charges related to MIP expense in 2008

and a gain on insurance proceeds in 2007, partially offset by a lower future income tax expense in 2008.

We decreased our investment in non-cash working capital during the year ended December 31, 2008 by \$1.3 million. This decrease resulted primarily from an increase in payables and accruals resulting from the timing of the payment of accrued interest and other payments and an increase in deferred revenue, partially offset by increases in accounts receivable and unbilled revenue resulting from increased revenue and the timing of certain cash collections and increases in inventory to support the increased mobile terminal and equipment sales. We decreased our investment in non-cash working capital during the year ended December 31, 2007 by \$4.4 million. This decrease resulted primarily from a decrease in trade accounts receivable resulting from the timing of certain cash collections. This decrease was partially offset by an increase in unbilled revenue as a result of increased traffic volumes and a decrease in payables and accruals resulting from the payment of income taxes payable and the timing of other payments.

Net operating cash flow for the year ended December 31, 2008 was \$78.0 million, an increase of \$20.7 million compared with the \$57.3 million generated during the same period in 2007.

### ***Investing Activities***

Cash used in investing activities was \$24.4 million for the year ended December 31, 2008, compared to \$37.5 million for the prior year. The \$13.1 million year over year reduction was primarily due to an investment of \$20.0 million in 2007 representing the payment of the final purchase price adjustment for the Xantic acquisition. In addition, the year ended December 31, 2007 included proceeds of \$4.5 million received from insurance related to property, plant and equipment damaged during the hurricanes in 2005. Property, plant and equipment additions for the year ended December 31, 2008 of \$24.4 million increased by \$2.2 million from \$22.2 incurred during the year ended December 31, 2007. Property, plant and equipment additions for the year ended December 31, 2008 related primarily to investment in MSS infrastructure upgrades and Broadband infrastructure upgrades including the costs to restore the microwave network after the damages incurred by Hurricanes Gustav and Ike. Property, plant and equipment additions for the year ended December 31, 2007 related primarily to investment in MSS infrastructure upgrades and Broadband equipment purchases and infrastructure upgrades.

### ***Financing Activities***

Financing activities used cash of \$12.6 million for the year ended December 31, 2008 compared to a use of cash of \$4.1 million for the year ended December 31, 2007. The cash used in 2008 was primarily for the annual principal payment due on the Term B loan facility of \$2.3 million and a payment required for excess cash flows, as described below, of \$9.0 million. Cash used in 2007 was primarily for the annual principal payment due on the Term B facility of \$2.3 million and deferred financing costs of \$0.8 million to obtain amendments to certain covenants and a waiver of the change of control provision under the Term B facility in connection with the Arrangement.

At December 31, 2008, long-term debt (including current portion and senior unsecured notes) totaled \$361.8 million and shareholder's equity totaled \$222.6 million. At December 31, 2007,

long-term debt (including current portion and senior unsecured notes) totaled \$373.3 million and shareholder's equity totaled \$200.6 million. The long-term debt to equity ratio was 1.6:1 at December 31, 2008 and 1.9:1 at December 31, 2007.

### ***Cash, Short-Term and Long-Term Borrowings***

At December 31, 2008, we held cash and short-term investments of \$104.9 million. This represents an increase of \$41.0 million from the December 31, 2007 cash and short-term investment balance of \$63.9 million. This increase resulted primarily from cash provided by operations, partially offset by payments on long-term debt of \$11.4 million and property, plant and equipment expenditures of \$24.4 million for the year ended December 31, 2008.

In connection with the acquisition of Xantic in February 2006, we incurred long-term debt in order to refinance our existing senior credit facilities and fund the purchase price of Xantic paid at closing, as well as transaction and integration costs. Effective February 13, 2006, our refinanced senior secured credit facilities consisted of: (i) a five year \$25.0 million revolving operating facility; (ii) a five year undrawn Term A facility of up to \$20.0 million; and (iii) a six year Term B facility of \$225.0 million. In addition, on February 13, 2006 we issued \$150.0 million of 9.875% senior unsecured notes due in 2013. On January 31, 2007, we terminated the undrawn Term A facility which was only available to fund purchase price adjustments related to the Xantic acquisition. On February 2, 2007, the Xantic purchase price adjustment of \$20.0 million was funded from cash on hand. The refinanced senior credit facilities were provided by a syndicate of financial institutions. No amounts have been drawn under the revolving operating facility. Certain of the terms of our refinanced senior credit facilities and the senior unsecured notes are described in Note 9 to our Consolidated Financial Statements.

In addition to scheduled repayments, a stated percentage of excess cash flows, as defined in the credit agreement, are to be applied to indebtedness outstanding under the Term B facility if certain ratios are exceeded. Based on the calculation of excess cash flows for the year ended December 31, 2007, we were required to make a payment of \$9.0 million against principal during the first quarter of 2008. No excess cash flow payment is required based on the calculation for the year ended December 31, 2008.

As a result of the change of control in connection with the Arrangement, we were required by the indenture governing our \$150 million senior unsecured notes to make an offer to the senior unsecured noteholders to repurchase all notes at a purchase price in cash equal to not less than 101% of the aggregate principal amount plus accrued and unpaid interest to the date of repurchase. As permitted by the indenture governing our \$150 million senior unsecured notes and as contemplated by the Arrangement Agreement, CIP Canada agreed to make the tender offer for the senior unsecured notes subsequent to the completion of the Arrangement. The offer was made on December 12, 2007 and expired on January 14, 2008. Prior to the expiration date, \$1.0 thousand aggregate principal amount of the notes was validly tendered. CIP Canada purchased all of the tendered notes pursuant to the offer to purchase, with the notes so purchased held in trust by an independent trustee for the benefit of CIP Canada.

We believe our cash and cash equivalents, the cash flow from operations and the available \$25.0 million of revolving operating facility will provide the resources required to meet our

expenditure requirements for the foreseeable future. Expenditure requirements include working capital requirements, debt service, management incentive plan payments and ongoing property, plant and equipment expenditure requirements.

### ***Contractual Obligations***

A summary of our total contractual obligations and commercial commitments to make future payments as at December 31, 2008 is presented in the table below.

Contractual obligations	Total	Payments due by December 31					
		(\$ in millions)					
		2009	2010	2011	2012	2013	Thereafter
Long-term debt <sup>(1)</sup>	\$ 361.8	\$ 2.4	\$ 2.4	\$ 2.3	\$ 204.7	\$ 150.0	\$ -
Operating leases	18.5	3.2	2.8	2.4	1.9	1.8	6.4
Maintenance contracts	0.2	0.2	-	-	-	-	-
Purchase obligations <sup>(2)</sup>	30.8	20.5	7.7	1.8	0.8	-	-
Other obligations	11.3	1.5	1.3	1.2	1.0	1.0	5.3
<b>Total contractual obligations</b>	<b>\$ 422.6</b>	<b>\$ 27.8</b>	<b>\$ 14.2</b>	<b>\$ 7.7</b>	<b>\$ 208.4</b>	<b>\$ 152.8</b>	<b>\$ 11.7</b>

(1) Excludes interest.

(2) Purchase obligations are related primarily to space segment costs and will be funded from contracts to provide space segment and related services to our customers.

### **Off-Balance Sheet Arrangements**

We have no material off-balance sheet arrangements.

### **Outstanding Share Capital**

We are authorized to issue an unlimited number of preferred shares, issuable in series, and an unlimited number of common shares. As at December 31, 2008, we had issued and outstanding 42.0 million (2007 – 42.0 million) common shares with a stated value of \$216.2 million (2007 - \$216.2 million). No preferred shares have been issued.

### **Critical Accounting Estimates**

The preparation of our 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***

We provide goods and services to our customers primarily on credit and provide 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. We specifically review our larger accounts and assess a customer's ability to make payments. 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, we record 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 our customers deteriorate, adversely affecting their ability to make payments to us, 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. We also provide 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 \$13.9 million as at December 31, 2008 (2007 - \$14.6 million) and is netted against accounts receivable.

### ***Useful life of property, plant and equipment and intangible assets***

The estimated useful life of property, plant and equipment 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 the physical condition of the assets concerned. A significant portion of our property, plant and equipment relate to telecommunications equipment and earth station equipment associated with our telecommunications network. These assets represent 72% of the total net book value of the property, plant and equipment as at December 31, 2008. 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. We estimate that a one year decrease in the useful life of our property, plant and equipment relating to telecommunications equipment and earth station equipment would increase depreciation and amortization expense by approximately \$2.1 million. Of this amount \$0.8 million would relate to the MSS segment and \$1.3 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 \$1.8 million, of which \$0.7 million would relate to the MSS segment and \$1.1 million to the Broadband segment.

### ***Impairment***

The impairment of long-lived assets is assessed when events or changes in circumstances indicate that we 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 use of our assets or the strategy of the overall business; and
- significant negative industry or economic trends.

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.

We believe 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.

Impairment of goodwill is assessed annually or earlier 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 discounted cash flows.

We use the discounted cash flow approach in our annual goodwill impairment test. This involves evaluating expectations about future cash flows and discount rates to estimate the reporting unit's fair market value. In 2008 and 2007, we engaged a third party valuation consultant to assist in estimating fair value using this approach. In 2008 and 2007, the results of step one of the annual impairment test indicated that there was no potential impairment to goodwill as at December 31, 2008 and December 31, 2007. As a result, we were not required to perform step two of the annual impairment test.

### *Accounting for income taxes*

We are 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 we operate. Significant management judgment is required to assess the timing and probability of the ultimate tax impact. We record 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 we operate, 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 we operate. We 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 future tax assets that are determined not to be realizable. Realization is based on our ability to generate sufficient future taxable income. Cumulative losses incurred in certain 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. We intend 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 as at December 31, 2008, we could record the net benefit of \$26.0 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 telecommunications 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 telecommunication requirements of various government, military and media agencies resulting from world events. We are committed to making the necessary investments to develop, improve and expand product and service offerings.

The remote telecommunications industry is competitive. We compete or may compete, directly or indirectly, with other former Inmarsat signatories, satellite service resellers and network operators on product pricing and value added services. We may also face competition from newly formed or emerging entities, as well as more established telecommunications organizations. We must continue to respond effectively to technological changes and to competitors' innovations. The remote communications industry experiences competition on the price of services. A majority of our MSS business is subject to "on-demand" contracts with no minimum purchase requirements, consistent with industry wide practice.

We rely on key suppliers such as Inmarsat, Iridium, and several other satellite space segment suppliers. In the normal course of business we periodically renew contracts with these suppliers. In April 2009 our current distribution arrangements with Inmarsat will expire and we expect to execute new distribution arrangements with Inmarsat at such time. The new distribution arrangements, which will cover the scope of our Inmarsat services, are likely to contain new terms and conditions which are less favorable to us than the current CFA and related agreements. Under the new distribution arrangements, Inmarsat is expected to have the ability to appoint new distribution partners and service providers, and we expect there will be less volume-based pricing advantages for the large land earth station operators, including Stratos. The new distributions arrangements are still being finalized but the new terms should take effect in mid-April 2009.

As described under "Arrangement Transaction with CIP", Inmarsat III can exercise the Call Option after April 14, 2009, pursuant to which Stratos would become a wholly-owned indirect subsidiary of Inmarsat. We expect that Inmarsat III will exercise the Call Option. Should we become a subsidiary of Inmarsat, there could be changes made to our business and operations which could have an adverse impact on our operating results and financial condition.

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. We have conducted a risk and vulnerability assessment to identify specific risk areas and completed a number of projects to mitigate such risk where commercially practical. However, there is no assurance that all such risks can be mitigated.

### ***Newer Inmarsat Services***

We operate a network of LESs in order to provide Inmarsat services. Inmarsat will own and operate the LESs for the new Inmarsat services (BGAN, FleetBroadband and SwiftBroadband), which have now become available. The revenues from BGAN services have continued to increase during 2008 but revenue from FleetBroadband and SwiftBroadband were not significant in 2008 due to the early stages of deployment. Gross margins for the sales of these services are expected to be less than for certain other Inmarsat services. In addition, some existing customers may migrate from existing higher margin services to these lower margin services, negatively impacting our results.

### ***Foreign Currency Exchange Rate Risk***

We prepare our consolidated financial statements in U.S. dollars and each of our subsidiaries operates with U.S. dollars as the functional currency as a substantial portion of our business is conducted in U.S. dollars. By virtue of our international operations, we conduct business in a number of foreign currencies other than the U.S. dollar. 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. dollar exchange rate at the balance sheet date with the resulting gain or loss included in income.

To perform a sensitivity analysis, we assess the risk of loss in fair values due to the impact of hypothetical changes in foreign currency exchange rates on monetary assets and liabilities denominated in currencies other than U.S. dollars. Our primary exposures to foreign currency exchange fluctuations are Euro/U.S. dollar and Canadian dollar/U.S. dollar. For the year ended December 31, 2008, the potential reduction in earnings from a hypothetical instantaneous 10% adverse change in the December 31, 2008 quoted foreign currency spot rates applied to Euro and Canadian dollar denominated monetary assets and liabilities included in the December 31, 2008 balance sheet would have been approximately \$0.2 million and \$0.1 million, respectively.

Our exposure to foreign currencies is limited due to the substantial portion of our customer contracts, major expenditures and debt denominated in U.S. dollars. Approximately 10% to 15% of our revenues and expenditures are denominated in currencies other than U.S. dollars. To mitigate potential risks with respect to foreign currencies, our strategy has been to match cash inflows and outflows by currency, thereby minimizing net currency exposures to the greatest extent possible. In addition, during 2008, we entered into Canadian dollar and Euro foreign exchange forward contracts to manage exposure to exchange rate fluctuations pertaining to our future net cash flows from operations for 2009. These forward contracts expire monthly to December 2009 in increments of Canadian dollar \$1.25 million and Euro 0.8 million at average U.S. dollar rates of 0.8333 and 1.4373, respectively. During 2008, we recorded unrealized losses of \$0.7 million representing the fair value change in the forward contracts during the year. The fair value of these forward exchange contracts at December 31, 2008 was \$(0.7) million and was recorded in payables and accruals. For the year ended December 31, 2008, the potential increase or decrease in earnings from a hypothetical instantaneous 10% increase or decrease in the December 31, 2008 quoted foreign currency spot rates applied to Canadian dollar and Euro foreign exchange forward contracts would have been approximately \$1.8 million and \$1.7 million, respectively.

Foreign currency exchange rate fluctuations related to the translation of transactions occurring in currencies other than U.S. dollars and foreign exchange gains and losses related to the translation of monetary assets and liabilities have not been significant in the years ended December 31, 2008 and 2007.

### ***Interest Rate Risk***

Our Term B facility outstanding on December 31, 2008 bears interest based on LIBOR and therefore is affected by changes in market interest rates. As outlined in Note 20 to our Consolidated Financial Statements, we had entered into interest rate swap agreements to hedge a portion of our exposure to such fluctuations. The amount of our remaining variable rate debt at December 31, 2008 was \$136.5 million. If the LIBOR rate was to increase by 1%, our annual net earnings would be reduced by approximately \$0.9 million based on this level.

### ***Credit risk***

We are exposed to credit risk in the event of non-performance by counterparties to our derivative financial instruments. Non-performance is not anticipated since these counterparties are considered to be of high credit quality.

We are also exposed to credit risk with respect to accounts receivable from customers. We provide services to a large diverse customer base across different geographic areas which minimizes the concentration of credit risk. No customer accounted for 10% or more of our accounts receivable at December 31, 2008 or 2007.

We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks and utilize both internal and third party collections processes for overdue accounts. We maintain provisions for potential credit losses that are assessed on an ongoing basis. The allowance for uncollectibility of accounts receivable and revenue adjustments at December 31, 2008 was \$13.9 million (December 31, 2007 - \$14.6 million).

Although we have not experienced significant changes in our operating results or collection activities from the current financial crisis, a prolonged deterioration of economic conditions could impact operating results and affect payment patterns resulting in increased bad debt expense.

### ***Liquidity risk***

We are exposed to liquidity risk with respect to our contractual obligations and financial liabilities. We manage liquidity risk by maintaining adequate cash and cash equivalents and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

We believe that the cash and cash equivalents on hand, future cash flows generated by operations and availability under our revolving operating facility will be adequate to meet our financial obligations. The present situation in financial markets and the credit crisis may result in reduced

availability of capital in the debt markets in the coming years. As our current credit facilities reach their maturities the terms of bank and other debt facilities may be less favourable upon renewal.

### ***Regulation***

The operation of the systems and distribution of the services of Stratos are subject to significant regulation in the United States, the Netherlands, the United Kingdom, Australia, New Zealand, Canada, Germany and Russia. Inmarsat, Iridium and other satellite systems we use are designed to operate in limited portions of the radio frequency spectrum. Within these operational parameters, the allocation and use of radio frequency spectrum for the provision of satellite and other wireless communications services are regulated on a national basis, subject to international coordination. 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***

We are 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, tax liabilities are separately assessed on a legal entity or group of legal entities within the same jurisdiction. Therefore, we are not always able to apply current or prior years' tax losses in certain entities against the taxable income arising in other profitable entities. As a result, we may pay income and capital taxes or record future tax expense in certain jurisdictions even though losses may be incurred in other jurisdictions.

### **Changes in Accounting Policies**

A summary of our significant accounting policies is presented in Note 2(a) to our Consolidated Financial Statements for the years ended December 31, 2008 and 2007.

#### ***Accounting Changes in 2008***

On January 1, 2008, we adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, "Capital Disclosures". The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate our objectives, policies and processes for managing capital. As a result of implementing this standard, we have included the additional disclosure in Note 17 to our Consolidated Financial Statements.

On January 1, 2008, we adopted the CICA Handbook Sections 3862, "Financial Instruments – Disclosure" and 3863, "Financial Instruments – Presentation". These sections replace existing Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires disclosure by class of financial instruments that enables users to evaluate the significance of financial instruments for our financial position and performance. Disclosures are

also required of qualitative and quantitative information that enable users of financial statements to evaluate the nature and extent of our exposure to the risks arising from financial instruments, specifically credit risks, liquidity risks and market risks and how we manage those risks. As a result of implementing this standard, we have included additional disclosure in Note 20 to our Consolidated Financial Statements.

Section 3863 carries forward the presentation requirements of Section 3861 that we had already adopted. As a result, the adoption of this Section had no impact on our Consolidated Financial Statements.

On January 1, 2008, we adopted CICA Handbook Section 3031, "Inventories", which has replaced Section 3030 with the same title. The new section establishes that inventory should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The adoption of this Section had no impact on our Consolidated Financial Statements.

### ***Future Accounting Pronouncements***

#### *International Financial Reporting Standards*

In February 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. In April 2008, the CICA issued an IFRS Omnibus Exposure Draft proposing that publicly accountable profit-oriented enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts we reported for our year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

In preparation for the conversion to IFRS, we have developed an IFRS implementation plan. We have completed the diagnostic phase which involved a high-level review of the differences between Canadian GAAP and IFRS, as well as a review of the alternatives available for adoption. Throughout 2009, we will be conducting the second phase of our plan which encompasses a detailed impact assessment. As implications of the conversion are identified in this phase, the impacts on other key elements of our conversion plan will be assessed. These key elements include: accounting policy changes, information technology changes, education and training requirements, disclosure requirements, internal control impacts and impacts on business activities.

We will continue to report on the key elements and timing of our IFRS implementation plan in our interim MD&A throughout fiscal 2009.

#### *Goodwill and Intangible Assets*

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new section will be adopted effective January 1, 2009. It establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, "Intangible Assets". The adoption of this

new section is not expected to have a material impact on our future financial position or results of operations.

## **Glossary of Terms for Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **BGAN**

An acronym for Broadband Global Area Network, a Stratos-provided Inmarsat service launched in December 2005, providing high-speed IP based data capabilities.

### **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*.

### **DataSat II™**

Stratos-provided IP service that provides cost-effective, reliable communications designed specifically based upon the unique requirements of SCADA applications. Launched in January 2008, service was implemented to provide IP services that enable higher bandwidth and data throughputs. Ideal for process control and monitoring applications.

### **FleetBroadband**

Stratos-provided Inmarsat service that provides cost-effective, high-speed data and voice communications, available simultaneously, at speeds up to 432 kbps. It also provides on-demand guaranteed IP data rates, regardless of the vessel's location. It will use stabilized, compact directional antennas, which will vary in size and weight but will be smaller than most existing Fleet products.

### **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.

### **GAN**

An acronym for Global Area Network, a Stratos-provided Inmarsat service providing global, mobile, high-speed data and voice communications primarily in land based applications.

### **Hubs**

A fixed antenna used to send and receive satellite transmission signals, interconnecting telecommunications between a satellite and VSATs.

### **Inmarsat®**

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

**Inmarsat B, C and Mini-M**

Stratos-provided legacy Inmarsat services providing voice and/or data services in land and maritime applications.

**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.

**MSV**

Mobile Satellite Ventures. A satellite network that provides voice, data and wide area dispatch maritime communications services. MSV 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.

**SCADA**

An acronym for Supervisory Control and Data Acquisition. An application used in conjunction with VSAT modules to monitor equipment and automatically report equipment status.

**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* provides the ability 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 a vessel of any size.

**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.

**SwiftBroadband**

A Stratos-provided Inmarsat service that provides cost-effective, high-speed data and voice communications, available simultaneously, at speeds up to 432 kbps. It also provides on-demand guaranteed IP data rates, regardless of the aircraft's location. The service is compatible with most government-grade encryption and secure-communications standards. It works through existing Inmarsat equipment already installed on more than 4,000 aircraft, through upgrades of existing Inmarsat Swift64 and Inmarsat Aero H/H+ installations.

**VSAT**

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