The network Canada does business on.

AT&T Canada™

1999 Annual Report

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KEY STATISTICS[1]

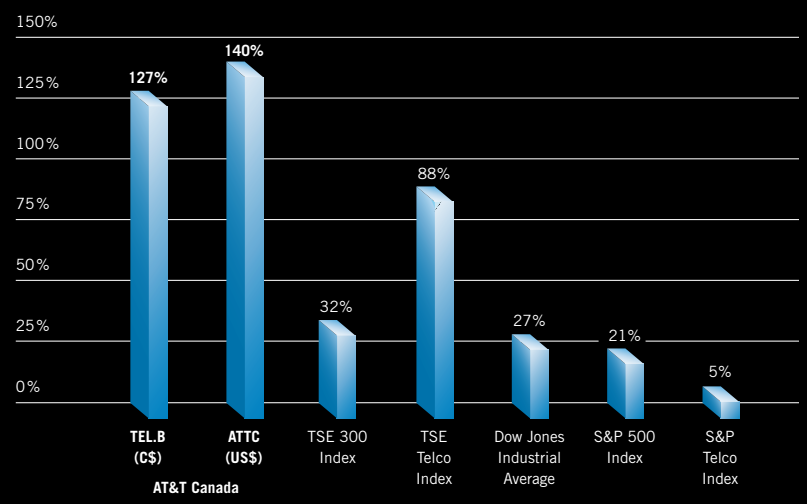
($ in thousands expect per share amounts)

Years ended December 31	1999	1998	1997
Revenue	$ 866,721	$ 76,238	$ 5,893
EBITDA[2]	$ 26,283	$ (49,986)	$ (20,934)
Property, Plant and Equipment	$ 2,174,823	$ 870,819	$ 116,802
Earnings Per Share	$ (0.06)	$ (3.02)	$ (5.71)
CLEC Networks Operational	18	11	5
CLEC Networks Under Development	4	6	6
Intracity Fibre Route Kilometres	4,364	3,513	170
Intercity Fibre Route Kilometres	13,248	–	–
Buildings Accessed	3,152	1,675	153
Central Office Collocations	57	25	0
Access Lines in Service	299,084	59,456	3,996
High-Speed Data Ports in Service	19,598	1,636	215
Local Voice Switches	11	8	5
Frame Relay Data Switches	81	11	5
ATM Data Switches	553	385	46

(1) The Company's results include those of MetroNet Communications for the periods shown, as well as those of AT&T Canada Long Distance Services, beginning June 1, 1999.

(2) EBITDA is earnings before interest, taxes, depreciation and amortization, and non-recurring items, and is commonly used as a measure to assist in understanding operating results.

1999 TOTAL SHAREHOLDER RETURNS



AT&T Canada

The new AT&T Canada is Canada's largest facilities-based competitive local and long distance voice, data and Internet telecommunications services provider. Created in June, 1999, from the merger of MetroNet Communications, AT&T Canada Long Distance Services, Netcom Canada and ACC TelEnterprises, AT&T Canada brings together the country's largest competitive local exchange carrier (CLEC), three of Canada's leading competitive Internet Service Providers (ISPs), and Canada's pioneer in competitive long distance voice and data services. Deploying the most advanced fibre optic networking and digital switching platforms across the country, AT&T Canada offers its business customers a full suite of competitively priced local and long distance voice, data and Internet services supported by sales and service professionals from coast to coast.

Message to Shareholders

Changing the face of Canadian telecom

In 1997, we set out to build Canada's first competitive local exchange carrier. In 1998, we positioned ourselves to build the country's first integrated, end-to-end broadband fibre optic network providing local and long distance voice, data and Internet services across Canada. In 1999, we changed the entire face of the telecom industry in Canada.

AT&T Canada made a quantum leap forward in 1999 toward our goal of becoming the leading facilities-based competitive telecom alternative for business and governments in Canada. By every measure, we believe we successfully achieved dramatic scale, exiting the year with annualized revenues of $1.39 billion, positive EBITDA, nearly 300,000 local access lines in service, annualized long distance minutes of use of more than 6.9 billion, and with over four thousand employees. And, we did so while creating and locking in value for our shareholders.

The most significant event of 1999 was the merger of MetroNet Communications and AT&T Canada Long Distance Services. Merging these two pioneers of competitive telecom in Canada brought together their extremely complementary strengths in product sets, network assets, employee skills, market knowledge, and customer bases. Our now integrated local and long haul networks in and between business centres nationally are among the most advanced in the world. We are serving customers from coast to coast with a compelling array of local and long distance voice, data and Internet services.

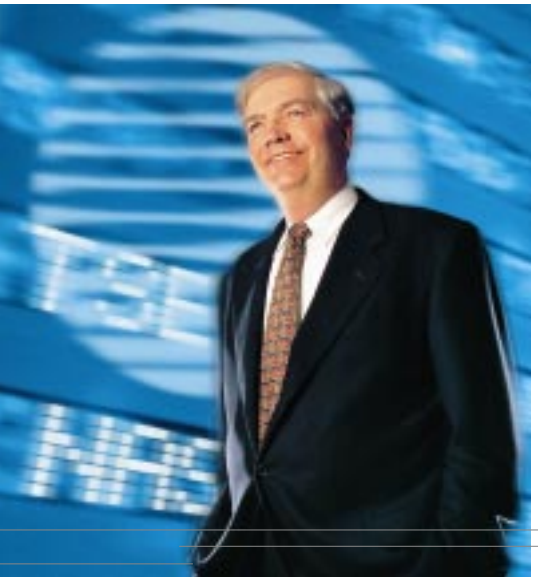
Deploying the most advanced fibre optic networking and digital switching platforms, AT&T Canada offers businesses and telecom carriers across the country a full suite of local and long distance voice, data and Internet services.

D. Craig Young, Vice Chairman & President

The unique, two-stage nature of the merger transaction (as described in the Financial Review section of this report) will see AT&T Corp. and British Telecom – who, combined, now own approximately 31 percent of the Company – purchase the approximately 69 percent of AT&T Canada now owned by the public, sometime before June of 2003. When the public shares are purchased by AT&T Corp. and British Telecom, shareholders are guaranteed to receive the greater of a floor price, which accretes over time, or fair market value as defined by a rigorous set of parameters designed to maximize value. We believe that these fair market value parameters will reflect the price that the Company would command in a competitive bidding process involving multiple international telecom providers. Our equity security today is unique, with a guaranteed floor price and back-end takeout, while still providing the upside of a competitive telecom and Internet provider.

Compelling synergies

With this merger, one of the largest in Canadian telecom history, came compelling strategic, financial and network synergies. We brought together the country's premier base of business customers with the most advanced "any distance" network in Canada, providing thousands of opportunities to cross-sell high-margin local, data and Internet services. We added powerful distribution



James J. Meenan, Vice Chairman & CEO

capabilities by nearly tripling both our direct sales force and successful agent sales base. We added more than 100,000 access lines, currently being resold from the former monopoly incumbent providers, which we can move onto our own facilities to significantly increase margins. We gained the support of an expanded management team of competitive telecom veterans and an outstanding group of dedicated and committed employees. We accelerated both companies' business plans by several years. We took on a new name that is one of the most powerful and respected brands in the world. And, we gained seamless voice and data network connectivity to hundreds of countries around the world, as well as important linkages to multi-national businesses headquartered in the U.S. and UK with operations in Canada.

Breaking the "last mile bottleneck"

With a proven track record of successfully merging telecom businesses, we moved quickly to integrate the people, products, networks and systems of the companies. We made solid progress on all fronts, positioning the Company for increased growth and profitability by rationalizing product offerings, integrating and cross-training sales forces, interconnecting networks, initiating the migration of circuits and lines onto our own facilities, and putting plans in place for consolidation of back office functions.

The integrated AT&T Canada is a new breed of communications company. Unlike the former regional monopoly providers and most new competitors, we offer high-bandwidth local and long distance voice, data and Internet services on a national scale over our own integrated local and long haul networks. Our end-to-end broadband connectivity – especially in the scarce "last mile bottleneck" still predominantly controlled by the former monopoly incumbent providers – is a unique value proposition for business customers.

We are deploying our state of the art networks in ways that will accommodate today's voice traffic – which still accounts for the majority of today's telecom revenues – as well as tomorrow's data traffic, to carry both voice and data over a single integrated network. And, we're establishing the scale and infrastructure to enable us to compete from a low-cost position in the market.

As an aggressive competitor to the incumbent carriers – with a significant first mover advantage to keep us on the leading edge of demand – we have the opportunity to simultaneously take a significant share of the multi-billion dollar voice telephone market, while at the same time capturing a disproportionate share of the explosion in data and Internet traffic. The opportunity before us is huge and growing quickly. In fact, it is projected that over the next five years, the nation's telecom market will grow at between two and three times the rate of the Canadian economy to almost $20 billion.

Tremendous growth and expansion

During 1999, we deployed 7 additional full service fibre optic local CLEC networks for a total of 18 in operation, and we have 4 more new markets under construction as we enter 2000. We also continued to increase our reach with strategic facilities expansions in our existing markets. We increased the number of buildings accessed by our network to over 3,000. We completed, in record time, the deployment of our state of the art broadband pan-Canadian fibre optic intercity network. This network – the most robust, highest capacity network in Canada – now connects our metropolitan area CLEC networks across the country and spans more than 13,000 kilometres, with full route diversity and the latest in SONET OC-192 and 32 wavelength capable dense-wavelength division multiplexing (D-WDM) electronics.

We augmented these fibre optic network and digital switching deployments by significantly expanding the number of collocations of our facilities in the incumbents' central switching offices to access unbundled loops, reaching buildings not connected directly to our network. These collocations of our fibre fed network electronics are connected to our digital switching fabric and fibre optic backbones.

Seizing strategic opportunities

To drive further towards ubiquitous business market coverage, late in 1999 we took advantage of the historic auction of broadband fixed wireless LMCS spectrum by the Canadian government. By employing a focused and disciplined auction strategy, we acquired 400Mhz of broadband fixed wireless spectrum in the valuable 24GHz range in 21 targeted mid-size markets. These markets are all generally either on the outskirts of existing AT&T Canada market clusters or represent additional markets passed by the Company's broadband long haul fibre optic network route where the economics of building local fibre networks were prohibitive. We intend to selectively deploy this technology in the coming years to expand our network reach, accelerate network deployment to targeted customer sites, and access additional markets to offer even more business customers a choice of on-net local and long distance voice, data and Internet services.

To accelerate the rapid growth of our Internet business and participate on a greater scale in the historic growth of what is perhaps the greatest communications medium ever invented, we purchased Netcom Canada – one of Canada's premier facilities-based, business-focused Internet service providers. Later in the year, we proceeded to consolidate all of the Internet, web hosting and E-Business assets of our combined companies into a single, focused business unit now called AT&T Canada Internet and E-Business Services. This successful unit operates relatively autonomously in a rapidly changing space and fully leverages our sales force and our extensive local access and long haul transport assets.

Delivering on commitments

All of our successes and accomplishments of 1999 were achieved by our Company's most valuable resource: its dedicated team of more than 4,000 competitive telecom professionals. We have incented every member of this hard working team with stock options to approach each day with a singular purpose – to take market share and capture growth, quickly and profitably, in the newly deregulated Canadian telecom market. We greatly appreciate the contributions of this team during 1999.

Through the combination of our aggressive network deployments and key mergers and acquisitions, AT&T Canada has built one of the most comprehensive and strategic competitive telecom assets in the world. We exit 1999 with the scale, momentum and resources necessary to carry out our strategy. And, as thousands of businesses have already discovered, AT&T Canada is delivering on its commitment to provide real choice and value in the Canadian telecommunications market.

The best is yet to come

In 2000, we intend to launch competitive local service into additional markets, begin operationalizing our LMCS spectrum, broaden availability of DSL-enabled services, and grow our successful wholesale business, while continuing to expand our network capabilities, customers and revenues in all of our business segments and markets. We also intend to begin bundling mobile wireless services for our business customers through our relationship with Rogers AT&T Wireless and to continue working assertively with government to assure a balanced competitive playing field in Canada.

We thank you for your continued support and investment in AT&T Canada, and will continue working diligently to deliver value for our customers and shareholders.

D. Craig Young
Vice Chairman & President

James J. Meenan
Vice Chairman & Chief Executive Officer

Internet Network

INTERNET LEGEND

- Core hubs
- Distribution hubs
- Access POP's
- Level one peering gateways
- IP (Internet Protocol) backbone

Broadband Intercity Network

BROADBAND LEGEND

- Network access points
- U.S. network access points
- Fibre route
- Digital radio
- AT&T Corp. U.S. fibre route

Broadband CLEC Networks

CLEC LEGEND

- Cities operational (full service market)
- Cities under development
- Broadband fixed wireless spectrum (400MHz at 24GHz)
- Other major cities within wireless spectrum

AT&T Canada is deploying highly advanced and reliable fibre optic networks and digital switching platforms within and between metropolitan areas across Canada. Over these networks, AT&T Canada provides businesses and carriers with Canada's leading competitive, fully end-to-end nationwide solutions for local and long distance voice, data and Internet services.

AT&T Canada – The network Canada does business on

AT&T Canada is the leading national, single source competitive provider of integrated voice, data, Internet and E-Business services for business, government and wholesale customers.

- **VOICE: A complete portfolio of local, long distance and value added voice telecommunications services. AT&T Canada provides a voice for thousands of Canadian businesses.**
- **DATA: An industry-leading suite of fast, robust and cost effective end-to-end data communications services. AT&T Canada is the market leader in Frame Relay services in Canada and was one of the first to deploy ATM technology in Canada.**
- **INTERNET AND E-BUSINESS: Internet access, web hosting and electronic commerce services to help businesses leverage the power of the Internet to work to their competitive advantage.**

1999 – A vision fulfilled

In 1999, AT&T Canada fulfilled a vision. A vision of serving business customers from coast to coast with a complete portfolio of leading edge, value driven business telecommunications services delivered over our own fibre optic networks. A vision of becoming the leading full service, end-to-end alternative to the incumbent telephone companies across Canada. A vision of providing the network that Canada does business on.

With over 17,000 thousand route kilometres of ultra high-capacity fibre optic network linking Canada's established and emerging business centres across the country, AT&T Canada has built a unique capability to serve and connect Canadian business. This network can simultaneously deliver voice, data and Internet traffic to business customers nationwide. AT&T Canada, through its rapid growth and an aggressive network deployment plan, has achieved a level of national coverage and capability that no other company can match.

Our customers

The new AT&T Canada came out of our merger with a singular focus on the business customer. With the retail residential long distance business divested prior to the merger, a comprehensive product portfolio, designed exclusively to serve the present and future needs of business and government customers was introduced. This portfolio of local and long distance voice, data, Internet and E-Business services offers a complete telecommunications bundle for businesses of all sizes. We now serve tens of thousands of business customers across Canada, varying in size from emerging entrepreneurial businesses to some of the largest financial, industrial and government institutions in the country.

To further optimize the utilization of our networks, AT&T Canada has also developed a significant wholesale customer base. We serve many domestic and international long distance providers, wireless carriers, competitive local exchange carriers and Internet Service Providers with a suite of high-bandwidth network backbone and Internet services across Canada.

Helping business do business better

Our product portfolio is designed to help businesses do business faster, better and more cost effectively. Whether

a company requires simple local and long distance voice services, a fully managed ultra high-bandwidth national data network or a managed Internet presence, AT&T Canada has a simple, cost effective solution available across the country.

As the Internet continues to alter almost every aspect of doing business, AT&T Canada can assist in helping business harness the power and appeal of the Internet. AT&T Canada Internet and E-Business Services can help a small business establish a global presence on the web or assist larger enterprises in developing complex and secure transaction-based applications.

In late 1999, AT&T Canada launched an innovative bundle of services called BusinessOne™. This service bundle includes local, long distance and Internet services. BusinessOne is a fully featured package including one or more local access lines, productivity enhancing calling features, a simple, low rate long distance calling plan and Internet access. This simple, convenient and value driven plan is invoiced on a single bill, all designed to help business do business faster, better and more cost effectively.

Behind it all

What enables AT&T Canada to offer the range and quality of services that it provides is the largest competitive network of local and long distance fibre optics in Canada. While transparent to our customers, AT&T Canada's industry leading technology and networks enable business applications that were impossible to deliver even a few years ago. Over 17,000 route kilometres of self-healing fibre optics, 11 local telephone switches, 6 long distance switches and over 600 data and Internet points of presence are equipped with the latest switching technologies to enable Voice Services, ATM, Frame Relay and, more recently, DSL-enabled services and Internet Protocol-based services. The AT&T Canada national network is among the most unique, robust and capable end-to-end networks in the world.

While our network gives us an important competitive edge, it's our people that truly set us apart. AT&T Canada has over 100 sales and service locations across Canada and a talented, professionally trained sales force over 700 strong, by far the largest competitive telecommunications sales force in the country.

Strategic relationships

AT&T Canada has an impressive set of strategic partners, including AT&T Corp., British Telecom and Rogers AT&T Wireless. Through our relationship with AT&T Corp. and British Telecom, we are able to share in the latest technological developments and provide global telecommunications solutions for enterprises requiring worldwide connectivity. AT&T Canada further leverages these relationships in its arrangements for terminating AT&T Corp.'s U.S.-originated telecommunications traffic and for provisioning seamless global telecommunications services for U.S.-based multi-national corporations doing business in Canada. Our relationship with Rogers AT&T Wireless allows AT&T Canada to even further enhance its bundle of services to include a broad range of wireless solutions across Canada.

The present, the future

The pieces have been put in place and the vision of becoming an integrated full service national telecommunications company has been fulfilled. AT&T Canada is well positioned to capitalize on the growing market opportunity in Canada and poised to deliver the next generation of telecommunications products and services to Canadian business. But, this is only the beginning for the network that Canada does business on.

The leader in competitive local and long distance business voice services.

Telephone services – the voice of business

Local and long distance telephone services have provided a voice for business for over 150 years. Telephone services provide a voice for businesses to speak to customers and suppliers across town, across the country and around the world. No other service is so widely used and so cost effective in driving sales and servicing customers. AT&T Canada provides this voice for all types and sizes of businesses ranging from those requiring a small number of local access lines to major call centres with thousands of lines, millions of long distance minutes of use and highly sophisticated billing and usage reporting requirements.

As the largest competitive local exchange carrier (CLEC) in the country and the largest competitive business long distance provider, AT&T Canada served more than 30,000 local service business customers with nearly 300,000 access lines in service at the end of 1999. In addition, our seamless national fibre optic long distance network carried approximately 5 billion minutes of voice traffic in 1999.

Our service portfolio

AT&T Canada has developed and refined a core set of voice telecommunications services designed specifically to help businesses do business faster, better and more cost effectively. Through our merger integration activities in 1999, AT&T Canada was able to select the very best from the product portfolios of the prior companies to assemble an unmatched suite of voice services that provides a value driven, end-to-end solution for businesses across the country.

Our local and long distance voice telecommunications portfolio today includes local business lines, digital and analogue trunks, Centrex services and ISDN, as well as outbound and Toll Free long distance services and Calling Cards. To complement these services and provide "one-stop shopping" for our customers, AT&T Canada also provides the latest in business calling features, such as Call Waiting, Call Forwarding, Conference Calling and Calling Name and Number Display, as well Voice Messaging services and telephone equipment.

Facilities-based service

By combining the local and long haul facilities-based service portfolio of the former MetroNet Communications with the long distance and Frame Relay switching fabric of the former AT&T Canada Long Distance Services, the new AT&T Canada is able to offer a seamless end-to-end voice communications solution using our own high-capacity network and switching facilities. For local services, the Company has built extensive local networks with 4,364 route kilometres of local fibre optic network and 11 digital switching centres in 22 major business centres across the country. Thousands of business buildings in Canada now have direct access to AT&T Canada's local networks and our 13,248 kilometre national fibre optic long distance network.

With these extensive, state of the art facilities, we are able to reduce our reliance on other telecommunications carriers, enabling a complete end-to-end solution, enhancing the speed and effectiveness of service and installation. Our highly skilled network engineering staff manages our facilities 24 hours a day, 365 days a year utilizing the very latest in network monitoring technologies.

AT&T Canada has developed and refined a core set of voice telecommunications services designed specifically to help businesses do business faster, better and more cost effectively.

Bundling and advanced solutions

Our capability does not stop at the edge of our network. AT&T Canada has developed world class expertise in offering advanced voice solutions using tools such as computer telephony integration, interactive voice response and web site integration. From Call Centre application design, development and support, to providing advanced web-based billing and long distance usage reports, AT&T Canada can develop an innovative solution to meet the individual voice telecommunications needs of any business.

Through our strategic relationship with Rogers AT&T Wireless, we will soon be able to present an even more extensive package of business telecommunications service, including digital wireless phone and messaging services. All of this will be available from one provider, AT&T Canada, with a single point of contact for service.

VOICE SERVICES

LOCAL LINES
Business access lines and trunks, Centrex services and ISDN and ancillary services.

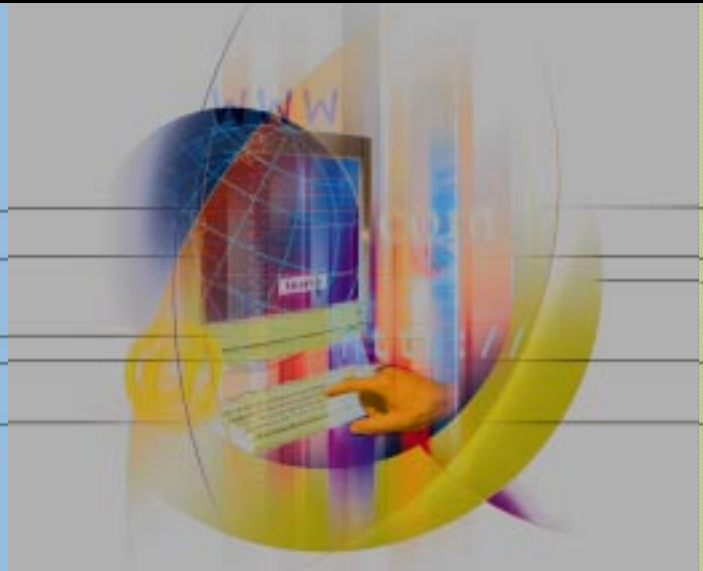
LONG DISTANCE
Clear, reliable and cost effective domestic and international outbound long distance services, including Corporate Calling Cards.

TOLL FREE 800 SERVICE
Feature-rich inbound calling solutions to help build and maintain customer relationships.

ADVANCED FEATURES
Productivity enhancing calling features such as Name and Number Display, Call Forwarding, Conference Calling and Voice Messaging solutions.

ADVANCED VOICE SOLUTIONS
Sophisticated equipment, Call Centre solutions, the latest billing and reporting technologies, and wireless service bundles.

INTERNET AND E-BUSINESS SERVICES



INTERNET ACCESS
Reliable access options using dedicated and dial-up connections over ISDN, ADSL, DS1, or even ATM-based Internet connections of up to 155 Mbps.

WEB HOSTING
Secure, high-speed web site and application hosting options, including domain name and e-mail services on shared or dedicated servers.

DSL-ENABLED INTERNET SERVICE BUNDLE
Fully managed DSL-enabled access to the Internet, including domain name services, e-mail boxes, a router and DSL termination equipment.

WHOLESALE ISP AND COLLOCATION SERVICES
A complete portfolio of access, transport, collocation, hosting and value added services for Internet Service Providers (ISPs) and Application Service Providers.

E-BUSINESS SERVICES
Technology and expertise to assist in transforming the way businesses do business.

DATA SERVICES

FRAME RELAY
A wide area, multiple connection service that consolidates multiple applications onto a common packet data network using a single physical access.

ATM (Asynchronous Transfer Mode)
ATM service provides a scalable, high-speed networking solution for consolidating data, voice, and video traffic on a single transport protocol.

DATA VPN (Virtual Private Network)
A single source virtual private network that offers protocol transparency, network management, a variety of access speeds, and value added services and features.

PRIVATE LINE
Dedicated point-to-point data network connectivity with a range of speeds available up to OC-192.

MANAGED NETWORK SERVICES
Outsourced simplicity – a collection of technology and applications that complement our core data network services by extending the reach of our one-stop managed network service directly into the customer's premises.

Internet and E-Business driven by quality, simplicity and value.

Internet and E-Business Services

Every traditional notion of doing business is being challenged and transformed by the Internet and the emergence of E-Business. So what is E-Business? It is simply using Internet technology and speed to connect businesses and customers and to evolve commercial processes to do business faster, better and cheaper. Whatever size, location or line of business it's in, no company can afford to overlook the power and potential of the Internet and E-Business to deliver extended market reach, higher sales, enhanced customer service and more cost effective transactions.

Regardless of the phenomenal pace of change that Internet-based services may drive in business, we consistently focus Internet applications on business fundamentals that have determined winners and losers for hundreds of years: quality, simplicity and value.

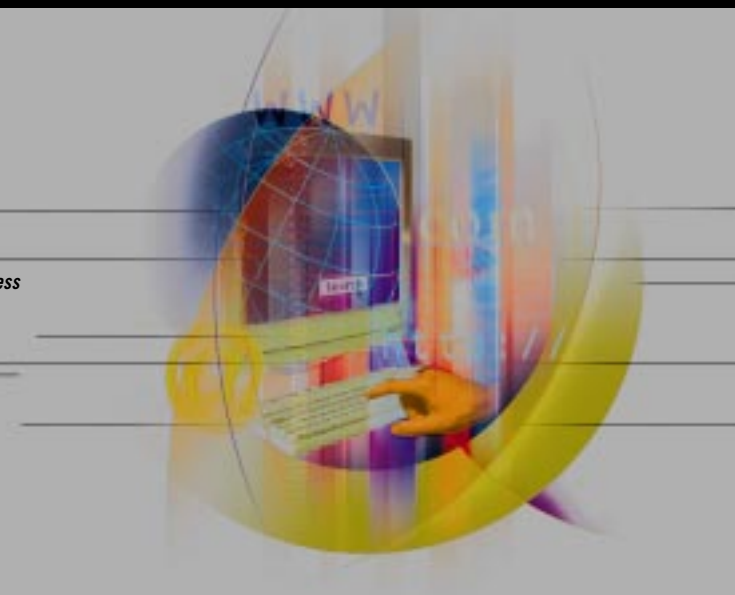
Quality, simplicity and value

AT&T Canada is uniquely equipped to deliver quality, simplicity and value to help companies exploit the business opportunity presented by the Internet. Our Internet and E-Business Services leverage our extensive fibre optic networks and state of the art digital switching fabric across the country, including 62 Internet points of presence (POP's), 8 main Internet distribution hubs and multiple high-speed links to Canadian and U.S. Internet backbones and Network Access Points (NAP's). This high-capacity national network and the underlying technology enables us to offer fast, flexible and ultra-reliable solutions. Our Internet experts were among the pioneers of the Internet in Canada and have worked with thousands of customers to successfully deliver value driven E-Business applications for small businesses and complex secure transaction systems for some of the largest financial institutions in the country. Whatever the E-Business challenge, AT&T Canada can develop an Internet solution based on quality, simplicity and value.

For any Internet or E-Business challenge, AT&T Canada can develop an Internet solution using the latest technologies including ADSL and ATM, all based on the business fundamentals of quality, simplicity and value.

Comprehensive Internet service portfolio

AT&T Canada serves businesses and Internet Service Providers (ISPs) with a selection of services specifically designed to support their Internet network and technology platform needs. In addition to network access, transport, collocation and hosting services, our Virtual Point of Presence (VPOP) service, provides ISPs and corporate customers with a scalable and flexible platform for managing modem pools using ISDN or dial-up connections. ISPs can also utilize AT&T Canada's state of the art collocation service to economically outsource the operation of their server infrastructure and gain the benefits of a high-capacity and 7 x 24 support without investing in costly facilities and operations of their own.



INTERNET ACCESS
Reliable access options using dedicated and dial-up connections over ISDN, ADSL, DS1, or even ATM-based Internet connections of up to 155 Mbps.

WEB HOSTING
Secure, high-speed web site and application hosting options, including domain name and e-mail services on shared or dedicated servers.

DSL-ENABLED INTERNET SERVICE BUNDLE
Fully managed DSL-enabled access to the Internet, including domain name services, e-mail boxes, a router and DSL termination equipment.

WHOLESALE ISP AND COLLOCATION SERVICES
A complete portfolio of access, transport, collocation, hosting and value added services for Internet Service Providers (ISPs) and Application Service Providers.

E-BUSINESS SERVICES
Technology and expertise to assist in transforming the way businesses do business.

AT&T Canada's broadband fibre optic data network information to the right

Data, information, decisions, business

AT&T Canada is delivering data to and between businesses at speeds and volumes never before experienced or perhaps even imagined. Data is the lifeblood of business today. Data becomes information and information becomes the basis of virtually every business decision. And business decisions drive action, create work and ultimately determine risk and reward. Effective data networking and communications can improve the speed and quality of business decisions by delivering the right data to the right place at the right time.

AT&T Canada is well established as a leader in Canadian data communications services. With the leading national market share in Frame Relay services and having developed and launched one of the first ATM networks in Canada, we have exceptional expertise in leading edge multi-media, multi-service data networking applications. AT&T Canada's expertise, local networks, national presence and global connectivity help businesses use data communications to make better decisions, with better information, everyday.

Our network – a business enabler

AT&T Canada's data services are used by our customers to move information between business locations and trading partners, whether it is across the city, across the country or around the world. AT&T Canada has built an advanced broadband data network with capacity up to OC-192, offering the capability to transmit the equivalent of 4 million simultaneous telephone conversations over a single pair of fibre optic strands. The 17,000 route kilometre AT&T Canada local and long haul broadband data network now includes over 500 ATM switches and 72 Frame Relay switches with more than 19,000 high-speed data ports in service.

AT&T Canada's nation-wide broadband data network can meet the most advanced and wide ranging data networking services needs of business and offer the flexibility and scalability required in today's rapidly changing business environment.

Data solutions

AT&T Canada has rapidly evolved its product portfolio, and now offers a full suite of data networking services. Through the merger integration activities in 1999, AT&T Canada significantly expanded its data network reach, customer base and data product expertise. AT&T Canada's data networking services portfolio now consists of five core product lines: Frame Relay, ATM, Data VPN, Private Line Services, and Managed Network Services. This powerful portfolio of advanced services provides business solutions for a broad range of applications from file transfers to e-mail to videoconferencing.

AT&T Canada sales and engineering teams work with customers to provide a total solution for data networking, including the installation, configuration, monitoring and maintenance of the customer's data equipment. Online data network monitoring and usage reporting options are available to assist businesses in assessing their network usage, performance and

gets the right place at the right time.

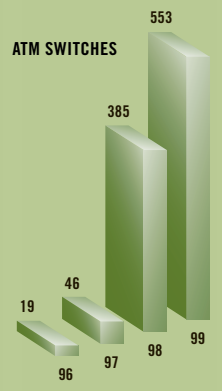
With our current portfolio of data services and our upcoming next-generation Internet Protocol (IP) and DSL-enabled services, AT&T Canada expects to maintain its data services market leadership in Canada.

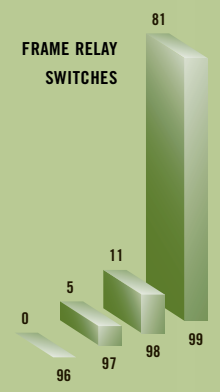
capacity requirements. AT&T Canada's competitive pricing structures have been developed to offer customers unparalleled value in network performance. AT&T Canada's Network Operations Centres in Toronto, Montreal and Calgary proactively monitor the status of our networks every minute of every day to assure the uninterrupted performance of our fibre optic networks across the country.

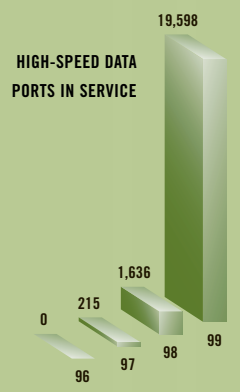
More data, more capacity

Data communications traffic capacity requirements will continue increasing in the coming years. It is expected that data communications traffic will exceed voice communications traffic perhaps as early as the end of this year.

AT&T Canada is ready to meet the demands for increased capacity with efficient and high-value, high-performance data transmission services. With both our existing portfolio, our coming next-generation Internet Protocol (IP) and DSL-enabled services being introduced in 2000, AT&T Canada expects to maintain its data services market leadership in Canada.







FRAME RELAY
A wide area, multiple connection service that consolidates multiple applications onto a common packet data network using a single physical access.

ATM (Asynchronous Transfer Mode)
ATM service provides a scalable, high-speed networking solution for consolidating data, voice, and video traffic on a single transport protocol.

DATA VPN (Virtual Private Network)
A single source virtual private network that offers protocol transparency, network management, a variety of access speeds, and value added services and features.

PRIVATE LINE
Dedicated point-to-point data network connectivity with a range of speeds available up to OC-192.

MANAGED NETWORK SERVICES
Outsourced simplicity – a collection of technology and applications that complement our core data network services by extending the reach of our one-stop managed network service directly into the customer's premises.

Financial Review

1999 was an impressive year of achievement for AT&T Canada that saw explosive growth across the business. Through strong organic growth and key strategic mergers and acquisitions, AT&T Canada has assembled a scarce and powerful set of integrated competitive telecom assets with broadband local and long haul coverage of the vast majority of the Canadian business telecom market. AT&T Canada exited 1999 with an annualized revenue run rate of $1.39 billion, solidly EBITDA positive, and with $2.2 billion of its planned network already deployed.

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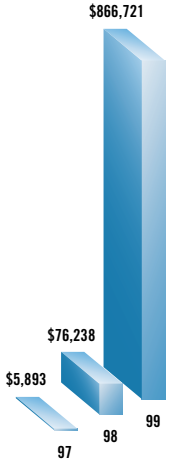
The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto and the other financial data appearing elsewhere herein.

OVERVIEW

AT&T Canada Inc. (together with its subsidiaries the "Company" or "AT&T Canada") was created as a result of a strategic business combination of AT&T Canada Corp. (formerly AT&T Canada Long Distance Services) and MetroNet Communications Corp. ("MetroNet") effective June 1, 1999. MetroNet was founded in 1995 to provide broadband local telecommunications and data services to business and government customers. AT&T Canada is Canada's largest facilities-based provider of competitive voice, data and internet telecommunications services to business and government customers. AT&T Canada's goal is to be the preferred choice to the incumbent local exchange carrier ("ILEC") in each of the Company's target markets. The Company believes that with the May 1, 1997 release by the CRTC of a series of decisions, which effectively opened Canada's local switched telecommunications services market to competition on January 1, 1998, AT&T Canada is well positioned to compete for a portion of the ILECs' historically monopoly-controlled local business and government market.



REVENUE
(in thousands)

The continued development of the Company's business and the build out of its networks in its target markets will require significant expenditures. The Company has made the strategic decision to build high capacity networks with broad market coverage, which increases its level of capital expenditures and operating losses during the early phase of its development. The Company believes the ownership of high capacity networks with broad coverage will enhance future financial performance by enabling greater margins as the business matures.

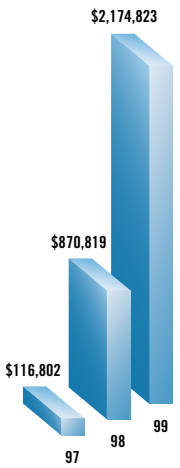
The Company's principal operating expenses consist of service costs, selling, general and administrative costs ("SG&A"), and depreciation. Service costs are those directly associated with servicing the operations of the Company's networks, including costs of service personnel, expenses associated with fibre leases where it does not presently have its own facilities, local and long distance transport, maintenance agreements, right-of-way fees, municipal access fees, hub site lease expenses and leases of utility space in buildings connected to the Company's networks. SG&A includes the costs of sales and marketing, promotional and advertising expenses, corporate administrative expenses and general office costs.

Significant transactions

Strategic business combination with AT&T Canada Corp.

On June 1, 1999, MetroNet and AT&T Canada Corp. completed their previously announced strategic business combination. This resulted in MetroNet shareholders indirectly owning 69% of the equity of the combined company and AT&T Corp. indirectly owning 31% of the equity and a 23% voting interest in the combined company. MetroNet contributed all of its assets and operations to the combined company. AT&T Corp. contributed its 67% interest in the former AT&T Canada Long Distance Services which was held in trust and its 100% interest in ACC TelEnterprises Ltd. ("ACC"). AT&T Corp.'s initial, and any further investment in the Company is limited by specific Canadian foreign ownership restrictions. Subject to certain conditions,

AT&T Corp. has agreed to purchase, or arrange for another entity to purchase, all of the voting and equity securities in the Company, to the extent permitted by the removal (or the removal in part) of such Canadian foreign ownership restrictions. More specifically, AT&T Corp. has agreed, subject to the condition precedent that the Canadian foreign ownership restriction had been removed, to purchase on or before June 30, 2003 all of the shares of AT&T Canada not owned by AT&T Corp. or its affiliates at a price equal to the greater of $37.50 per share (increased at a rate of 16% per annum compounded quarterly, after June 30, 2000) and the then appraised fair market value. If applicable foreign ownership restrictions are removed on or before June 30, 2003, in whole or in part, AT&T Corp. will be obligated to purchase the maximum number of shares permitted to be purchased. During this time, AT&T Corp. also has the right to designate a purchaser of all the shares of AT&T Canada not owned by AT&T Corp. or its affiliates, even if the specified Canadian foreign ownership restrictions are not removed prior to June 30, 2003.



PROPERTY, PLANT AND EQUIPMENT
(in thousands)

If by June 30, 2003, AT&T Corp. has not purchased the outstanding AT&T Canada Inc. shares, those shares would be sold through an auction process and AT&T Corp. would make whole the shareholders of AT&T Canada Inc. for the difference between the proceeds received from the auction and the greater of the accreted minimum price and the appraised fair market value of the shares.

The strategic business combination was accounted for as a purchase with a portion of the purchase price allocated to intangible assets including goodwill. The results for the year reflect the consolidation of MetroNet's operations for the twelve months ended December 31, 1999 and the operations of AT&T Canada Corp. from June 1, 1999. The Company recorded a one-time gain of $462 million at the time of the strategic business combination due to the accounting recognition of the sale of the approximate 31% minority interest in MetroNet to AT&T Corp. The shares issued to AT&T Corp. for their approximate 31% economic interest of the new combined company were issued from the operating company AT&T Canada Corp. which is approximately 69% owned by the public holding company AT&T Canada Inc. Consequently, this structure requires the Company to account for AT&T Corp.'s ownership position as a minority interest, and the sale of this minority interest gave rise to this one-time gain.

Acquisition of Netcom Canada

On March 16, 1999, MetroNet acquired 51% of the outstanding shares of Netcom Canada Holding Inc. ("Netcom Holding"), the owner of all of the issued and outstanding shares of Netcom Canada Inc., an Internet Service Provider ("ISP"), at an aggregate acquisition cost of $26.5 million. As part of this transaction, MetroNet acquired a right to acquire the remaining 49% of the shares of Netcom Holding from the other shareholders of Netcom Holding ("the Call Right") upon prescribed terms.

Having agreed upon a fair value to be paid to the other shareholders of Netcom Holding, AT&T Canada rescinded the exercise of its Call Right in November, 1999 and entered into a new Call Agreement with other shareholders of Netcom Holding providing for the exercise of a new call right by AT&T Canada at the agreed upon value between March 16, 2000 and April 15, 2000.

Acquisition of TigerTel Inc.

Effective January 6, 2000, AT&T Canada Corp. acquired all of the common shares of TigerTel Inc., a company in the business of managing telecommunications services for large business customers and offering telecommunications services to business customers on a resale basis. The acquisition will be accounted for by the purchase method of accounting. The purchase consideration is $69.5 million.

RESULTS OF OPERATIONS

Year ended December 31, 1999 compared to year ended December 31, 1998

(Dollar amounts are stated in thousands of Canadian dollars except where otherwise noted.)

The Company's results include those of MetroNet for the entire period as well as those of AT&T Canada Corp. beginning June 1, 1999.

Statement of key operating data:

Years ended December 31	1999	1998	1997
Revenue	**$ 866,721**	$ 76,238	$ 5,893
Service Costs	**$ 586,761**	$ 64,487	$ 7,687
Selling, General and Administrative Costs	**$ 253,677**	$ 61,737	$ 19,140
EBITDA before integration costs and provision for restructuring	**$ 26,283**	$ (49,986)	$ (20,934)
Interest Expense	**$ 259,589**	$ 127,981	$ 20,978

Revenue

Revenue for the year ended December 31, 1999 was $866,721 compared to $76,238 for the year ended December 31, 1998. For the year ended December 31, 1999, voice service revenue was approximately $494,570 of which $93,379 was derived from local service and $401,191 was derived from long distance. Intense competition in the long distance voice market is continuing to cause extreme price pressures. However, the impact is being more than offset by growth in minutes of usage. Data and transport revenues were approximately $334,743 of which $148,147 was generated from a combination of ATM, Frame Relay and LAN interconnect services, $52,471 was generated from Internet related services and $134,125 was generated from private line sales. Data and telecommunications equipment and service sales of $37,409 comprised the remainder of the revenue for the year. For the year ended December 31, 1998, voice service revenue was approximately $26,754 of which $15,344 was derived from local service and $11,410 was derived from long distance. Data and transport revenues were approximately $44,465 of which $12,762 was generated from a combination of Asynchronous Transfer Mode (ATM), Frame Relay and LAN interconnect services, $5,976 was generated from Internet related services and $25,727 was generated from private line sales. Data and telecommunications equipment and service sales of $5,019 comprised the remainder of the revenue for the year.

Costs and expenses

Service costs increased to $586,761 for the year ended December 31, 1999 from $64,487 for the year ended December 31, 1998. The increase for the year is primarily attributable to the additional costs related to access, leased transport and operational personnel from the combined entity from the effective date of June 1, 1999. Other increases in the service cost area relate to the Company's continued growth of voice services and of private line, dedicated access and Frame Relay services during 1999.

The Company's SG&A expenses increased to $253,677 for the year ended December 31, 1999 from $61,737 for the year ended December 31, 1998. The largest component of SG&A continues to be salaries and benefits which rose to $126,857 for the year ended December 31, 1999 from $30,450 for the year ended December 31, 1998. The number of employees employed by the Company increased from 955 employees at December 31, 1998 to 4,262 at December 31, 1999. Of this increase, 3,261 were added as a result of the strategic business combination effective June 1, 1999.

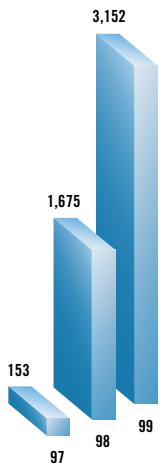
Depreciation and amortization expense increased to $232,782 for the year ended December 31, 1999, from $54,668 for the year ended December 31, 1998. Amortization has significantly increased due to the goodwill related to the acquisitions of Rogers Telecom Inc., Netcom Canada Inc. and the strategic business combination transaction. In addition, there has been an increase in the level of depreciation due to the amount of network equipment and computer equipment the Company has placed into service.

Interest income (expense)

The Company had interest income of $35,070 for the year ended December 31, 1999, compared to interest income of $36,659 for the same period in 1998. The decrease in interest income for the year ended December 31, 1999 relates primarily to the timing and availability of funds from financing activities. Interest earned in 1999 was primarily from the proceeds from the 7.65% Notes and 7.15% Notes issued in September 1999 and the 9.95% Notes issued in June 1998 and 10.625% Notes issued in November 1998. In the prior year, interest income was primarily earned from the equity offering completed in August 1998 and the 9.95% Notes issued in June 1998. Interest expense for the year was $259,589 compared to $127,981 for the year ended December 31, 1998. The increase in interest expense for the year ended December 31, 1999 related to interest expense on the 7.65% Notes and 7.15% Notes issued in September 1999, the full year impact of the accrued interest on the 9.95% Notes issued in June 1998 and the 10.625% Notes issued in November 1998. Additional interest expense was also incurred on the term preferred shares, loans from AT&T Corp. and the subordinated debentures of AT&T Canada Corp. acquired in the strategic business combination.

Other income/expenses

Other income was $1,998 for the year ended December 31, 1999, compared to nil for the year ended December 31, 1998, primarily due to the gain on sale of ACC switches.



BUILDINGS ACCESSED

Integration costs and provision for restructuring related to the strategic business combination

During 1999, the Company incurred integration costs and recorded a provision for restructuring and asset write-downs aggregating $157.8 million as a result of implementing certain initiatives required to consolidate and integrate the operations of the Company with those of AT&T Canada Long Distance Services and ACC. Integration costs totalling $24.4 million in 1999 were associated with consolidation of systems, and network operations, and with interconnection of networks. During 1998, integration costs of $9.2 million were associated with consolidation of network operations centres and office locations of the Company with those of Rogers Telecom Inc.

During 1999, the restructuring provision included primarily amounts for employee severance of $40.7 million and lease and other contract termination costs of $48.9 million. In addition, certain capital assets which will not be used in the consolidated operations have been written down to net recoverable values. The assets related primarily to redundant financial and billing systems. The write down amount was $35.6 million.

See additional discussion of the integration costs and provision for restructuring in Note 10 to Consolidated Financial Statements.

Gain on sale of minority interest

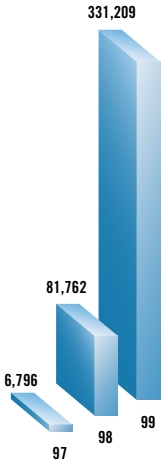
Coincident with the June 1, 1999 strategic business combination, a one time accounting gain of $462,028 was recorded as a gain on the sale of minority interest in the year ended December 31, 1999. This gain arises due to the issuance of shares to AT&T Corp. in return for their approximate 69% interest in AT&T Canada Long Distance Services. The shares were issued out of AT&T Canada Corp., the operating company, so AT&T Corp.'s ownership is reflected as a minority interest in a subsidiary.

Net income/loss

The Company recognized a net loss for the year ended December 31, 1999 of $5,286 compared to the net loss of $212,801 for the year ended December 31, 1998.

EBITDA and cash flow from operations

The Company posted a positive EBITDA (before integration costs related to the strategic business combinations) of $26,283 for the year ended December 31, 1999, increasing from the EBITDA loss of $49,986 for the year ended December 31, 1998. EBITDA is earnings before interest, taxes, depreciation and amortization and does not include the integration charges incurred in respect of the strategic business combination. Cash flow used in operations was ($162,553) for the year ended December 31, 1999 compared to ($83,232) for the year ended December 31, 1998. The increase in EBITDA level reflects the Company's increasing ability to generate revenue in its operational cities at a greater rate than it is increasing expenditures in its development cities. EBITDA is a financial measure commonly used in the telecommunications and other industries and is presented to assist in understanding the Company's operating results. However, it is not intended to represent cash flow or results of operations in accordance with Canadian or U.S. GAAP.



ACCESS LINES SOLD

Liquidity and capital resources

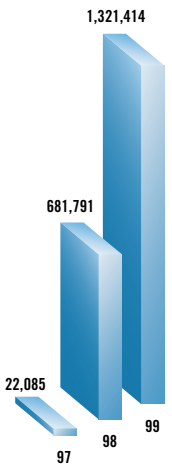
At December 31, 1999, the Company's current assets of $564,038, including cash and short-term deposits of $289,331, exceeded current liabilities of $496,303, which provided a working capital surplus of $67,735. Working capital surplus at December 31, 1998 was $851,745. The decrease in working capital is attributable to the lower cash levels at the end of 1999 versus 1998. The additional financing in 1999 was offset by debt repayment of the term preferred shares, subordinate debentures and loans with AT&T Corp. as well as continued expenditures on networks & equipment, the acquisition of Netcom Canada and other business and related assets. At December 31, 1999, $42 million of the cash and short-term investments were held in restricted margin bank accounts.

Expenditures on networks, equipment and related assets totalled $724 million during the year ended December 31, 1999. These expenditures reflect the purchase of equipment, rights of way, development of a customer care system and laying fibre to facilitate the Company's continued expansion of its networks in its target markets.

Other long-term assets other than property, plant and equipment increased to $1,670,456 at December 31, 1999 from $877,075 at December 31, 1998. The increase relates to goodwill arising as a result of the strategic business combination and the costs associated with the issuance of 7.65% Notes and 7.15% Notes completed in September 1999. The debt issue costs have been deferred and are being amortized over the respective terms of the related debt.

As expected, the Company's start-up operations have not generated sufficient cash flow from its inception in 1995 through December 31, 1999 to enable it to meet its capital expenditure, debt service and other cash needs. Cash for the aforementioned items was provided by operations, the current and prior years' equity issuances and the Note Offerings. The Company is a holding company that derives, and will derive, all of its operating income from AT&T Canada Corp. and its current and future subsidiaries. The Company expects that interest income and principal repayments on loans made to its subsidiaries, and, to a lesser extent, fees paid to the Company by AT&T Canada Corp. pursuant to an agreement in respect of management services provided by the Company, will be the principal sources for the funds necessary for it to meet its obligations. AT&T Canada Corp., and the Company's other current and future subsidiaries will be separate and distinct legal entities. They will have no obligation, contingent or otherwise, to pay any dividend or to make any other distribution to the Company, other

than for such management services and the payment of interest and principal payments on such loans from the Company, or otherwise to pay amounts due with respect to the Company's indebtedness or to make funds available for such payments. The ability of the Company's subsidiaries to make payments will be subject to, among other things, the availability of sufficient cash. The provisions of certain of the Company's notes require that if AT&T Canada Inc. transfers the net proceeds of any debt to any of its subsidiaries, such transfer may only take place in a form of a loan evidenced by an intercompany note with a principal amount at least equal to such net proceeds, interest payment terms as favourable to AT&T Canada Inc. as the interest payment terms on the debt of AT&T Canada Inc. and payable in the same currency as the debt of AT&T Canada Inc. In addition, AT&T Canada Inc. and its subsidiaries have agreed not to subordinate any such intercompany debt in right of payment to any other debt of AT&T Canada Inc.'s subsidiaries, subject to certain exceptions.



CIRCUITS IN SERVICE (VGEs)

The telecommunications business is capital intensive. The Company's operations will continue to require substantial capital to fund the development and build out of its local and data networks and services, to fund the continued development of its planned services, to fund strategic alliances and acquisitions and for other general corporate purposes. The Company plans to continue deploying capital for the development and expansion of networks in order to offer a full array of dedicated access, private line, data transmission and switched voice services. The majority of the $724 million of capital expenditures were made to continue the build out of the Company's networks. The Company believes that its existing cash resources and its ability to obtain new financing, together with the funds being generated from operations and other sources of funds available to it, including the Senior Credit Facility, will provide it with sufficient liquidity to fund its costs of constructing, developing, acquiring and improving its telecommunications networks and to fund any strategic alliances or acquisitions. The Company may require additional financing depending upon the rate of the Company's expansion and the success of its business.

The Company expects that potential additional funding needs could be met by raising additional equity and/or debt capital, borrowing under future credit facilities, entering into joint ventures with strategic partners or a combination of such options. There can be no assurance, however, that the terms of its existing or future indebtedness or credit facilities will permit the Company to raise sufficient additional debt capital, or that the Company will be successful in raising sufficient additional capital, obtaining such borrowings or entering into such joint ventures to meet its funding needs or that such options, if available at all, will be available on a timely basis or on terms that are acceptable to the Company.

While AT&T Canada has no plans to use its existing resources to consummate material joint ventures, strategic alliances or acquisitions with the exception of exercising its Call Right for Netcom Canada Holding Inc., AT&T Canada intends, as part of its ongoing corporate development activities, to evaluate such types of transactions in areas which would further its business strategy and complement its existing business. AT&T Canada has no definitive agreement with respect to any of the foregoing, although from time to time, it has held, and will likely continue to hold, discussions with other companies to assess such opportunities. Any joint venture, strategic alliance or acquisition that would require payment of consideration that is material to AT&T Canada's financial position might require AT&T Canada to raise capital beyond that currently available to it through the issuance of additional equity or debt securities, borrowing under future credit facilities or a combination of such options.

The Company's expectations of required future capital expenditures are based on the Company's current estimates and plans. There can be no assurance that the amount of funds actually required to complete the planned development of the Company's networks will not exceed the Company's currently anticipated expenditures.

Note offerings and credit facility

During the year the Company issued and sold Senior Notes in two offerings and entered into a senior credit facility. The details are as follows:

7.15% Note Offering

On September 22, 1999, the Company issued and sold $150 million of 7.15% Senior Notes due 2004 (the "7.15% Notes") at a price of 99.97% of the principal amount per Note (the "7.15% Note Offering"). The 7.15% Notes will mature on September 23, 2004. Interest on the 7.15% Notes will be payable semi-annually on March 23 and September 23 of each year commencing March 23, 2000.

7.65% Note Offering

On September 22, 1999, the Company issued and sold US$500 million of 7.65% Senior Notes due 2006 (the "7.65% Notes") at a price of 99.76% of the principal amount per Note (the "7.65% Note Offering"). The 7.65% Notes will mature on September 15, 2006. Interest on the 7.65% Notes will be payable semi-annually on March 15 and September 15 of each year commencing March 15, 2000.

Senior Credit Facility

On December 3, 1999, the Company entered into a $600 million bank facility with a syndication of various financial institutions. This replaced a $200 million and a $40 million bank facility. $75 million of the new facility is a revolving operating facility, which may be used for working capital and general corporate purposes. The remaining $525 million is a revolving facility and may only be used to re-finance acquisitions of telecommunications assets from suppliers who have extended secured vendor financing to the Company. The facility can be cancelled or reduced at any time at the option of the Company without penalty. The facility has scheduled quarterly repayments of principal starting March 31, 2002 until June 30, 2006, when the facility matures. The facility provides for borrowing in Canadian and United States dollars with various fixed and floating rate options. Interest payable on outstanding loans is determined based on the Company's public debt rating. The facility is secured by way of trust indenture pursuant to which the Company and certain of its wholly owned subsidiaries have granted security assets in favour of the Trust Company of Bank of Montreal, as Trustee. The Company and its subsidiaries have provided covenants pursuant to the facility. They include financial covenants and other covenants such as restrictions on the Company's ability to create additional secured debt, grant security, sell assets, pay dividends and make other distributions, amend certain material agreements and make investments outside of its core business.

INTRACITY FIBRE ROUTE KILOMETRES

Two-for-one stock split

In October, 1999, AT&T Canada Inc. announced a two-for-one stock split of its Class A Voting shares and its Class B Non-Voting Shares, pursuant to which shareholders of record as of the close of business on October 28, 1999, received one additional AT&T Canada Inc. share for each share held. Holders of Class A Deposit Receipts and Class B Deposit Receipts likewise received additional Class A Deposit Receipts or Class B Deposit Receipts, as the case may be, for each Deposit Receipt held on such date.

Impact of Year 2000

The Company met its objectives in 1999 for its Year 2000 compliance program. The Company defines Year 2000 compliant technology as information technology that accurately processes date/time data (including, but not limited to, calculating, comparing and sequencing) from, into and between the twentieth and twenty-first centuries, the years 1999 and 2000, and leap year calculations ("Year 2000 Compliant Technology"). Furthermore, Year 2000 Compliant Technology, when used in combination with other information technology, shall accurately process date/time data if the other information technology properly exchanges date/time with it.

Year 2000 Rollover

The Company has not yet experienced any major problems associated with the rollover from 1999 to 2000. The Company is continuing to closely monitor reports, billing and financial information associated with the rollover from 1999 to 2000 to minimize the possibility of date related errors causing an adverse effect on the Company.

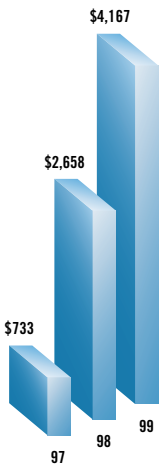
February 29, 2000 Rollover

The rollover to February 29, 2000 is deemed to have a similar potential for impacting systems as the rollover from 1999 to 2000. The Company will be activating emergency response teams for the February 29, 2000 rollover to monitor internal network and IT systems and to monitor the impact of the rollover on other companies in the telecommunications industry. The Company plans to closely monitor reporting, billing and financial information related to February 29, 2000 to minimize the possibility of date related problems causing an adverse effect on the Company.

Implementation Costs

The Company incurred approximately $31 million to complete its Year 2000 readiness efforts. The costs include the cost of consultants used to implement the Year 2000 plan, hardware costs and software costs. Additional costs will continue to be expensed as incurred. Such costs, however, are not expected to have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Additionally, such costs do not include costs that may be incurred by the Company as a result of the failure of any third parties, including suppliers, to become Year 2000 compliant or costs to implement any contingency plan.

While the Company's efforts are designed to be successful, because of the complexity of the Year 2000 issues and the interdependence of organizations using computer systems, there can be no assurance that the Company's efforts or those of a third party with which the Company interacts will be satisfactorily completed in a timely fashion. Failure by the Company, its major vendors, other material service providers or customers to adequately address their respective Year 2000 issues in a timely manner (insofar as they relate to the Company's business) could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.



TOTAL ASSETS
(in millions)

Results of operations – year ended December 31, 1998 compared to year ended December 31, 1997

(Dollar amounts are stated in thousands of Canadian dollars except where otherwise noted).

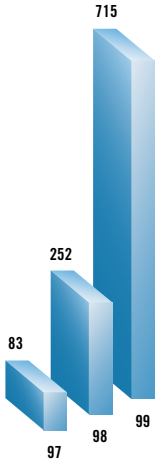
Revenue

Revenue for the year ended December 31, 1998 was $76,238 compared to $5,893 for the year ended December 31, 1997. For the year ended December 31, 1998, voice service revenue was approximately $26,754 of which $15,344 was derived from local service and $11,410 was derived from long distance. Data and transport revenues were approximately $44,465 of which $12,762 was generated from a combination of Asynchronous Transfer Mode ("ATM"), Frame Relay and LAN interconnect services, $5,976 was generated from Internet related services and $25,727 was generated from private line sales. Data and telecommunications equipment and service sales of $5,019 comprised the remainder of the revenue for the year. For the year ended December 31, 1997, revenue was comprised primarily of data transmission, dedicated access and private line fees of $3,031 and fees related to management of desktop computers and routers of $2,482. The remaining $380 was comprised of resale fees and equipment sales.

Costs and expenses

Service costs increased to $64,487 for the year ended December 31, 1998 from $7,687 for the year ended December 31, 1997. The increase was primarily attributable to the Company's continued growth and offering of private line, dedicated access and Frame Relay services during 1998. In addition, increased rental expense under the Company's fibre leases with the City of Calgary and Toronto Hydro, the underlying costs of resold voice telecommunications services, and service costs associated with the acquired business added to the service costs in 1998.

The Company's SG&A expenses increased to $61,737 for the year ended December 31, 1998 from $19,140 for the year ended December 31, 1997. The largest contributor to the increase was salary and benefits which rose to $30,450 for the year ended December 31, 1998 from $9,733 for the year ended December 31, 1997. This increase resulted primarily from the Company's continued expansion of its administrative and sales personnel in connection with the introduction of dedicated access, private line and Frame Relay services during 1998.



SALES EMPLOYEES

Depreciation and amortization expense increased to $54,668 for the year ended December 31, 1998 from $3,103 for the year ended December 31, 1997. The increase is a result of increased levels of telephone network equipment and computer equipment the Company had placed into service and the amortization of goodwill.

Interest income (expense)

The Company had interest income of $36,659 for the year ended December 31, 1998 compared to interest income of $10,066 for the same period in 1997. Interest income for 1998 was earned primarily on the balance of proceeds of the 12.0% Note Offering, the 10.75% Note Offering, the Initial Public Offering completed in December 1997, the 9.95% Note Offering, the equity offering completed in August 1998 and the 10.625% Note Offering. Interest income for 1997 was earned primarily on the proceeds of the 1996 Private Placement which generated $15 million, the 12.0% Note Offering and the 10.75% Note Offering. Interest expense of $127,981 for the year ended December 31, 1998 represents primarily the interest accrued on the 12.0% Notes, the 10.75% Notes and the 10.625% Notes. Interest expense of $20,978 for the year ended December 31, 1997 represents interest on the 12% Note Offering which was completed in July 1997 and the 10.75% Note Offering which was completed in November 1997.

Net loss

The Company's net loss increased to $212,801 for the year ended December 31, 1998 from $36,449 for the year ended December 31, 1997. These losses were consistent with the Company's plans and the start-up nature of its operations.

EBITDA and cash flow from operations

EBITDA losses increased to $59,186 for the year ended December 31, 1998 ($49,986 excluding integration costs) from $20,934 for the year ended December 31, 1997. Cash flow used in operations increased from $6,004 for the year ended December 31, 1997 to $83,232 for the year ended December 31, 1998. EBITDA is a financial measure commonly used in the telecommunications and other industries and is presented to assist in understanding the Company's operating results. However, it is not intended to represent cash flow or results of operations in accordance with Canadian or U.S. GAAP.

CORPORATE GOVERNANCE

The Board of Directors of AT&T Canada is responsible for the overall stewardship of the Company including planning, directing and controlling issues which are pivotal in determining the direction and strategy of the Company. In this role, the Board considers management development, business development and financing arrangements. The Board reviews the systems that have been put in place to manage the identifiable risks of the Company as well as the integrity of the internal control and management information systems. The Board also reviews and confirms decisions and recommendations made by senior management where appropriate, but does not generally involve itself in the day-to-day operations of the Company.

The Board is comprised of twelve members and has extensive knowledge of the Company and of the telecommunications industry, which enhances its overall effectiveness. The composition of the Board is determined in accordance with the terms of the Company's shares and in accordance with a shareholders agreement between the Company and certain principal shareholders of the Company, which provides these shareholders with certain representation entitlements on the Board.

The Board has established several committees to assist in carrying out its responsibilities. The Human Resources/Compensation Committee is comprised of four directors, who meet periodically to consider and approve human resource development, succession plans and compensation plans for officers and employees. The Audit Committee consists of four directors and is responsible for overseeing the implementation and operation of the Company's internal controls and financial reporting systems and for reviewing that the Company has implemented appropriate systems to identify, monitor and mitigate significant business risks. The Executive Committee is comprised of five directors, who facilitate communications between management and the Board and who are charged with interacting with management from time to time as required and with liaising with management in respect of matters requiring input from the Board. The Governance Committee consists of four directors and is responsible for, among other things, reviewing the governance practices of the Board and for periodically evaluating the performance of the Board as a whole and its committees.

Report of management

The accompanying consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. Management is responsible for their integrity, objectivity and reliability and, where necessary, they reflect management's best estimates and judgements. To provide reasonable assurance that the Corporation's assets are safeguarded and that reliable financial information is produced, management is also responsible for developing and maintaining an effective system of internal controls.

Management believes that the system of internal controls provides reasonable assurance that the financial records are adequate and can be relied upon for the preparation of financial statements in conformity with generally accepted accounting principles and that access to assets occurs only in accordance with management's authorizations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises these responsibilities through its Audit Committee whose members are all independent of management and are not involved in the daily activities of the Corporation. The Audit Committee meets periodically with management and with the independent auditors, KPMG LLP, to satisfy itself that management's responsibilities are properly discharged and to review and report to the Board with respect to auditing, internal controls, and the consolidated financial statements.

The consolidated financial statements have been reviewed and approved by the Board and have been audited by KPMG LLP, whose report and professional opinion is presented herein.

D. Craig Young
Vice Chairman & President

James J. Meenan
Vice Chairman & Chief Executive Officer

David A. Lazzarato
Executive Vice President & Chief Financial Officer

Auditors' report to the shareholders

We have audited the consolidated balance sheets of AT&T Canada Inc. (formerly MetroNet Communications Corp.) as at December 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for each of the years in the three year period ended December 31, 1999. These financial statements are the responsibility of the Company'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 Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1999, in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles differ in some respects from those applicable in the United States (note 17).

Chartered Accountants
Toronto, Canada
January 21, 2000

Consolidated Balance Sheets

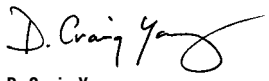
(In thousands of Canadian dollars)
December 31, 1999 and 1998

	1999	1998
ASSETS		
Current assets:		
Cash and short-term deposits *(note 3)*	**$ 289,331**	$ 854,729
Restricted investments *(note 3)*	**42,429**	47,081
Accounts receivable	**218,154**	29,302
Other current assets	**14,124**	16,650
	564,038	947,762
Restricted investments *(note 3)*	**–**	42,526
Property, plant and equipment *(note 4)*	**1,932,298**	832,874
Goodwill *(note 5)*	**1,547,947**	678,828
Deferred pension asset *(note 12)*	**8,715**	–
Deferred foreign exchange	**–**	28,327
Other assets *(note 6)*	**113,794**	127,394
	$ 4,166,792	$ 2,657,711
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 180,255**	$ 65,264
Accrued liabilities	**264,627**	2,517
Accrued interest payable	**40,240**	22,326
Income taxes payable	**8,440**	4,950
Current portion of long-term debt *(note 7)*	**2,741**	960
	496,303	96,017
Long-term debt *(note 7)*	**2,763,565**	1,882,424
Other long-term liabilities	**27,678**	–
Deferred foreign exchange	**73,960**	–
Minority interest *(note 8)*	**104,274**	–
Shareholders' equity *(note 9)*:		
Common shares	**956,697**	928,052
Warrants	**1,812**	3,429
Deficit	**(257,497)**	(252,211)
	701,012	679,270
	$ 4,166,792	$ 2,657,711

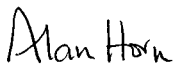
Commitments and contingencies *(note 13)*
Subsequent event *(note 16)*

See accompanying notes to consolidated financial statements.

On behalf of the Board:



D. Craig Young
Director



Alan D. Horn
Director

Consolidated Statements of Operations and Deficit

(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 1999, 1998 and 1997	1999	1998	1997
OPERATIONS			
Revenue	**$ 866,721**	$ 76,238	$ 5,893
Expenses:			
Service costs	**586,761**	64,487	7,687
Selling, general and administrative	**253,677**	61,737	19,140
Depreciation and amortization	**232,782**	54,668	3,103
Integration costs and provision for restructuring *(note 10)*	**157,790**	9,200	–
	1,231,010	190,092	29,930
Loss from operations	**(364,289)**	(113,854)	(24,037)
Other income (expense):			
Interest income	**35,070**	36,659	10,066
Interest expense	**(259,589)**	(127,981)	(20,978)
Gain on sale of minority interest *(note 2)*	**462,028**	–	–
Other income	**1,998**	–	–
	239,507	(91,322)	(10,912)
Loss before minority interest and provision for income taxes	**(124,782)**	(205,176)	(34,949)
Minority interest *(note 8)*	**124,460**	–	–
Provision for income taxes *(note 11)*	**4,964**	7,625	1,500
Loss for the year	**(5,286)**	(212,801)	(36,449)
DEFICIT			
Deficit, beginning of year	**(252,211)**	(39,410)	(2,961)
Deficit, end of year	**$ (257,497)**	$ (252,211)	$ (39,410)
Loss per common share	**$ (0.06)**	$ (3.02)	$ (5.71)
Weighted average number of common shares outstanding *(in thousands)* *(note 9 (b), (vii))*	**92,457**	70,504	6,390

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

CASH PROVIDED BY (USED IN):	*(In thousands of Canadian dollars)* *Years ended December 31, 1999, 1998 and 1997*	1999	1998	1997
Operating activities:	Loss for the year	**$ (5,286)**	$ (212,801)	$ (36,449)
	Adjustments required to reconcile loss to cash flows from operating activities:			
	Depreciation	**153,704**	35,418	2,167
	Amortization	**79,078**	19,250	936
	Accretion of Senior Discount Note interest	**118,735**	67,458	2,621
	Writedown of networks and equipment	**35,568**	–	–
	Gain on sale of minority interest	**(462,028)**	–	–
	Minority interest	**(124,460)**	–	–
	Other	**(5,189)**	8,978	145
	Change in non-cash working capital:			
	Accounts receivable	**(21,135)**	(15,982)	(2,695)
	Other current assets	**8,185**	(7,287)	(7,211)
	Accounts payable	**79,213**	17,326	9,233
	Accrued liabilities	**(57,750)**	(2,810)	5,191
	Accrued interest payable	**36,252**	3,470	18,578
	Income taxes payable	**2,560**	3,748	1,480
	Net cash used in operating activities	**(162,553)**	(83,232)	(6,004)
Financing activities:	Share capital issued, net of issue costs	**26,424**	269,495	184,456
	Other	**(1,617)**	–	3,429
	Issues of long-term debt	**869,730**	1,221,984	485,029
	Debt issue costs	**(6,481)**	(33,807)	(24,073)
	Increase in other long-term liabilities	**2,605**	–	–
	Option premiums on financial instruments	**–**	(38,271)	–
	Repayment of shareholder loans	**(157,187)**	–	–
	Repayment of subordinated debentures	**(88,325)**	–	–
	Repayment of preferred shares	**(500,000)**	–	–
	Net cash provided by financing activities	**145,149**	1,419,401	648,841

CASH PROVIDED BY (USED IN):	*(In thousands of Canadian dollars)* *Years ended December 31, 1999, 1998 and 1997*	1999	1998	1997
Investing activities:	Acquisitions, net of cash acquired	**31,362**	(610,509)	–
	Additions to property, plant and equipment	**(724,409)**	(373,940)	(112,642)
	Additions to other assets	**12,145**	(12,286)	(3,929)
	Additions to property, plant and equipment included in accrued liabilities	**95,105**	–	–
	Reduction of (additions to) restricted investments	**47,178**	41,502	(120,838)
	Change in non-cash working capital	**(5,041)**	(18,676)	31,315
	Net cash used in investing activities	**(543,660)**	(973,909)	(206,094)
	Effect of exchange rate changes on cash	**(4,334)**	36,744	8,234
	Increase (decrease) in cash and short-term deposits	**(565,398)**	399,004	444,977
	Cash and short-term deposits, beginning of year	**854,729**	455,725	10,748
	Cash and short-term deposits, end of year	**$ 289,331**	$ 854,729	$ 455,725
Supplemental disclosures of cash flow information:	Cash paid for interest	**$ 30,265**	$ 47,855	$ –
	Cash paid for income taxes	**3,218**	4,521	–
Supplemental disclosures of non-cash investing and financing activities:	Capital lease obligations incurred for the purchase of networks and equipment	**202**	22,169	–

See accompanying notes to consolidated financial statements.

AT&T Canada Inc. (the "Company") was incorporated as MetroNet Communications Corp. ("MetroNet") under the laws of the Province of Alberta and was subsequently continued under the Canada Business Corporations Act. The Company changed its name to AT&T Canada Inc. coincident with the consummation of the combination of MetroNet and AT&T Canada Long Distance Services Company ("AT&T LDS") and ACC TelEnterprises Ltd. ("ACC") effective June 1, 1999.

The Company is a holding company, which engages in the telecommunications business in Canada through its 69% owned operating subsidiary, AT&T Canada Corp. The Company's activities in the telecommunications business consist primarily of the development and construction of telecommunications networks for the provision of local, long distance, data and internet services to businesses in Canadian cities.

NOTE 1

Significant accounting policies:

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Company, conform in all material respects with those in the United States, except as outlined in note 17.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

The Company's significant accounting policies are as follows:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and short-term deposits:

The Company's short-term deposits have an original maturity of less than three months and, accordingly, are considered to be cash equivalents. Short-term deposits are recorded at cost, which approximates current market value.

(c) Revenue recognition:

Telecommunications service revenue is recognized as services are provided. Products and other service revenue is recognized when the products are delivered and accepted by customers and when services are provided in accordance with contract terms.

(d) Restricted investments:

Restricted investments consist of U.S. government securities which are restricted to the payment of interest on certain debt and are stated at cost plus accrued interest.

(e) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Telecommunications facilities and equipment	3 – 20 years
Buildings	13 – 40 years
Other capital assets	4 – 40 years
Equipment under capital leases	3 – 15 years
Leasehold improvements	Term of lease
Application software	1 – 7 years

Telecommunications facilities and equipment are installed on rights-of-ways granted by others and construction costs are capitalized and depreciated over the lives of rights-of-ways including option periods. Costs incurred in developing new networks or expanding existing networks, including costs of acquiring rights-of-ways, network design and interest are included within telecommunications facilities and equipment. Telecommunications facilities and equipment begin to depreciate once the network is put in service.

(f) Goodwill and other intangible assets:

Goodwill arising on the acquisitions described in note 2 is recorded at the date of acquisition and is amortized on a straight-line basis over its estimated useful life of 20 to 25 years. The evaluation of impairment in the carrying value of goodwill is based upon estimated undiscounted future cash flows from the associated business.

Other intangible assets comprise the fair value of a non-compete agreement which was determined by an independent valuation. The balance is amortized on a straight-line basis over its estimated useful life of four years.

(g) Impairment of long-lived assets:

Long-lived assets such as property, plant and equipment, goodwill and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the expected future undiscounted cash flows and carrying value of the asset.

(h) Debt issuance costs:

Debt issuance costs are amortized on a straight-line basis over the terms of the related debt financing.

(i) Foreign currency translation:

Foreign currency-denominated monetary items are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Foreign currency-denominated non-monetary items are translated at the historical exchange rate. Transactions included in operations are translated at the exchange rate for the period. Translation gains or losses are reflected in the consolidated statement of operations in the period in which they occur except for those related to long-term monetary items. Unrealized gains and losses on translation of foreign currency-denominated long-term monetary items which are not hedged are deferred and amortized over the remaining lives of the related items.

(j) Employee benefit plans:

In March 1999, the Accounting Standards Board of The Canadian Institute of Chartered Accountants ("CICA") issued Section 3461 of the CICA Handbook, Employee Future Benefits ("Section 3461"). Section 3461 requires the recognition of the costs of retirement benefits and certain post-employment benefits over the periods in which employees render services in return for the benefits. On the combination of AT&T LDS and ACC, effective June 1, 1999, the Company adopted the following policies in accordance with Section 3461:

(i) The costs of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

(ii) For the purpose of calculating the expected return on plan assets, those assets are valued using a market-related value.

(iii) Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

(iv) The excess of net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans is 12 years. The average remaining service period of the active employees covered by the other retirement benefits plan is 13 years.

(v) When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(k) Financial instruments:

The Company hedges its exposure to foreign currency exchange rate risk on long-term debt by designating existing foreign currency-denominated monetary assets as hedge instruments and, from time to time, through the purchase of currency options, cross currency swaps and forward exchange contracts. All such instruments are only used for risk management purposes and are designated as hedges of specific debt instruments. The Company accounts for these financial instruments as hedges and as a result, foreign exchange gains and losses on hedge instruments are recorded in the same period as the corresponding gains and losses on the related long-term debt. Premiums paid to acquire currency options, cross currency swaps and forward exchange contracts are deferred and amortized on a straight-line basis over the term of the instruments.

(l) Income taxes:

The Company uses the liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. When necessary, a valuation allowance is recorded to reduce future income tax assets to an amount where realization is more likely than not. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date that the change in rates is substantively enacted.

(m) Loss per common share:

Loss per common share is based on the weighted average number of common shares outstanding after giving retroactive effect to the stock split described in note 9. The exercise of options, warrants and other contingent issuances outstanding at December 31, 1999, 1998 and 1997 would have an anti-dilutive effect on loss per common share.

(n) Stock-based compensation plans:

The Company has two stock-based compensation plans, which are described in note 9. No compensation expense is recognized for these plans when shares or options are issued to employees. Any consideration paid by employees on exercise of options or purchase of shares is credited to share capital.

(o) Segmented information:

The Company's operations fall into one operating segment, the telecommunications industry in Canada.

NOTE 2

Acquisitions:

1999

(a) Combination with AT&T LDS and ACC:

On June 1, 1999, MetroNet and AT&T LDS and ACC consummated a combination by way of a plan of arrangement. This resulted in MetroNet shareholders indirectly owning approximately 69% of the equity of the combined company and AT&T Corp. ("AT&T") indirectly owning approximately 31% of the equity of the combined company. MetroNet contributed all of its assets and operations to the combined company. AT&T contributed its 33% voting interest in AT&T LDS. In addition, AT&T agreed to purchase all of the shares of the Company outstanding at the time for the greater of a minimum of $37.50 per share or the then appraised fair market value prior to June 30, 2003. The exact timing of this purchase by AT&T will be partially dependent upon the future status of Canadian foreign ownership regulations. If such regulations do not permit AT&T to purchase the shares of the Company before June 30, 2003, AT&T may permit another entity to purchase the shares of the Company.

If AT&T does not purchase the outstanding shares of the Company before June 30, 2000, the minimum $37.50 per share price will increase by 16% per annum compounded quarterly from that date through to no later than June 30, 2003. If by June 30, 2003, AT&T has not purchased the outstanding shares, the shares would be sold through an auction process and AT&T would make whole the shareholders of the Company for the difference between the proceeds received from the auction and the greater of the accreted minimum price and the appraised fair market value of the shares.

The combination has been accounted for by the purchase method of accounting and the results of operations of AT&T LDS and ACC are included from the date of combination. The Company recorded a gain of $462 million resulting from of the sale of the 31% interest in MetroNet to AT&T. The shares issued to AT&T for its 31% economic interest of the Company were issued from the Company's operating subsidiary, AT&T Canada Corp., which is 69% owned by the Company.

The allocation of the purchase consideration of $744,582, which represents the value attributed to the 69% interest in AT&T LDS and ACC, including acquisition costs of $34,674, to the net assets at fair values is as follows:

Current assets	$ 253,545
Deferred pension asset	6,371
Property, plant and equipment	575,954
Other assets	3,583
Goodwill	897,031
	1,736,484
Current liabilities	244,132
Preferred shares	500,000
Subordinated debentures	83,289
Shareholder loan	130,500
Other long-term liabilities	33,981
	991,902
Purchase consideration	$ 744,582

(b) Acquisition of Netcom Canada Inc.:

On March 16, 1999, the Company acquired 51% of the issued and outstanding shares of Netcom Canada Inc. ("Netcom"), an internet service provider. The acquisition has been accounted for by the purchase method of accounting and the results of operations included from the date of acquisition. Purchase consideration was $26.5 million in cash.

The allocation of the purchase price to the net assets acquired at fair values is as follows:

Current assets	$ 5,686
Capital assets	7,084
Other assets	314
Goodwill	22,020
	35,104
Current liabilities	4,233
Long-term debt	28
Minority interest	4,323
	8,584
Purchase price	$ 26,520

As part of this transaction, the Company acquired a right to acquire the remaining 49% of the shares of Netcom from the other shareholders of Netcom at an agreed upon price between March 16, 2000 and April 15, 2000.

1998

Acquisition of Rogers Telecom Inc.:

Effective June 30, 1998, the Company purchased all of the issued and outstanding shares of Rogers Telecom Inc. ("RTI"), a company in the business of providing local high speed telecommunications and internet access services to business customers in three major cities in Canada. The acquisition has been accounted for by the purchase method of accounting and the results of operations included from the date of acquisition. Purchase consideration, before acquisition expenses and any working capital adjustment was approximately $1.05 billion.

Details of the net assets acquired at fair value, are as follows:

Purchase consideration:	
Cash	$ 600,000
Ascribed value of 12.5 million Class B Non-Voting Shares issued	450,000
Working capital adjustment	(9,991)
Acquisition expenses	5,000
	$ 1,045,009
Allocation of purchase consideration:	
Property, plant and equipment	$ 355,922
Working capital deficiency	(9,991)
Non-compete agreement	32,500
Goodwill	666,578
	$ 1,045,009

Unaudited pro forma consolidated financial information

The following unaudited pro forma consolidated financial information reflects the combination with AT&T LDS and ACC and the acquisition of Netcom and RTI as if these transactions had occurred on January 1, 1999 and January 1, 1998, respectively:

(Unaudited)	1999	1998
Revenue	**$ 1,371,723**	$ 1,328,004
Service costs	**937,021**	867,947
Selling, general and administrative expenses	**402,062**	468,911
Depreciation and amortization	**305,777**	255,231
Integration costs and provision for restructuring	**157,790**	9,200
	1,802,650	1,601,289
Loss before the undernoted	**(430,927)**	(273,285)
Interest expense, net	**(242,445)**	(161,314)
Gain on sale of minority interest	**462,028**	–
Gain on sale of residential business	**29,349**	–
Loss before minority interest and provision for income taxes	**(181,995)**	(434,599)
Minority interest	**124,454**	125,287
Provision for income taxes	**5,622**	9,301
Loss for the year	**$ (63,163)**	$ (318,613)
Loss per common share	**$ (0.68)**	$ (3.83)

The operating information has not been adjusted to give affect to the sale of AT&T LDS's residential business on May 30, 1999.

The pro forma consolidated financial information has been provided for information purposes only and is not necessarily indicative of the results of operations or financial condition that actually would have been achieved if the acquisitions had been completed on the dates indicated or that may be reported in the future.

NOTE 3

Cash and short-term deposits and restricted investments:

(a) Cash and short-term deposits:

U.S. dollar-denominated amounts included within cash and short-term deposits at December 31, 1999 and 1998 are $71.7 million (U.S. $49.7 million) and $649.8 million (U.S. $424.6 million), respectively, and within restricted investments at December 31, 1999 and 1998 are $42.4 million (U.S. $29.4 million) and $89.6 million (U.S. $58.5 million), respectively.

(b) Restricted investments:

	1999	1998
Restricted securities	**$ 42,429**	$ 89,607
Less current portion	**42,429**	47,081
	$ –	$ 42,526

Pursuant to the Indenture governing the 12.0% Senior Notes due 2007 (note 7(a)), a portion of the net proceeds from the sale of the 12.0% Senior Notes was used to purchase U.S. government securities which mature at dates and in amounts sufficient to provide for payment in full of the interest on the 12.0% Senior Notes through August 15, 2000. The securities are pledged as security for the benefit of the holders of the 12.0% Senior Notes.

NOTE 4

Property, plant and equipment:

1999	Cost	Accumulated depreciation	Net book value
Telecommunications facilities and equipment	**$ 1,783,687**	**$ 201,103**	**$ 1,582,584**
Land and buildings	**62,844**	**3,620**	**59,224**
Other capital assets	**170,082**	**14,839**	**155,243**
Equipment under capital leases	**25,771**	**1,389**	**24,382**
Leasehold improvements	**13,817**	**2,905**	**10,912**
Application software	**118,622**	**18,669**	**99,953**
	$ 2,174,823	**$ 242,525**	**$ 1,932,298**

1998	Cost	Accumulated depreciation	Net book value
Telecommunications facilities and equipment	$ 784,966	$ 25,369	$ 759,597
Land and buildings	4,332	189	4,143
Other capital assets	22,474	7,704	14,770
Equipment under capital leases	18,681	1,202	17,479
Leasehold improvements	9,058	1,389	7,669
Application software	31,308	2,092	29,216
	$ 870,819	$ 37,945	$ 832,874

As of December 31, 1999 and 1998, property, plant and equipment include $137.4 million and $199.3 million, respectively, of networks in progress that are not in service and, accordingly, have not been depreciated. Interest capitalized to property, plant and equipment during 1999 amounted to $3.7 million (1998 – nil) and has been calculated using the Company's weighted average cost of borrowing of 9.674% applied to the monthly amount expended in networks in progress that are not in service.

NOTE 5

Goodwill:

1999	Cost	Accumulated amortization	Net book value
Goodwill	**$ 1,618,014**	**$ 70,067**	**$ 1,547,947**

1998	Cost	Accumulated amortization	Net book value
Goodwill	$ 692,818	$ 13,990	$ 678,828

NOTE 6

Other assets:

	1999	1998
Debt issuance costs	**$ 65,912**	$ 57,741
Option premiums on financial instruments *(note 14)*	**25,662**	38,271
Non-compete agreement	**32,500**	32,500
Other	**12,656**	12,192
	136,730	140,704
Less accumulated amortization	**22,936**	13,310
	$ 113,794	$ 127,394

NOTE 7

Long-term debt:

	1999	1998
12.0% Senior Notes (U.S. $247.9 million) *(a)*	**$ 358,102**	$ 379,357
10.75% Senior Discount Notes (1999 – U.S. $126.4 million; 1998 – U.S. $113.8 million) *(b)*	**182,429**	174,219
9.95% Senior Discount Notes (1999 – U.S. $693.6 million; 1998 – U.S. $630.0 million) *(c)*	**1,001,008**	964,236
10.625% Senior Notes (U.S. $225.0 million) *(d)*	**324,742**	344,363
7.65% Senior Notes (U.S. $500.0 million) *(e)*	**721,650**	–
7.15% Senior Notes *(f)*	**150,000**	–
Capital lease obligations *(g)*	**28,375**	21,209
	2,766,306	1,883,384
Less current portion of capital lease obligations	**2,741**	960
	$ 2,763,565	$ 1,882,424

At December 31, 1999, principal repayments on long-term debt required within five years consist of $150 million due in 2004.

(a) 12.0% Senior Notes:

The Company's 12.0% Senior Notes (the "12.0% Notes") are due on August 15, 2007 and are repayable in the amount of U.S. $250.0 million. The 12.0% Notes are redeemable, at the option of the Company, in whole or in part, on or after August 15, 2002, beginning at 106% of par value and declining to par value in 2005, plus accrued and unpaid interest. In addition, prior to August 15, 2000, in the event the Company receives net cash proceeds of not less than $50.0 million from certain equity issuances, it may use all or a portion of such net cash proceeds to redeem up to 25.0% of the gross proceeds allocated to the 12.0% Notes at a redemption price equal to 112% of par value, plus accrued and unpaid interest. In the event of a change in control, as defined in the Indenture governing

the 12.0% Notes, the 12.0% Notes are redeemable at the option of the note holders. The 12% Notes are unsecured and rank pari passu with other unsubordinated senior debt of the Company. The 12.0% Note Indenture contains certain covenants, including limits on the incurrence of additional indebtedness or liens, payment of dividends and redemption of shares.

(b) 10.75% Senior Discount Notes:

The Company's 10.75% Senior Discount Notes (the "10.75% Notes") are due November 1, 2007, repayable in the amount of U.S. $170.0 million and bear interest at 10.75% per annum at the issue price of U.S. $592.24 per U.S. $1,000 stated amount at maturity until November 1, 2002. Interest to November 1, 2002 accrues on the issue price but is not payable until maturity. From November 1, 2002, interest at a rate of 10.75% per annum on the stated amount at maturity of the 10.75% Notes, will be payable in cash. The 10.75% Notes are unsecured and rank pari passu with other senior unsubordinated indebtedness of the Company. The 10.75% Notes are redeemable at the option of the Company in whole or in part at any time on or after November 1, 2002, beginning at 105.375% of par value and declining to par value in 2005, plus accrued and unpaid interest. Prior to November 1, 2000, in the event the Company receives cash proceeds of not less than $50.0 million from certain equity issuances, it may use all or a portion of such cash proceeds to redeem up to 25% of the 10.75% Notes at a redemption price of 110.25%. In the event of a change in control as specified in the Indenture governing the 10.75% Notes, the 10.75% Notes are redeemable at the option of the holders. The 10.75% Note Indenture contains certain covenants, including limits on the incurrence of additional indebtedness or liens, payment of dividends and redemption of shares. The effective interest rate for 1999 was 11.04% (1998 – 11.04%).

(c) 9.95% Senior Discount Notes:

The Company's 9.95% Senior Discount Notes (the "9.95% Notes") are due June 15, 2008, repayable in the amount of U.S. $971.0 million and bear interest at the issue price of U.S. $614.55 per U.S. $1,000 stated amount at maturity until June 15, 2003. Interest to June 15, 2003, accrues on the issue price but is not payable until maturity. Thereafter, interest will be payable in cash. The 9.95% Notes are unsecured and rank pari passu with other unsubordinated senior debt of the Company. The 9.95% Notes are redeemable at the option of the Company in whole or in part at any time on or after June 15, 2003 beginning at 104.975% of par value, declining to par value in 2006 plus accrued and unpaid interest. In addition, prior to November 1, 2000, in the event the Company receives net cash proceeds of not less than $50 million from certain equity issuances, it may use all or a portion of such proceeds to redeem up to 25% of the 9.95% Notes at a redemption price of 110.25%. The 9.95% Note Indenture contains certain covenants, including limits on the incurrence of additional indebtedness or liens, payment of dividends and redemption of shares. The effective interest rate for 1999 was 10.2% (1998 – 10.2%).

(d) 10.625% Senior Notes:

The Company's 10.625% Senior Notes (the "10.625% Notes") are due November 1, 2008. At any time on or after November 1, 2003, the Notes are redeemable at the option of the Company, in whole or in part, at redemption prices beginning at 104.915% of par value and declining to par in 2000 plus accrued and unpaid interest. 25% of the 10.625% Notes are also redeemable prior to November 1, 2001, upon an equity offering generating net cash proceeds of not less than $50.0 million, at a redemption price of 110.625% of par value, plus accrued and unpaid interest. The 10.625% Notes are unsecured and rank pari passu with all senior unsubordinated debt of the Company. The 10.625% Note Indenture contains certain covenants, including limits on the incurrence of additional indebtedness or liens, payment of dividends and redemption of shares.

(e) 7.65% Senior Notes:

The Company's 7.65% Senior Notes (the "7.65% Notes") are due on September 15, 2006 and are repayable in the amount of U.S. $500.0 million. The 7.65% Notes are redeemable, in whole or in part, at the option of the Company at a redemption price equal to the greater of (i) 100% of the principal amount and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted at a prescribed interest rate to the redemption date on a semi-annual basis plus accrued and unpaid interest, if any, to the date of redemption. Each holder of the 7.65% Notes has the right to require the Company to repurchase all or any part of such holder's 7.65% Notes in the event of a change in control of the Company, at a repurchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date. The 7.65% Notes are unsecured, subordinated to all existing and future secured indebtedness of the Company and rank pari pasu to existing unsecured indebtedness. The Indenture covering the 7.65% Notes contains certain covenants

including limits on sale/leaseback transactions or liens, the ability to subordinate certain intercompany debt and the ability of the Company to consolidate or merge with or into or transfer all or substantially all of its assets to another entity.

(f) 7.15% Senior Notes:

The 7.15% Senior Notes (the "7.15% Notes") are due September 23, 2004. Each holder of the 7.15% Notes has the right to require the Company to repurchase all or any part of such holder's 7.15% Notes in the event of a change in control of the Company at a repurchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest. The 7.15% Notes are unsecured and rank pari pasu with other unsubordinated senior debt of the Company. The Indenture covering the 7.15% Notes contains certain covenants including limits on sale/leaseback transactions, the incurrence of certain liens, the ability to subordinate certain intercompany debt and the ability to consolidate or merge with or into or a transfer all or substantially all of its assets to another entity.

(g) Capital lease obligations:

The following is a schedule, by year, of the future minimum lease payments for capital leases, together with the balance of the obligation as at December 31, 1999.

2000	$	5,675
2001		5,014
2002		3,457
2003		3,384
2004		3,384
Thereafter		24,049
Total minimum lease payments		44,963
Less imputed interest at rates varying from 4% to 11.9%		16,588
Balance of the obligations		28,375
Less current portion		2,741
	$	25,634

(h) Credit facilities:

On December 3, 1999, the Company entered into a credit agreement with a syndication of various financial institutions to provide the Company with the following credit facilities:

(i) A revolving term facility to a maximum of $525 million (or the equivalent U.S. dollar amount thereof) to be used to refinance vendor financing indebtedness of up to 90% of the cost of telecommunication assets, as defined, acquired by the Company; and

(ii) An operating facility to a maximum of $75 million (or the equivalent U.S. dollar amount thereof) to be used for working capital and general corporate purposes of which $25 million is available for letters of credit and $10 million is available for a swingline credit line.

Outstanding principal amounts under the facilities bear interest at the Canadian prime rate, the LIBOR rate or the market rate for bankers' acceptances, as applicable, plus an Applicable Margin, as defined, which is based on the Company's corporate credit rating. The facilities are secured by all of the assets of the Company and may be drawn at any time by the Company. The revolving term facility has scheduled principal repayments, including accrued interest, which begin on a quarterly basis on March 31, 2002 through June 30, 2006, when the facility is cancelled. The operating facility is due in full on June 30, 2006. The facilities include several financial and other covenants, such as restrictions on the Company's ability to create additional indebtedness, permit liens, sell assets, make investments or pay dividends. The financial covenants include the maintenance of certain prescribed levels of Consolidated Debt, as defined, to Consolidated EBITDA, as defined; Consolidated EBITDA to Cash Debt Service, as defined; Consolidated Senior Debt, as defined, to Total Capitalization, as defined; and Minimum Consolidated EBITDA.

As at December 31, 1999, no amounts have been drawn under these facilities.

NOTE 8

Minority interest:

The minority interest arose primarily from the June 1, 1999 acquisition by AT&T Corp. of approximately 31% of the Company's operation subsidiary, AT&T Canada Corp.

NOTE 9

Share capital:

(a) Authorized:

Common: Unlimited number of convertible Class A Voting Shares without nominal or par value, each Class A Share has one vote; unlimited number of Class B Non-Voting Shares without nominal or par value; and unlimited number of convertible Class C Non-Voting Shares without nominal or par value. Other than with respect to voting rights and conversion rights, the three classes of common shares have identical rights. Each Class A Voting Share may, under certain circumstances at the option of the holder, be converted into one Class B Non-Voting Share or Class C Non-Voting Share. Each Class C Non-Voting Share may, under certain circumstances at the option of the holder, be converted into one Class A Voting Share or Class B Non-Voting Share. The holders of Common Shares are entitled to receive dividends as determined by the Board of Directors, subject to the rights of the holders of the Preferred Shares. The holders of Common Shares are also entitled to participate equally in the event of liquidation of the Company, subject to the rights of the holders of the Preferred Shares.

Preferred: Unlimited number of Non-Voting Preferred Shares without nominal or par value. The Preferred Shares may be issued in one or more series. The Board of Directors of the Company may fix the number of shares in each series and designate rights, privileges, restriction, conditions and other provisions. The Preferred Shares shall be entitled to preference over any other shares of the Company with respect to the payment of dividends and in the event of liquidation of the Company.

Upon all the restrictions of the foreign ownership of voting shares being removed by the Canadian Radio-television and Telecommunications Commission, the Class B Non-Voting Shares shall be converted into Class A Voting Shares on a one-for-one basis.

(b) Issued:

	Number of shares *(in thousands)*			
Class	**Voting A**	**Non-Voting B**	**Non-Voting C**	**Total**
Common shares				
Balances, January 1, 1997	347	3,125	–	3,472
Share reorganization *(i)*	197	28,465	7,828	36,490
Consolidation *(ii)*	(272)	(15,795)	(3,914)	(19,981)
Conversion *(iii)*	(117)	3,706	(3,589)	–
Issued – options	–	20	–	20
Issued – public offering	–	5,625	–	5,625
Balances, December 31, 1997	155	25,146	325	25,626
Issued – options	–	671	–	671
Issued – public offering	–	6,542	–	6,542
Issued for acquisitions	–	12,725	–	12,725
Balances, December 31, 1998	155	45,084	325	45,564
Issued – options	–	1,115	–	1,115
Issued for acquisitions	–	220	–	220
Issued – warrants *(iv)*	–	172	–	172
Conversion *(v)*	–	325	(325)	–
Share split *(vi)*	155	46,645	–	46,800
Balances, December 31, 1999	**310**	**93,561**	**–**	**93,871**

Class	Amounts			
	Voting A	Non-Voting B	Non-Voting C	Total
Common shares				
Balances, January 31, 1997	$ 198	$ 1,773	$ –	$ 1,971
Share reorganization *(i)*	372	61,789	17,522	79,683
Conversions *(iii)*	(154)	16,313	(16,159)	–
Issued – options	–	20	–	20
Issued – public offering	–	118,566	–	118,566
Balances, December 31, 1997	416	198,461	1,363	200,240
Issued – options	–	9,847	–	9,847
Issued – public offering	–	259,965	–	259,965
Issued for acquisitions	–	458,000	–	458,000
Balances, December 31, 1998	416	926,273	1,363	928,052
Issued – options	–	16,283	–	16,283
Issued for acquisitions	–	10,745	–	10,745
Issued – warrants *(iv)*	–	1,617	–	1,617
Conversion *(v)*	–	1,363	(1,363)	–
Balances, December 31, 1999	**$ 416**	**$ 956,281**	**$ –**	**$ 956,697**

Warrants	Number	Amount
Issued on July 25, 1997 and balance at December 31, 1998 and 1997 *(iv)*	250,000	$ 3,429
Exercised for shares *(iv)*	(117,914)	(1,617)
Balances, December 31, 1999	**132,086**	**$ 1,812**

Class	Number of shares *(in thousands)*						
	A	A-1	B	B-1	C	C-1	Total
Preferred shares							
Balances, January 1, 1997	587	–	6,503	–	135	–	7,225
Issued for cash	–	2,933	157	18,346	–	7,828	29,264
Share reorganization *(i)*	(587)	(2,933)	(6,660)	(18,346)	(135)	(7,828)	(36,489)
Balances, December 31, 1997, 1998 and 1999	–	–	–	–	–	–	–

Class	Amounts						
	A	A-1	B	B-1	C	C-1	Total
Preferred shares							
Balances, January 1, 1997	$ 1,123	$ –	$ 12,431	$ –	$ 259	$ –	$ 13,813
Issued for cash	–	6,566	716	41,066	–	17,522	65,870
Share reorganization *(i)*	(1,123)	(6,566)	(13,147)	(41,066)	(259)	(17,522)	(79,683)
Balances, December 31, 1997, 1998 and 1999	$ –	$ –	$ –	$ –	$ –	$ –	$ –

(i) Share reorganization and exchange:

In conjunction with the Company's Initial Public Offering, the Company filed Articles of Amendment (the "Amendment") which effected a capital reorganization. The Company created four new classes of shares having an unlimited number of shares: Class A Voting Shares, Class B Non-Voting Shares, Class C Non-Voting Shares and Non-Voting Preferred Shares.

(ii) Share consolidation:

All Class A Voting, Class B Non-Voting and Class C Non-Voting Shares were consolidated on a one for two basis.

(iii) Share conversions:

As a condition to filing the Amendment, the following conversions also occurred:

(a) Conversion of 116,945 Class A Voting Shares into Class B Non-Voting Shares.

(b) Conversion of 3,589,155 Class C Non-Voting Shares into Class B Non-Voting Shares.

(iv) Warrants:

Warrants entitle the holder thereof to acquire 3.429 Class B Non-Voting Shares at an exercise price of U.S. $0.02 expiring August 15, 2007. The warrants were issued as part of the issue of the 12% Senior Notes described in note 7(a) and the amount of $3.4 million reflects the valuation of the warrants on the issue date.

(v) Share conversion:

In accordance with the plan of arrangement described in note 2(a), the 325,000 Class C Non-Voting Shares were converted into Class B Non-Voting Shares.

(vi) Share split:

On October 14, 1999, the Board of Directors and voting shareholders of the Company approved the subdivision on a two-for-one basis of the issued and outstanding Class A Voting Shares and Class B Non-Voting Shares of the Company.

(c) Share purchase options:

The Board of Directors has established two stock option plans under which options to purchase Class B Non-Voting Shares are granted to directors, officers and employees of the Company. Pursuant to the stock option plans, 16,800,000 Class B Non-Voting Shares have been reserved for options. These options were granted at exercise prices estimated to be at least equal to the fair value of Class B Non-Voting Shares, vest over a three-year period and generally expire five years from the date of grant. The option information below has been retroactively restated to reflect a two-for-one share split that occurred in 1999.

	Number of shares	Exercise prices per share	Weighted average exercise price
Outstanding, December 31, 1997	3,861,580		$ 4.39
Granted	3,845,934	$ 11.50 to 23.38	15.37
Cancelled	(343,066)	2.25 to 21.75	12.12
Exercised	(937,894)	0.50 to 15.85	3.27
Outstanding, December 31, 1998	6,426,554		10.60
Granted	6,109,104	23.75 to 58.25	40.52
Cancelled	(570,198)	2.25 to 56.50	31.93
Exercised	(1,946,820)	0.50 to 23.75	7.42
Outstanding, December 31, 1999	**10,018,640**	**$ 0.50 to 58.25**	**$ 28.17**

At December 31, 1999, 2,630,691 options (1998 – 1,813,652) were exercisable at a weighted average exercise price of $11.00 per share (1998 – $3.88).

The following table summarizes information concerning options outstanding at December 31, 1999:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life *(years)*	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 0.00 – 5.82	990,079	2.2	$ 3.74	796,220	$ 3.66
5.83 – 11.65	1,528,800	3.1	11.07	1,018,755	11.07
11.66 – 17.48	1,017,904	3.2	14.63	368,646	15.02
17.49 – 23.30	790,357	2.8	19.92	376,870	19.71
23.31 – 29.12	486,400	3.7	25.37	70,200	25.51
29.13 – 34.95	5,600	4.2	32.84	–	–
34.96 – 40.77	17,400	4.2	38.02	–	–
40.78 – 46.60	4,938,500	4.4	41.59	–	–
46.61 – 52.42	211,000	4.8	50.06	–	–
52.43 – 58.25	32,600	4.9	55.81	–	–

NOTE 10

Integration costs and provision for restructuring:

During 1999, the Company incurred integration costs and recorded a provision for restructuring and asset write-downs aggregating $157.8 million as a result of implementing certain initiatives required in order to consolidate the operations of the Company with those of AT&T LDS and ACC. The amounts are comprised of the following:

	1999	1998
(a) Integration costs	**$ 24,400**	$ 9,200
(b) Provision for restructuring	**97,804**	–
(c) Write-down of carrying value of certain assets	**35,586**	–
	$ 157,790	$ 9,200

(a) In 1999, the Company incurred integration costs associated with consolidating office locations, interconnecting networks and consolidating systems and network operations of the Company and AT&T LDS and ACC.

In 1998, the Company incurred integration costs associated with the integration of Rogers Telecom Inc. and included the costs of consolidating and integrating office locations, and network operation centres.

(b) The provision for restructuring includes amounts principally for employee severance and lease and other contract cancellation costs. The Company's initiatives will result in the termination of approximately 650 employees, primarily in operations, sales and marketing, with severance costs totalling $40.7 million. Severance of $21.6 million has been paid to 497 employees and charged against the liability as at December 31, 1999.

The lease and other contract cancellation costs of $48.9 million relate to excess space in various leased premises and to penalties incurred in connection with the termination of contracts with various resellers and alternate access facility providers.

The Company expects to substantially complete these initiatives by September 30, 2000 at which time, the remainder of the provision, totalling $75.1 million, is expected to be utilized.

(c) As a result of consolidating its operations, the Company has identified certain capital assets which will not be used in the consolidated operations and the carrying value of these assets is no longer supported by future cash flows. Accordingly, these capital assets have been written down to their net recoverable values.

NOTE 11

Income taxes:

The Company uses the liability method of accounting for income taxes. The tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	1999	1998
Future income tax assets:		
Debt and share issue costs	**$ –**	$ 2,345
Deferred pension asset	**4,077**	–
Future income tax deductions	**66,223**	3,555
Operating loss carryforwards	**856,727**	113,955
Future tax liabilities:		
Debt and share issue costs	**(2,599)**	–
Tax depreciation claimed in excess of depreciation booked	**(727)**	(62,860)
	923,701	56,995
Less valuation allowance	**(923,701)**	(56,995)
Net future income tax assets	**$ –**	$ –

The reconciliation of the tax provision for income taxes to amounts computed by applying federal and provincial tax rates to loss before minority interest and provision for income taxes is as follows:

	1999		1998	
Computed at combined statutory rate	**$ (56,152)**	**(45.00)%**	$ (92,329)	(45.00)%
Tax effect of:				
Expenses not deductible for income tax purposes	**9,914**	**7.94**	57	0.03
Income not taxable for income tax purposes	**(207,913)**	**(166.62)**	–	–
Large corporations tax	**4,964**	**3.98**	7,625	3.72
Change in valuation allowance	**254,151**	**203.68**	92,272	44.97
	$ 4,964	**3.98%**	$ 7,625	3.72%

At December 31, 1999, the Company has non-capital losses of approximately $1.943 billion, available to reduce future years' taxable income, which expire as follows:

2000	$ 361,300
2001	364,700
2002	23,300
2003	195,300
2004	201,400
2005	340,400
2006	221,200
2007	235,300

Certain amendments to tax filings may be made to avoid the expiry of losses that would otherwise expire in 2000.

NOTE 12

Employee benefits:

The Company has a number of defined benefit plans providing pension, other retirement and post-employment benefits to most of its employees.

The total expense for the Company's defined benefit plans is as follows:

	1999	1998
Plans providing pension benefits	**$ 3,578**	$ –
Plans providing other benefits	**576**	–

Information about the Company's defined benefit plans as at December 31, 1999, in aggregate, is as follows:

	Pension benefit plans	Other benefit plans
Accrued benefit obligation:		
Balance, beginning of year	$ 495,088	$ 6,437
Current service cost	7,064	127
Interest cost	30,630	406
Benefits paid	(40,073)	(213)
Actuarial gains	(51,049)	(792)
Participant contribution	2,164	–
Balance, end of year	$ 443,824	$ 5,965
Plan assets:		
Fair value, beginning of year	$ 512,590	$ –
Actual return on plan assets	45,350	–
Employer contributions	10,038	213
Employees' contributions	2,164	–
Benefits paid	(40,073)	(213)
Acquisitions/divestitures	(2,000)	–
Fair value, end of year	$ 528,069	$ –
Funded status – plan surplus (deficit)	$ 84,245	$ (5,965)
Unamortized net actuarial loss	(46,559)	(590)
Accrued benefit asset (liability)	37,686	(6,555)
Valuation allowance	(28,971)	–
Accrued benefit asset (liability), net of valuation allowance	$ 8,715	$ (6,555)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average assumptions as of December 31, 1999):

	Pension benefit plans	Other benefit plans
Discount rate	7.25%	7.25%
Expected long-term rate of return on plan assets	8.00%	–
Rate of compensation increase	3.50%	–

The Company's net benefit plan expense for the year ended December 31, 1999 is as follows:

	Pension benefit plans	Other benefit plans
Current service cost	$ 7,064	$ 127
Interest cost	30,630	406
Expected return on plan assets	(33,670)	–
Amortization of transitional obligation	(761)	43
Valuation allowance provided against accrued benefit asset	2,029	–
Curtailment gains	(1,714)	–
Net benefit plan expense	$ 3,578	$ 576

NOTE 13

Commitments and contingencies:

(a) Under the terms of its operating lease agreements for fibre optics maintenance, operating facilities, equipment rentals and minimum purchase commitments under supply contracts, the Company is committed to make the following payments for the years ending December 31, as follows:

2000	$ 233,796
2001	110,119
2002	91,475
2003	55,567
2004	43,673
Thereafter	233,745
	$ 768,375

(b) In the normal course of business the Company is subject to proceedings, lawsuits and other claims. Such matters are subjected to many uncertainties, and outcomes are not predictable with assurance. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters at December 31, 1999.

These matters could affect the operating results of any one quarter when resolved in future periods. However, the Company believes that after final disposition, any monetary liability or financial impact to the Company beyond that provided for at year-end would not be material to the annual consolidated financial statements.

(c) The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

NOTE 14

Financial instruments:

(a) Fair values of financial assets and liabilities:

The fair values of cash and short-term deposits, restricted investments, accounts receivable, accounts payable, accrued liabilities and accrued interest payable approximate their carrying values due to the short-term nature of these instruments.

The fair value of long-term debt, including the attached warrants, at December 31, 1999 was approximately $2,953.7 million (1998 – $1,828.4 million), based on current trading values.

The fair value of foreign currency options, cross currency swaps and forward contracts at December 31, 1999 was approximately $(76.9) million (1998 – $56.7 million), based on current trading values.

(b) Foreign currency risk:

The Company is exposed to foreign currency fluctuations on its U.S. dollar-denominated debt, cash and short-term deposits and restricted investments. Foreign currency risks are managed whenever possible by matching U.S. dollar-denominated assets with related liabilities through the use of financial instruments, including, from time to time, purchasing foreign currency options, cross currency swaps and forward exchange contracts. During the years ended December 31, 1999 and 1998, the Company purchased the following financial instruments to hedge the following financings:

(i) 10.75% Notes:

Foreign currency option which gives the Company the right to acquire U.S. $170.0 million at an exchange rate of Cdn. $1.435 to U.S. $1.00 on November 1, 2002; or on November 1, 2002, to enter into a cross currency swap which will have the effect of converting the U.S. dollar denominated interest payments from May 1, 2003 to November 1, 2007 to a rate of 11.25% on a notional Canadian dollar principal amount. The cross currency swap will also have the effect of converting the U.S. $170.0 million principal repayment to Canadian dollars at the lesser of the October 31, 2002 spot exchange rate or a rate of Cdn. $1.435 to U.S. $1.00. This option is accounted for as a hedge of the 10.75% Notes. The premium paid to purchase the option is being amortized over the period to November 2002. At December 31, 1999, the fair value of the option was $10.7 million.

(ii) 9.95% Notes:

Foreign currency option which gives the Company the right (a) to acquire U.S. $244.0 million at the current exchange rate between the Canadian and U.S. dollar on June 16, 2003; (b) to acquire U.S. $244.0 million at an exchange rate of Cdn. $1.515 to U.S. $1.00 on June 16, 2003; or (c) on June 16, 2003, to enter into a cross currency swap which will have the effect of converting the U.S. dollar denominated interest payments from December 15, 2003 to June 15, 2008 to a rate of 10.45% on a notional Canadian dollar principal amount. The cross currency swap will also have the effect of converting the U.S. $244.0 million principal repayment to Canadian dollars at the lesser of the June 2003 spot rate or a rate of Cdn. $1.515 to U.S. $1.00. This foreign currency option is accounted for as a hedge of the 9.95% Notes. The premium paid to purchase the options is being amortized over the period to June 2003. At December 31, 1999, the fair value of the option was $10.0 million.

Cross currency swaps under which the Company sold U.S. $446.1 million at rates varying between Cdn. $1.55 and Cdn. $1.4675 to U.S. $1.00 between October 16, 1998 and November 17, 1999 and received $671.2 million. The Company is obligated to purchase U.S. $725.9 million on June 15, 2008 at rates varying between Cdn. $1.55 and Cdn. $1.4675 to U.S. $1.00. At December 31, 1999, the fair value of the swaps was $(57.5) million.

(iii) 7.65% Notes:

Cross currency swaps under which the Company sold U.S. $500.0 million at rates varying between Cdn. $1.482 and Cdn. $1.4675 to U.S. $1.00 between October 15, 1999 and November 30, 1999 and received $737.0 million. The Company is obligated to purchase U.S. $500.0 million on September 15, 2006 at rates varying between Cdn. $1.482 and Cdn. $1.4675 to U.S. $1.00. At December 31, 1999, the fair value of the swaps was $(24.6) million.

(iv) All other financings:

Four forward exchange contracts under which the Company sold U.S. $450.0 million dollars at rates that vary between Cdn. $1.415 and Cdn. $1.547545 to U.S. $1.00. The Company was obligated to buy U.S. $450.0 million at rates that vary between Cdn. $1.415 and Cdn. $1.547545 to U.S. $1.00 on January 31, 2000 which was extended to March 31, 2000. At December 31, 1999, the fair value of the forward contracts was $(15.5) million.

(c) Interest rate risk:

The following table summarizes the Company's exposure to interest rate risk.

		Fixed interest rate maturing within			
December 31, 1999	**Floating rate**	**1 year**	**1 – 5 years**	**After 5 years**	**Non-interest bearing**
Financial assets:					
Cash and short-term deposits	**$ 289,331**	**$ –**	**$ –**	**$ –**	**$ –**
Restricted investments	**–**	**42,429**	**–**	**–**	**–**
Accounts receivable	**–**	**–**	**–**	**–**	**218,154**
Financial liabilities:					
Current liabilities	**–**	**2,741**	**–**	**–**	**485,122**
Long-term debt	**–**	**–**	**150,000**	**2,613,565**	**–**

		Fixed interest rate maturing within			
December 31, 1998	**Floating rate**	**1 year**	**1 – 5 years**	**After 5 years**	**Non-interest bearing**
Financial assets:					
Cash and short-term deposits	$ 394,848	$ 459,881	$ –	$ –	$ –
Restricted investments	–	47,081	42,526	–	–
Accounts receivable	–	–	–	–	29,302
Financial liabilities:					
Current liabilities	–	960	–	–	90,107
Long-term debt	–	–	1,870	1,880,554	–

(d) Credit risk:

The Company's financial instruments that are exposed to credit risk are cash and short-term deposits, restricted investments, accounts receivable and financial instruments used for hedging purposes. Cash and short-term deposits and restricted investments are on deposit at major financial institutions. Credit risk with respect to accounts receivable is limited due to the large number of customers to which the Company provides services. Credit risk on hedging instruments is limited as these transactions are only entered into with highly rated bank counter-parties.

During the years ended December 31, 1999 and 1998, no customers of the Company individually represented more than 10% of the Company's revenues.

The Company monitors revenue by product line on an enterprise-wide basis. In 1999, revenues by product line were: voice services revenue of $494.6 million (1998 – $26.8 million; 1997 – $0.2 million); data and transport revenue of $334.7 million (1998 – $44.6 million; 1997 – $5.5 million); and data and telecommunications equipment and services revenue of $37.4 million (1998 – $4.8 million; 1997 – $0.2 million).

NOTE 15

Related party transactions:

Services are exchanged between the Company and its shareholders and certain of their subsidiaries. These transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

Transactions with related parties were as follows:

	1999	1998
Revenue	**$ 49,584**	$ –
Expenses	**84,928**	–

Amounts due from and to the related parties are as follows:

	1999	1998
Accounts receivable	**$ 6,697**	$ –
Accounts payable	**10,110**	–

NOTE 16

Subsequent event:

Effective January 6, 2000, AT&T Canada Corp. acquired all of the common shares of TigerTel Inc., a company in the business of managing telecommunications services for large business customers and offering telecommunications services to business customers on a resale basis. The acquisition has been accounted for by the purchase method of accounting. Purchase consideration is $69.5 million.

NOTE 17

Reconciliation to accounting principles generally accepted in the United States:

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in Canada which, in the case of the Company, conform in all material respects with those in the United States, except as outlined below:

(a) Statements of operations:

The application of U.S. GAAP would have the following effect on loss for the year, deficit and basic loss per common share as reported:

Years ended December 31	1999	1998	1997
Loss for the year, Canadian GAAP	**$ (5,286)**	$ (212,801)	$ (36,449)
Stock-based compensation expense *(i)*	**(597)**	(597)	(2,390)
Loss for the year, U.S. GAAP	**(5,883)**	(213,398)	(38,839)
Shares subject to Put Agreement *(ii)*	**–**	–	(5,528)
Opening deficit, U.S. GAAP	**(260,726)**	(47,328)	(2,961)
Closing deficit, U.S. GAAP	**$ (266,609)**	$ (260,726)	$ (47,328)
Basic loss per common share under U.S. GAAP	**$ (0.06)**	$ (3.03)	$ (6.96)
Weighted average number of common shares outstanding *(in thousands)*	**92,457**	70,504	6,390

(i) Stock-based compensation expense:

For U.S. GAAP purposes, the Company has chosen to account for stock-based compensations using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". Accordingly, compensation expense for U.S. GAAP purposes has been recognized at the date of share purchases or option grants at the amount by which the quoted market price of the stock exceeds the amount an employee must pay to acquire the stock.

(ii) Shares subject to Put Agreement:

Prior to the Company's Initial Public Offering on December 10, 1997, the Company and certain holders of Preferred Shares entered into a Put Agreement whereby the shares subject to the Put Agreement would be classified as redeemable Preferred Shares under U.S. GAAP, presented on the balance sheet between long-term debt and shareholders' equity. Changes to the carrying amounts for U.S. GAAP purposes of shares subject to the Put Agreement were recorded as charges to deficit until they were exchanged pursuant to the Company's Initial Public Offering. Such adjustments were amortized over the period commencing when sufficient share or related transactions had occurred to establish a new estimated fair market value for purposes of establishing a redemption price, to 2001 when the Put option would have become exercisable. The estimated fair market value used for establishing the redemption price was $4.50 to July 25, 1997 and $8.00 per share thereafter to December 10, 1997.

The Put Agreement terminated on the Company's Initial Public Offering and share capital related to redeemable Preferred Shares, including the adjustment above, was included with share capital attributable to common shares for U.S. GAAP purposes.

(iii) Foreign exchange:

Under Canadian GAAP, unrealized gains and losses on translation of foreign currency denominated long-term monetary items which are not hedged, are deferred and amortized over the remaining lives of the related items. Under U.S. GAAP, gains or losses on translation of foreign currency denominated long-term monetary items which are not hedged are credited or charged to earnings. Under Canadian GAAP, all long-term debt has been fully hedged, thus, no foreign exchange gains or losses have been amortized.

In addition, foreign currency-denominated monetary assets which are designated as hedges of long-term debt for Canadian GAAP purposes would not be considered effective hedges for U.S. GAAP purposes and the foreign currency gain or loss on these items would be credited or charged to earnings. The combined net effect of these hedges not being effective is immaterial to these consolidated financial statements.

(b) Other disclosures:

(i) Stock-based compensation expense disclosure:

Had the Company determined compensation costs based on the fair value at the date of grant for stock options under SFAS No. 123, loss attributable to common shareholders and basic loss per share would have increased as indicated below.

The Company utilized the Black-Scholes option pricing model to estimate the fair value at the date of grant for options granted subsequent to the Company's Initial Public Offering. Under the Black-Scholes model, 6,085,000 options (1998 – 3,845,934) with a weighted average fair value of $16.20 per share (1998 – $7.25) were granted using the following assumptions; risk free rate of return of 5.5%, estimated volatility factor of 0.35, estimated option life of five years and no estimated dividend payments. In 1997, the minimum value method was used for options granted prior to the date of the Initial Public Offering, as there was no market for the Company's common shares in which to monitor stock price volatility. Under the minimum value method, 1,018,125 options were granted with a weighted average fair value of $1.96 per share using the following assumptions; risk free rate of return of 5.5%, estimated option life of 5 years, vesting period of three years and weighted average exercise price of $8.00 per share.

	1999	1998	1997
Loss attributable to common shareholders, U.S. GAAP – as reported	**$ (5,883)**	$ (213,398)	$ (44,367)
Loss attributable to common shareholders, U.S. GAAP – pro forma	**(49,219)**	(223,798)	(46,416)
Loss per share – as reported	**(0.06)**	(3.03)	(6.96)
Loss per share – pro forma	**(0.53)**	(3.18)	(7.26)
Weighted average number of shares outstanding *(in thousands)*	**92,457**	70,504	6,390

(ii) Accounts receivable:

Accounts receivable are net of an allowance for doubtful accounts of $20.8 million (1998 – $3.3 million) at December 31, 1999.

(iii) Comprehensive income:

The Company's comprehensive income as determined under SFAS No. 130 would not differ from loss for the year as shown above for all periods presented.

Recent accounting pronouncement:

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company has not assessed the impact on its financial position, results of operations or cash flows of adopting SFAS No. 133. The Company will be required to implement SFAS No. 133, as amended by SFAS No. 137 for its fiscal year ending December 31, 2001.

Board of directors

Purdy Crawford (2, 3, 4)
Chairman of the Board

James J. Meenan
Vice Chairman, Chief Executive Officer & Director

D. Craig Young
Vice Chairman, President & Director

Marc G. Fortier (2, 3)
Director

Stephen H. Halperin (1, 3)
Director

Alan D. Horn (1, 2)
Director

Philip R. Ladouceur (1)
Director

J. Mark A. MacDonald (1, 4)
Director

Jonathan M. Nelson (4)
Director

Edward S. Rogers (4)
Director

Paul J. Salem (2, 3)
Director

John D. Zeglis (4)
Director

(1) Member of Audit Committee
(2) Member of Human Resources and Compensation Committee
(3) Member of Corporate Governance Committee
(4) Member of Executive Committee

Leadership team

James J. Meenan
Vice Chairman & Chief Executive Officer

D. Craig Young
Vice Chairman & President

Ronald Close
President, Internet & E-Business Services

George E. Harvey
President, Business Services

Laurence (Larry) Hudson
President, Operations

Gary McCone
President, Wholesale & Marketing

Mark W. Senda
President, Local Services & Operations

David A. Lazzarato
Executive Vice President & Chief Financial Officer

Steven B. Chisholm
Senior Vice President & General Counsel

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Senior Vice President, Marketing

Greg L. McCamus
Senior Vice President, Sales

Judy L. McLeod
Senior Vice President, Human Resources

Donald H. Morrison
Senior Vice President, External Affairs

Ronald W. Preston
Senior Vice President, Network

Bruce M. Mann
Vice President, Investor Relations

Dean Prevost
Vice President, Strategic Planning & Business Development

Barb Richardson
Vice President, Integration

Rick Stern
Vice President, Treasurer

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Auditors:
KPMG LLP
Toronto, Ontario

Counsel:
Osler, Hoskin & Harcourt LLP
Toronto, Ontario

Stock and market information

	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	High	Low	Close	High	Low	Close	High	Low	Close	High	Low	Close
1999												
TEL.B (C$)	42.50	22.58	41.63	46.88	40.00	46.88	49.00	44.75	46.18	58.25	46.13	58.00
ATTC (US$)	28.250	14.938	27.500	32.031	26.500	32.031	32.781	30.063	31.406	42.75	31.375	40.250
1998												
TEL.B (C$)	21.00	11.75	18.00	21.25	16.88	20.50	25.00	13.95	13.98	25.50	12.00	25.50
ATTC (US$)	15.000	8.125	12.625	14.625	11.813	14.125	17.375	8.938	8.938	16.750	7.750	16.750
1997												
TEL.B (C$)	–	–	–	–	–	–	–	–	–	12.625	10.250	12.100
ATTC (US$)	–	–	–	–	–	–	–	–	–	8.906	7.500	8.693

All share prices reflect the October 28, 1999 2-for-1 stock split.

The common stock is listed for trading in Canada on the Toronto Stock Exchange under the symbol **TEL.B** and in the United States on the NASDAQ National Market System under the symbol **ATTC**.

The approximate high and low prices for the common stock are as reported by the Toronto Stock Exchange and the NASDAQ National Market System, and do not include retail markups, markdowns or commissions. Such prices do not necessarily represent actual transactions.

The Company's shares began trading publicly on December 3, 1997, coincident with its initial public offering. The 1997 high, low and close prices represent trading activity from December 3 through December 31, 1997.

The Company currently does not pay dividends.

Note for Investors:
This annual report includes statements about expected future events and financial results that are forward-looking in nature and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements provisions contained in the Private Securities Litigation Reform Act of 1995. The company cautions that actual performance will be affected by a number of factors, many of which are beyond the company's control, and that future events and results may vary substantially from what the company currently foresees. Discussion of the various factors that may affect future results is contained in the company's recent filings with the Securities and Exchange Commission, the Ontario Securities Commission, and SEDAR.

Annual Meeting:
The annual general meeting of shareholders will be held on Wednesday, April 26th, 2000, at 1:30 p.m. at the Royal York Hotel, Toronto, Ontario.

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AT&T CANADA

1999 Annual Report

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