Annual Report 2000

AT&T Canada

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Key Statistics [1]

($ in thousands except per share amounts)

Years ended December 31	**2000**	**1999**	**1998**
Revenue	**$ 1,505,378**	$ 866,721	$ 76,238
EBITDA [2]	**$ 58,571**	$ 26,283	$ (49,986)
Property, Plant and Equipment (Gross)	**$ 2,656,456**	$ 2,166,919	$ 870,819
Earnings/(Loss) Per Share	**$ (5.48)**	$ (0.06)	$ (3.02)
CLEC Networks Operational	**27**	18	11
CLEC Networks Under Development	**2**	4	6
Intracity Fibre Route Kilometres	**4,593**	4,364	3,513
Intercity Fibre Route Kilometres	**13,971**	13,248	–
Buildings Accessed	**3,290**	3,152	1,675
Central Office Collocations	**82**	57	25
Access Lines in Service	**444,633**	299,084	59,456
High-Speed Data Ports in Service	**24,401**	19,598	1,636
Local Voice Switches	**14**	11	8
Frame Relay Data Switches	**96**	81	11
ATM Data Switches	**656**	553	385

(1) The Company's results include those of MetroNet Communications for the periods shown, as well as those of AT&T Canada Corp., 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.

With over 18,500 route kilometres of local and long haul broadband fibre optic network and world class data, Internet, web hosting and E-Business capabilities, AT&T Canada provides a full range of integrated communications products and services to help Canadian businesses communicate and compete locally, nationally and globally.

Local Markets Served

Other Major Cities Within Wireless Spectrum

Internet Core Hubs

Internet Distribution Hubs

Internet Access POP's

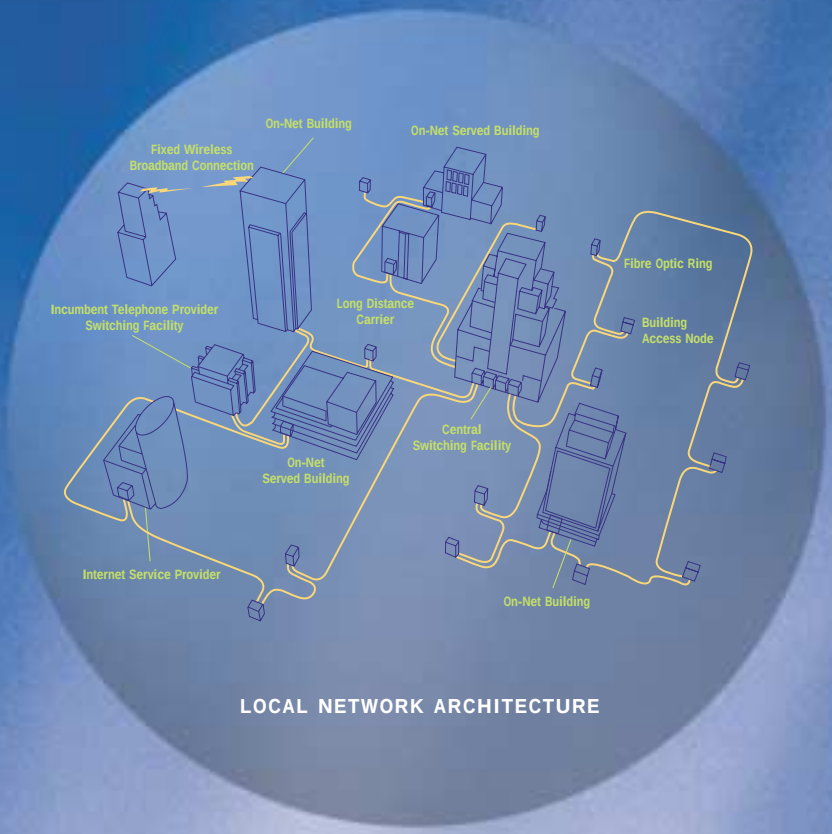
Broadband Network Access Points

U.S. Network Access Points

Level One Peering Gateways

Fibre Route

Broadband Fixed Wireless Spectrum (400MHz at 24GHz)



LOCAL NETWORK ARCHITECTURE

OUR NETWORK

Connecting to over 3,290 office buildings and 82 incumbent switching centres, the AT&T Canada network reaches 85% of all Canadian businesses.

Purdy Crawford,

Chairman of the Board

Message from the Chairman

The Canadian telecommunications industry continues its rapid evolution. Change brings opportunities. AT&T Canada is well positioned to capitalize on these opportunities. Over a very short period of time, we have built the country's largest competitive local exchange carrier (CLEC) and an emerging leader in Internet and E-Business solutions. In 2000, we implemented many changes to ensure AT&T Canada's continued leadership in the telecommunications industry as we continue to develop and market solutions to help Canadian businesses communicate and compete.

During the year, we made some changes in the composition of our Board. First, it was with regret and sincere gratitude that we bid farewell to long-standing Board members Marc Fortier and Mark MacDonald. Each made a significant contribution to the Board over the past several years and I would like to thank them for their efforts.

We are excited to have André Bureau and Steve Chisholm join us as members of the Board. André is an esteemed Canadian business leader who is Chairman of Astral Media Inc. and a former chairman of the Canadian Radio-television and Telecommunications Commission. Steve Chisholm is the former General Counsel of AT&T Canada and currently serves as Senior Vice President and General Counsel for Global Metro Networks, Ltd. We are very pleased to welcome our new members and look forward to their active participation and guidance.

This year we also implemented a planned transition of the senior leaders of our Company. John McLennan and Harry Truderung, two of the most recognized and accomplished telecommunications leaders in the country, joined us in May of 2000 to lead us forward in our evolution. They have revitalized the Company. Our employees are upbeat and thanks to them, our future looks bright.

John and Harry succeeded Jim Meenan and Craig Young who each played a significant role in assembling the assets we have in place today. Jim and Craig continue to play a key role on our Board. On behalf of the Board and our employees, I would like to express our sincere thanks to Jim and Craig for their leadership and vision.

I am very pleased with the achievements over the last year and excited about our capabilites to build even greater value for our shareholders, customers and employees. On behalf of the Board of Directors of the Company, I would like to extend our sincere thanks to our shareholders and debt holders for their continued support.

Purdy Crawford
Chairman of the Board of Directors

From left to right:

John T. McLennan,

Vice Chairman and CEO

Harry W. Truderung,

President and COO

Message to Shareholders

For AT&T Canada, the year 2000 was one that presented dramatic change, growth, challenge and opportunity as we operated for the first full year as an integrated entity following our 1999 strategic business combination.

We have succeeded in becoming a full service telecommunications company for Canadian business. We continued to build out our outstanding national fibre network and infrastructure assets in 2000 and extended our lead as the largest competitive local exchange carrier in Canada. We also successfully developed and acquired significant E-Business capabilities to complement our core telecommunications services.

Our revenue grew 74% in 2000 over 1999 to $1.5 billion. EBITDA grew to $58.6 million representing a 123% increase over the prior year. We have achieved 7 consecutive quarters of positive EBITDA as we progress further past the start up phase of our CLEC business and towards the full integration of the predecessor companies. We are confident that growth in our core business, process enhancements and strategic initiatives now underway will improve our financial growth and performance in 2001.

Portfolio Performance

As of the end of the year, we had activated local network and switching facilities in 27 cities across Canada with 2 additional cities currently under development. With over 444,633 access lines in service, AT&T Canada is one of the largest CLEC's in the world.

Over 3,290 business buildings are now connected to our national network. These on-net locations, combined with 82 collocated facilities in incumbent carrier switching centres, give us access to over 85% of the Canadian business market. The acquisition of point-to-multi-point wireless licences in 21 markets will allow us to expand our addressable market even further.

In 2001, we expect to see accelerated growth in local line sales as we execute plans to market local service bundles in on-net locations. We aim to aggressively increase penetration in the small and medium business markets through dedicated direct sales teams and expanded indirect channels.

The data services portfolio continues to provide strong growth and margins. This year saw many significant developments in our data services as we launched new services and service enhancements, including managed network service capabilities and a comprehensive set of Internet Protocol (IP) based data services branded

Business IP. Customer adoption of *Business IP* has been strong and the service is now in trials with AT&T Corp. to assess its use as a North American service standard.

Almost 14,000 route kilometres of fibre optic network, equipped with SONET OC-192 and the latest Dense-Wavelength Division Multiplexing electronics, connect our local facilities and provides intercity and cross border transport for our long distance and data services. The voice long distance market continues to be challenging with per minute rates continuing to fall. Strong growth in minutes of use, up 12.2% during 2000, off-set the revenue impact of these lower rates. By year-end we have seen some stabilization in the competitive pressure on long distance pricing. We are undertaking several initiatives to optimize our long distance pricing structures and costs. The overall contribution of long distance services to corporate revenue has dropped to less than 47% as we continue to focus expansion on higher growth, higher margin products and services.

During 2000, we integrated and fully re-branded the Internet units of the predecessor companies as AT&T Canada Internet and E-Business Services. This group experienced tremendous growth across its service portfolio, which includes the Internet access business with over 175,000 clients as well as its managed hosting, managed security and data centre businesses. Revenues for this group grew 147% in 2000 to over $129 million. With recent initiatives to roll out the full service portfolio across our national sales force and the ever-increasing demand for these services, we anticipate continued strong growth from this division.

In support of our core business, we added significant capability in the E-Business solutions market space through acquisition and organic growth. We acquired two companies, DMC Inc. and Brak Systems Inc., which offer E-Business and e-Security solutions to the financial services market and web-based transactional services for some of the highest volume users in the country.

In November of 2000, the Canadian Radio-television and Telecommunications Commission (CRTC) announced a long-awaited change in the manner in which contribution subsidies, designed to support local telephone service in high-cost areas, are calculated and collected. The essence of the decision was to spread the burden of the cost of supporting local telephone service in high cost areas across all telecommunications service providers including incumbents, CLEC's and wireless carriers – not just long distance carriers. The method of calculating the payment into the subsidy pool will be altered from a per-minute of long distance usage basis to a percentage of eligible revenue less deductions.

While some competitors have filed appeals to the CRTC decision, we believe that the implementation of this decision will proceed in a manner very similar to that outlined in the decision. We believe the new system of dealing with subsidies will result in a significant reduction in the contribution costs versus prior years for AT&T Canada. We also believe that it is a much more equitable approach to supporting the admirable goal of fair access to local telephone service for all Canadians.

Operational Focus

Throughout 2000 we made significant progress in enhancing our operations. Through a disciplined cross-functional team approach, we have simplified and improved the quality of our order entry, provisioning and billing processes. The competitive local service market remains a complex business, and while it is still relatively new in its development, we have made considerable progress both internally and working with the incumbent

carriers to simplify the myriad details and processes to reduce lead times and installation intervals. Through these process achievements, we have also been able to significantly increase our order capacity and throughput capabilites.

Driving the Need to Change

During the past year, we have faced accelerated technological change and an increasingly competitive and consolidated telecommunications industry in Canada. At the same time, the market for business telecommunications services in Canada continues to grow dramatically, with exciting expansion opportunities in the market for Internet, Web Hosting and E-Business solutions. We continue to work with our customers to build solutions for their evolving requirements for higher bandwidth, enhanced services and global reach to help them drive their businesses forward.

We look forward to growing with our customers and we are confident that we remain better positioned than any other competitive telecommunications provider in Canada. We view this environment as an exciting opportunity to drive change and deliver value to customers and shareholders. We have built unmatched network assets and a dedicated and talented team of employees. Our strategic alliances with AT&T Corp., British Telecom and Rogers AT&T Wireless afford us the unique opportunity to meet our customers ever-increasing global connectivity needs.

It is our goal to enhance and expand our core services while bundling these with new value-added services to become a much more valuable supplier to our customers.

An Exciting Path Ahead

2000 was a challenging year in the equity markets for telecommunications companies. The competitive local exchange sector felt particular pressure, with share values declining and many competitors retrenching. Our performance, while better than most in our peer group, was less than satisfactory. We are confident that we will be able to improve the performance of our Company in 2001 and continue to grow value for our shareholders through improved execution of our operating plans and accelerated growth in our new services. We also believe that the unique nature of our equity security, (see "Combination with AT&T LDS and ACC" in Note 2 to the Consolidated Financial Statements), with its firm and accreting floor price and the guaranteed buy-out by AT&T Corp. provides an exceptional opportunity for investors.

Bandwidth & Beyond

We will remain focused on building on our excellence as a transport and access carrier, but it is also imperative that, given the changing environment in Canada, we grow beyond that to maximize our network and infrastructure investments. We are making excellent progress in establishing leadership in fully managed services and E-Business applications, all supported by our core business. It is our strong belief that we can leverage our expansive infrastructure, layer on value-added services and continue to grow value for our shareholders and for our customers.

We would like to extend our sincere thanks to our dedicated team of employees who continue to help us build value for shareholders and customers every day.

John T. McLennan
Vice Chairman & Chief Executive Officer

Harry W. Truderung
President & Chief Operating Officer

2000 HIGHLIGHTS

- Deployed competitive local service in 9 cities, bringing the total to 27 cities.
- Acquired DMC Inc., a leader in the deployment of world class business-focused E-Business strategies and solutions to blue chip clients.
- Acquired Brak Systems Inc., which provides a complete suite of Internet and E-Business security services.
- Received a positive decision from the CRTC regarding contribution to the local subsidy payment system.
- Completed a successful US$250 million, 7.625 percent senior notes offering due 2005.
- Signed a five-year $160 million contract with TD Bank Financial Group to supply a broad array of managed communications services for the bank's 17 call centres.
- Launched one of North America's first ATM (Asynchronous Transfer Mode) Switched Virtual Circuit products.
- Launched ATM and ADSL Internet access services as well as a wholesale dial-up service designed for the ISP market segment.
- Partnered with IBM to launch Canada's first national network-based call centre solution.

- Signed multi-year, multi-million dollar wholesale service contracts with in-building communications providers.

- Launched IP-based end-to-end network services providing a complete suite of Internet Protocol network-based data and voice communications services.

- Launched IP-VPN (Internet Protocol Virtual Private Network) Service.

- Expanded the Internet Data Centre Services (IDCS) with the opening of a new Internet Data and Hosting Centre in Vancouver and the significant expansion of one of the existing Toronto Internet Data Centres.

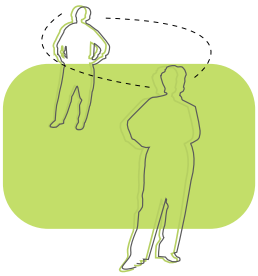
- Announced AT&T Canada Marketplace, an online business to business exchange that is the first in a series of planned services within the Application Service Provider market space.

- Announced a three-year, multi-million dollar contract to provide a full suite of data, Internet, local and long distance services to WestJet Airlines.

- Launched the first trial of the newly acquired 24 GHz broadband wireless Local Multipoint Communications System (LMCS) spectrum.

BUSINESS SERVICES

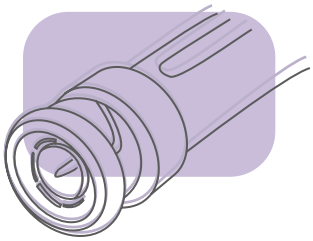
AT&T Canada's portfolio of services can meet the needs of businesses of all sizes whether a customer requires simple voice services, a complex managed national network solution or a sophisticated E-Business application.



Voice

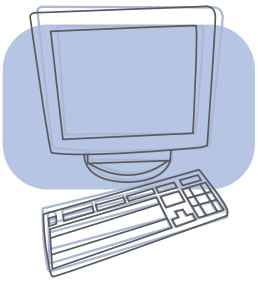
- Local Services
- Long Distance
- Toll-Free Services
- Audio Conferencing
- TeleManagement Tools
- Contact Centre Solutions

Data



- Business IP Services
- ATM
- Frame Relay
- Private Line
- Data VPN
- Transparent LAN
- Managed Network Services

Internet



- Dedicated Access
- Web Site Hosting
- Domain e-mail & Name Service
- Dial-up & Wholesale
- Data Centre Services

E-Business Solutions

- e-Solutions Services
- e-Security Services
- e-Business Architecture
- e-Strategy
- Intranets & Extranets

AT&T Canada

BUSINESS SERVICES EXCELLENCE

Over the past three years, AT&T Canada has rapidly assembled an unmatched business services portfolio and has built and maintained leading competitive market share in many of its core transport services. We have become the leading alternative provider of local and long distance voice and data services for Canadian businesses.

2000 was in many ways a year of re-calibration in several aspects of our core services as we worked on the advanced integration of our systems coming out of the strategic business combination. We focused on strategic and operational imperatives that will ensure profitable growth of these services and balance the needs of our customers, employees and shareholders.

We undertook a variety of initiatives to drive process efficiencies and customer service enhancements in our core businesses. We established several cross functional process improvement teams that are driving change in all aspects of our operations with particular emphasis on those processes that touch our customers and enable our sales force to perform to its maximum efficiency.

We are implementing three strategic imperatives in 2001 that will serve to grow our core business and differentiate AT&T Canada in the marketplace. The first is broadband access. Our goal is to become the premier integrated broadband services provider in Canada. This involves the full optimization of our network assets by deploying a flexible, cost effective "last mile" network access to connect us to any customer for any service. Using the most cost effective method, either one fibre connection, one DSL link or even one wireless LMCS link, we will deliver voice, data and Internet services to our customers. This will eliminate the need for multiple network access methods for multiple services using multiple technologies to connect the same customer. We intend to begin implementing this approach by the middle of 2001.

The second strategic imperative for our core business is a focus on Next Generation Data and IP services. While our broadband access imperative will give us high-speed access to our customers, our focus on IP Data services will allow us to install one IP enabled connection to run a customers voice, data, video streaming, fax services or remote file sharing. For our customers, this is essentially "plug and play" functionality with the quality of service levels, security, scalability and network monitoring capabilities that they are currently demanding. Our achievements in 2000 in launching our Business IP services and our Enterprise IP service give us a strong head start in implementing this imperative.

Our third strategic imperative is a renewed focus on the small and medium sized business market segment. While we have enjoyed success in this segment with over 100,000 small business customers currently using at least one of our services, we believe there is significant opportunity to further penetrate this segment with bundled "any distance" type service offerings, particularly in on-net locations. We intend to pursue this market with the speed and scale necessary to achieve our growth targets in the core business.

With continued focus on process and service improvements and successful execution of our strategic imperatives in 2001, AT&T Canada will further extend its lead over its competitors in its core telecommunications services and be well positioned to move up the value chain to become an even more valuable supplier to our customers.

BANDWIDTH & BEYOND

As we reinforce and strengthen the core of our business, we are also moving beyond the provision of bandwidth services to strengthen and expand the bond with our customers. We are moving closer to the core of our customers' business by providing a suite of Internet and E-Business solutions to assist them in communicating and competing.

Through both acquisition and internal development we have quietly assembled one of Canada's leading E-solutions service capabilities.

Of the many notable customer wins in 2000, two examples bring to life our strategy to develop this market space. For the TD Bank Financial Group, we developed a business solution for their call centres that included not only our core voice and data services, but also a managed networking solution. In addition to the traditional call centre services sold as part of this solution, AT&T Canada provided an added layer of intelligence that goes beyond transporting data to help TD Bank Financial Group manage its customer information to better meet customer needs in real time.

Our operating unit, DMC recently provided a complete E-solution for one of Canada's largest investment firms. This is a state-of-the-art securities management system that facilitates online transaction processing right from the origin of the order by the customer, through to reconciliation. It helps the firm increase accuracy and quality of transactions while reducing costs. This solution is another example of moving beyond being a bandwidth provider to becoming a full technology and business partner.

We also recently launched our first Application Service Provider (ASP) offering, AT&T Canada Marketplace. This online exchange utilizes the Internet and advanced technology to link buyers and sellers to reduce cycle times and generate significant savings in the purchasing process. AT&T Canada has worked with world class E-Business partners such as Ariba Inc., i2 Technologies and IBM Canada to build and implement this service.

We plan to aggressively grow our E-Business portfolio in 2001 and rapidly expand our existing web hosting facilities and managed security services capabilities. These initiatives are built on our core services and supported by our world class network infrastructure. Continued development of these E-Business and Managed Services will take us beyond our role as a carrier and build upon the value we bring to our customers.

FINANCIAL REVIEW

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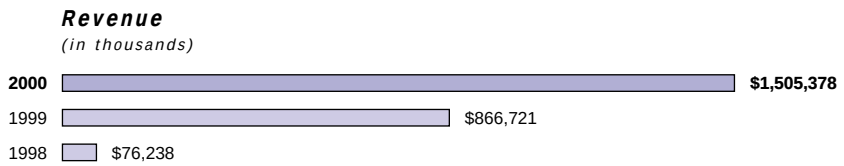
The following discussion and analysis should be read in conjunction with AT&T Canada Inc.'s Consolidated Financial Statements and the notes thereto and the other financial data appearing elsewhere herein.

Forward-Looking Statements

This discussion and analysis explains AT&T Canada Inc.'s (the "Company" or "AT&T Canada") financial condition and results of operations for the year ended December 31, 2000 compared with previous years, and is intended to help shareholders and other readers understand the dynamics of the Company's business and the key factors underlying its financial results. Certain statements in this Management's Discussion and Analysis ("MD&A") and Consolidated Financial Statements constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: competition, technological changes and changes to the regulatory environment.



Overview

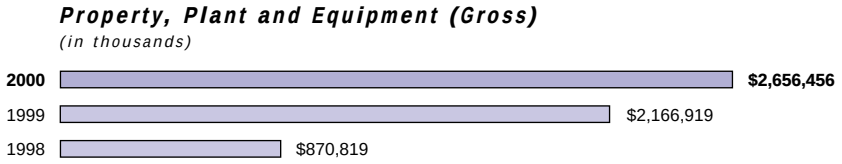
The Canadian telecommunications market is undergoing a structural shift in which traditional products and services, and the associated operating and economic models, are changing. Major changes that are currently shaping the evolution of the marketplace include intense price competition in long distance voice services; technological convergence to common Internet Protocol ("IP") based platforms; and rapidly increasing demand for broadband access, Internet and data services.

In 2000, the Company focused on balancing its efforts between the need to exploit new market opportunities and technologies, and on improving its key internal processes including selling and provisioning. Specifically, the Company has increased focus on marketing higher margin local, data, Internet and E-Business solutions while optimizing our legacy voice and data services. In 2000, a number of strategic acquisitions were made to broaden product and service offerings in the Company's Internet and E-Business solutions.

The Company's presence in the business long distance, local, data and Internet and E-Business solutions markets allows it to bundle a full spectrum of products. With its extensive local and long distance facilities and interconnection arrangements, the Company is capable of serving more than 85% of the Canadian business telecommunications market. It has the greatest reach of any competitive carrier. Its strategic partnerships and interconnection agreements with other international service providers, including AT&T Corp. and British Telecom, allow the Company to provide global voice, data, Internet and E-Business solutions to its business customers.

Significant Transactions

During 2000, the Company's acquisitions, which were primarily in the rapidly expanding Internet and E-Business solutions market, have broadened the Company's product portfolio to include solutions development and consulting and Internet security in addition to Internet access and



Internet data centre services. These acquisitions have leveraged the most extensive competitive telecommunications network and customer base in Canada and complemented it with a comprehensive suite of industry-leading managed security solutions critical to the protection and integrity of the customers' E-Business, intranet and Internet applications. The key acquisitions are described below.

On May 31, 2000, the Company acquired DMC Inc. ("DMC"), a Canadian based E-Business and web enablement leader specializing in the delivery of electronic commerce applications, enterprise scale Internet and Intranet-based solutions, distributed multi-tier client/server systems, and data warehouse solutions for Canada's blue chip industry leaders. DMC employs more than 220 Internet and E-Business professionals and has a client roster that includes many of Canada's largest and most successful businesses. This acquisition was key to the Company's long-term strategy to leverage its existing customer base with opportunities to sell E-Business solutions.

On April 10, 2000, the Company exercised its right to acquire the remaining 49% of the issued and outstanding capital stock of Netcom Canada Holding Inc. ("Netcom") that it did not already own. This purchase simplified the operating relationship between Netcom and the Company.

On March 20, 2000, the Company acquired Brak Systems Inc. ("Brak"), a leading Canadian based provider of E-Business security solutions, including security design consulting, installation, managed firewalls, data encryption, anti-viral filtering, intrusion detection and response, security administration and technical support.

On January 6, 2000, the Company finalized the acquisition of TigerTel Inc. ("TigerTel"), a Canadian business telecommunications provider that derives the bulk of its revenue from managing telecommunications services by outsourcing the planning, administration and support of the customers' telecommunications services on behalf of business customers.

On July 18, 2000, the Company reduced its ownership in Shared Technologies of Canada ("STOC"), from 70% to 15%, in exchange for cash proceeds and an ongoing strategic partnership with the purchaser to deliver telecommunication capability to the purchaser's building-centric relationship with Canadian small and medium business clients.

Strategic Business Combination

On June 1, 1999, MetroNet Communications Corp. ("MetroNet") and AT&T Corp. completed their previously announced strategic business combination ("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 AT&T Canada Corp. (formerly AT&T Canada Long Distance Services Company) which was held in trust and its 100% interest in ACC TelEnterprises Ltd. ("ACC"). Subsequent to the Strategic Business Combination, MetroNet changed its name to AT&T Canada Inc.

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 ended December 31, 1999 reflected 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 was approximately 69% owned by the public holding company AT&T Canada. 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.

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 has 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.

If by June 30, 2003, AT&T Corp. has not purchased the outstanding AT&T Canada shares, those shares would be sold through an auction process and AT&T Corp. would make whole the shareholders of AT&T Canada 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.

RESULTS OF OPERATIONS

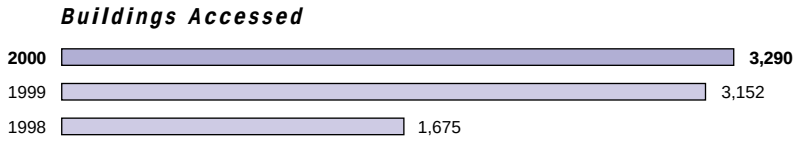
Year ended December 31, 2000 Compared to year ended December 31, 1999

(All dollar amounts are stated in thousands of Canadian dollars except where otherwise noted)

Key financial data[1]:

Years ended December 31	**2000**	1999	1998
Revenue			
Data	**$ 465,407**	$ 282,273	$ 38,489
Long Distance	**700,039**	401,191	11,410
Local	**177,424**	93,379	15,344
Internet and E-Business solutions	**129,865**	52,471	5,976
Other	**32,643**	37,407	5,019
Total Revenue	**$ 1,505,378**	$ 866,721	$ 76,238
Service Costs	**$ 1,034,860**	$ 586,761	$ 64,487
Gross Margin	**$ 470,518**	$ 279,960	$ 11,751
Gross Margin %	**31.3%**	32.3%	15.4%
Selling, General and Administrative Costs ("SG&A")	**$ 411,947**	$ 253,677	$ 61,737
EBITDA before integration costs and provision for restructuring	**$ 58,571**	$ 26,283	$ (49,986)

[1] *For the year ended December 31, 1999, the results include those of MetroNet for the entire period and those of AT&T Canada Corp. beginning June 1, 1999.*



Revenue

In 2000, the Company achieved an 11% share of the Canadian business telecommunications market from its data, long distance, local and Internet and E-Business solutions. During the year, the Company's proportion of revenues from data, local, Internet and E-Business and other services grew from 51% in the first quarter to 56% in the fourth quarter, with a corresponding decline in long distance services. During 2001, the Company will continue to focus on increasing revenue from its high growth, higher margin products in local, data and Internet and E-Business solutions.

The year-over-year increase in data revenue was mainly due to the Strategic Business Combination and growth in the Asynchronous Transfer Mode ("ATM") product, in the high speed data (MACH) product and in Data VPN Frame Relay (the Company's virtual private network product), partially offset by decreases in legacy private line data services. During 2001, the Company will seek to improve its data product mix by emphasizing higher margin VPN services.

The increase in long distance ("LD") revenue in 2000 over 1999 was mainly due to the Strategic Business Combination and the substantial growth in LD minutes, which were partially offset by lower prices from intense price competition. LD minutes increased by 12.2% from the first quarter 2000 to the fourth quarter 2000, while prices dropped by 11.6% during the same period. During 2001, the Company will leverage established relationships with its customers, including cross selling of new products and services.

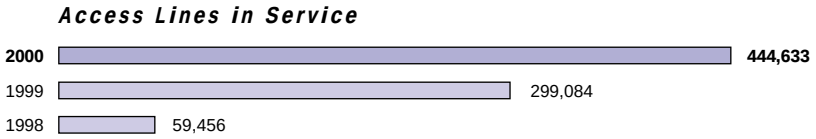
The year-over-year increase in local voice revenue was due to the Strategic Business Combination and the addition of 145,549 local access lines, which increased from 299,084 at the end of 1999 to 444,633 at December 31, 2000, representing an increase of 48.7%. During the year, the Company completed an additional 9 local city networks to achieve a footprint of 27 cities. The Company expects continued strong growth through 2001.

The increase in Internet and E-Business service revenue in 2000 over 1999 was due to the Company's strategic acquisitions and internal growth. With the acquisitions of DMC and Brak, the Company broadened its portfolio of Internet and E-Business products to include solutions consulting and Internet security, in addition to Internet access and Internet data centre services. Consistent with the Company's strategy to focus on higher growth products, the revenue mix of Internet and E-Business solutions increased from 6.2% in the first quarter 2000 to 10.4% in the fourth quarter 2000. The Company, with its established customer relationships, is positioned to be a strong competitor in this $1.1 billion market, which is growing by over 30% per year. During 2001, the Company will seek revenue growth through expansion of its current Internet and E-Business solutions portfolio, launch of new ASP (Application Service Provider) services, acquisitions and strategic alliances.

Other revenue was generated through call-center revenue and sale of telecommunications equipment.

Service Costs and Selling, General and Administrative Expenses

The Company's principal operating expenses consist of service costs; selling, general and administrative costs ("SG&A"); and depreciation. Service costs consist of expenses directly related to delivering service to customers



and servicing the operations of the Company's networks, expenses associated with fibre and other leases where the Company does not presently have its own facilities, local and long distance transport costs paid to other carriers, maintenance agreements, right-of-way fees, municipal access fees, hub site lease expenses, costs of service personnel and leases of utility space in buildings connected to the Company's networks. SG&A expenses include the costs of sales and marketing personnel, promotional and advertising expenses and corporate administrative expenses.

The year-over-year increase in Service Costs was due to the Strategic Business Combination, additional costs related to higher long distance minutes, which increased from 3.9 billion in 1999 to 8.0 billion in 2000, Service Costs associated with strategic acquisitions in 2000 and growth throughout the Company's product groups.

The year-over-year gross margin decrease of 1.0% was due primarily to significant repricing in the LD product portfolio partially offset by increases in higher margin products within local, data and Internet and E-Business solutions.

In 2001, the Company expects improved gross margins due to a decision of the CRTC on November 29, 2000 that has changed the contribution subsidy regime. Under the previous regime, only long distance service providers were paying into the subsidy system on a per-minute basis for every minute of traffic. As the Company's selling price decreased due to competitive pressures and the volume of minutes grew, the Company was required to pay increasing amounts into the subsidy system. Under the new contribution regime, the CRTC has significantly expanded the number of participants who are required to pay contribution and revised the basis of the subsidy to a percentage of eligible revenue less deductions. This new contribution regime is effective January 1, 2001. Certain telecommunications industry participants have appealed elements of the decision but they have not questioned the basic framework of the new regime. Consequently, the Company does not expect the result of the appeals to have a negative impact on the Company.

The Company also expects improved gross margins in 2001 due to its emphasis on higher growth, higher margin products and services, such as on-net local, VPN and Internet and E-Business solutions.

SG&A expenses increased primarily due to the Strategic Business Combination, strategic acquisitions, development of the sales force, increased uncollectible accounts as a result of the financial difficulties experienced by ISPs and resellers from intense competition, and investment in the development of new products, back office systems and infrastructure. In 2001, these investments are expected to create efficiencies that will allow greater volumes to be supported.

EBITDA[2]

Year-over-year EBITDA increased from $26,283 to $58,571. On a percentage of revenue basis, EBITDA grew from 3.0% in 1999 to 3.9% in 2000, the result of an improvement

[2] 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.

in the SG&A percentage of revenue of 1.9% (29.3% in 1999 and 27.4% in 2000) offset by the gross margin erosion of 1.0% of revenue. EBITDA is earnings before interest, taxes, depreciation and amortization and does not include the integration charges incurred in respect of the Strategic Business Combination.

Integration Costs and Provision for Restructuring

During 1999, the Company incurred integration costs and recorded a provision for restructuring and asset write-downs aggregating $157,790 as a result of implementing certain initiatives required to consolidate and integrate the operations for the Company with those of the former AT&T Canada Long Distance Services Company and ACC.

During 2000, the provision was reduced by $61,957 through payment of integration expenses of $51,708 and a reversal into income in the amount of $10,249. The reversal is the result of the negotiation of lower contract termination expenses than originally anticipated and the impact of changes in the real estate market that made it uneconomical to exit certain properties. The integration and restructuring activities were substantially completed in 2000. The remaining balance of $22,226 represents expenditures for lease and other contract cancellations related to excess space in various leased premises, and termination penalties of contracts with alternate access facility providers where settlement of penalties has not been mutually agreed to or the flow of payment remains outstanding.

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

Depreciation and Amortization

Depreciation and amortization expense increased to $402,551 for 2000 compared to $232,782 for 1999. The increase was due to the full year amortization of goodwill associated with the Strategic Business Combination and the Company's strategic acquisitions in 2000. In addition, there has been an increase in the level of depreciation due to the Company's capital spending program.

Interest Income and Expense

Interest income decreased from $35,070 in 1999 to $17,243 in 2000. The decrease of $17,827 was due to lower average cash and short-term deposits versus the prior year as the Company continues to build out its broadband network.

Interest expense increased from $259,589 in 1999 to $319,046 in 2000. Of the interest expensed during the year, $165,362 represented cash interest payments, $125,916 was accreted on the respective notes, and the remaining $27,768 was accrued interest. The increased expense in the year of $59,457 or 22.9% was due to interest on the 7.625% Notes issued in March 2000, a full year of interest on the 7.65% and 7.15% Notes issued in September 1999 and interest on advances from the credit facility during the year. During the year, the Company capitalized interest of $6.9 million ($3.7 million in 1999).

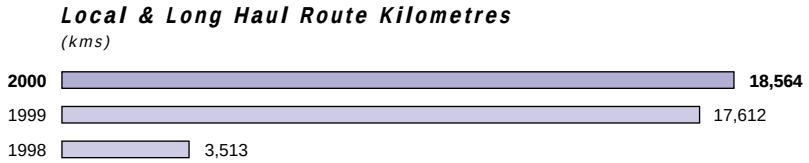
Other Income

Other income in 2000 was $13,739 compared to $1,998 in 1999. This resulted mainly from the disposition of a portion of the Company's ownership in STOC as previously described.

Liquidity and Capital Resources

Cash Flow from Operating Activities

During 2000, the Company reported net cash used in operating activities of $259,288. Included in this amount is a change in non-cash working capital of $162,455, which is comprised of payments made in 2000 for 1999 capital accruals of $67,227 and integration expenses of $51,708, and amounts necessary to support growth across all major product groups. The balance represents interest paid of $165,362 offset by cash flow generated by the Company's business activities in the amount of $68,529.



Capital Expenditures

The continued development of the Company's business and the build out of its networks in its target markets has and will continue to require significant capital spending. The Company's strategy is to build high capacity networks with broad market coverage, which increases its level of capital expenditures and operating losses during the development phases. The Company believes that ownership of the high capacity networks will enhance its future financial performance and profitability.

Expenditures on property, plant and equipment during 2000 totaled $500,113 compared to $724,409 for 1999. The lower spending level in 2000 represents the substantial completion during the year of the Company's local services network. In 2001, the Company's capital spending program will focus on the development of its broadband IP network to support its introduction of new data, Internet and E-Business solutions, information technology infrastructure and growth from customer demand.

Liquidity

The Company required cash of $870,469 in 2000 to fund operations, capital spending and corporate development activities. This requirement was funded with the proceeds from the U.S. $250,000 of 7.625% Senior Note issued on March 10, 2000; a $270,000 draw from the Senior Credit Facility; cash on hand; proceeds from the issuance of equity for stock options exercised and proceeds from the partial sale of the previously mentioned investment in STOC.

In 2001, the Company will need additional capital to fund its capital spending program and its operating and working capital requirements. The terms of certain debt agreements specify that new debt can only be used to fund up to 90% of capital asset additions with the balance to be funded from operations and other sources. The Company expects that its capital expenditures will be funded through the issuance of new debt and advances under its revolving term facility. The Company expects to meet its operating and working capital requirements from cash on hand, advances under its operating facility and the proceeds from an accounts receivable securitization. The Company is confident that it will be successful in obtaining capital from these sources. However, there can be no assurance that sufficient additional financing will be available to the Company or, if available, that it can be obtained on acceptable terms or within the limitations contained in existing financing agreements.

The Company has issued significant amounts of U.S. dollar-denominated debt and is therefore exposed to the risk of fluctuations in the relationship between the value of Canadian and U.S. dollars. At December 31, 2000, the U.S. dollar denominated debt amounted to $2.1 billion (Cdn $3.2 billion). To hedge its foreign currency exposure, the Company has a variety of financial instruments including foreign currency options, cross currency interest rate swaps and forward exchange contracts. At December 31, 2000, the Company had hedged 65.4% of its 2001 cash debt service requirements and 76.5% of its cash debt service requirements to 2008.

Credit Rating

Standard and Poor's ("SP"), Moody's and Dominion Bond Rating Service ("DBRS") have provided the Company with investment grade credit ratings. SP affirmed their

BBB rating of the Company on November 13, 2000, while the ratings from Moody's and DBRS are Baa3 and BBB, respectively.

Risks & Uncertainties

Competition

The Company faces, and expects to continue to face, intense competition in all of its markets for its existing and planned services from, among others, the incumbent local exchange carriers, new entrants in the competitive local exchange business, competitive long distance providers, Internet service providers and Centrex resellers.

Technology Changes

The telecommunications industry is subject to rapid and significant changes in technology with related changes in customer demands, including the need for new products and services at competitive prices. The Company's success will be impacted by its ability to anticipate, invest in and implement new technologies with the levels of service and prices that customers demand. Although the Company invests in what it currently views as the "best technology" available, there can be no assurance that the Company's technologies will satisfy future requirements of customers and that the Company will not have to make additional capital investments to upgrade or replace its existing technology.

Regulatory Environment

The Company is subject to regulation by Canada's telecommunications regulatory authority, the CRTC, pursuant to the provisions of the Telecommunications Act and, to a lesser extent, the Radiocommunication Act, administered by Industry Canada. The government has a stated objective of achieving sustainable competition in the telecommunications industry. However, there can be no assurance regarding the impact on the Company of any future rulings of either the CRTC or Industry Canada.

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.

Key financial 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 Expenses	**$ 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 continued to cause extreme price pressures. However, the impact was 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.

Service Costs and Selling, General and Administrative 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 was 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 related to the Company's continued growth of voice services and 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 was 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 significantly increased due to the goodwill related to the acquisitions of Rogers Telecom Inc., Netcom Canada Holding Inc. and the Strategic Business Combination transaction. In addition, there was an increase in the level of depreciation due to the amount of network equipment and computer equipment the Company placed into service.

Interest Income and 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 related 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 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 and 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.

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 $157,790 as a result of implementing certain initiatives required to consolidate and integrate the operations for the Company with those of AT&T Canada Long Distance Services and ACC. Integration costs totaling $24,400 in 1999 were associated with consolidation of systems, and network operations, and with interconnection of networks. During 1998, integration costs of $9,200 were associated with consolidation of network operations centers and office locations of the Company with those of Rogers Telecom Inc.

During 1999, the restructuring provision included primarily amounts for employee severance of $40,700 and lease and other contract termination costs of $48,900. In addition, certain capital assets which would not be used in the consolidated operations were written down to net recoverable values. The assets related primarily to redundant financial and billing systems.The write down amount was $35,586.

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 arose 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 Combination) of $26,283 for the year ended December 31, 1999, an increase 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 reflected the Company's increasing ability to generate revenue in its operational cities at a greater rate than it increased 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'' operating results. However, it is not intended to represent cash flow or results of operations in accordance with Canadian or U.S. GAAP.

Statement of Corporate Governance Practices

The Company and the Board recognize the importance of corporate governance to the effective management of the Company and to its Shareholders and other stakeholders, and have designed the Company's systems of corporate governance accordingly. The Board is responsible for the overall stewardship of the Company including monitoring the development and implementation of the Company's strategic plan. The Board also considers all fundamental decisions relating to the business and affairs of the Company. The Board reviews the identifiable risks of the Company and the systems that have been put in place to manage such risks, as well as the integrity of the Company's internal control and management information systems.

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 shareholder agreement among the Company and certain of its principal shareholders, as well as with a view to effective corporate governance. The shareholder agreement provides certain principal shareholders with representation on the Board and provides for two directors to represent the interests of public shareholders.

The Board has established four committees to assist in carrying out its responsibilities. The Human Resources/Compensation Committee is comprised of five directors who meet periodically to consider and approve human resource development matters, succession plans and compensation plans for all officers and employees. The Audit Committee consists of five directors and is responsible for overseeing the implementation and operation of the Company's systems of internal controls and financial reporting and for ensuring 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 on matters requiring input from the Board. The Corporate Governance Committee consists of five directors and is responsible for, among other things, developing and monitoring the governance practices of the Board and evaluating the performance of the Board as a whole, its committees and its individual members.

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.

John T. McLennan,
Vice Chairman & CEO

Harry W. Truderung,
President & COO

David A. Lazzarato
Executive Vice President & CFO

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of AT&T Canada Inc. as at December 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flows for each of the years in the three year period ended December 31, 2000. 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, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three year period ended December 31, 2000 and shareholders' equity as at December 31, 2000 and 1999 to the extent summarized in note 20 to the consolidated financial statements.

KPMG LLP

Chartered Accountants

Toronto, Canada January 29, 2001

Consolidated Balance Sheets

(In thousands of Canadian dollars) *December 31, 2000 and 1999*		**2000**		1999
Assets				
Current assets:				
Cash and short-term deposits *(note 3(a))*	**$**	**68,587**	$	289,331
Restricted investments *(note 3(b))*		**–**		42,429
Accounts receivable		**242,161**		218,154
Other current assets		**12,922**		14,124
		323,670		564,038
Property, plant and equipment *(note 4)*		**2,120,659**		1,924,394
Goodwill *(note 5)*		**1,705,155**		1,547,947
Deferred pension asset *(note 12)*		**10,626**		8,715
Deferred foreign exchange		**40,853**		–
Other assets *(note 6)*		**112,691**		121,698
	$	**4,313,654**	$	4,166,792
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	**$**	**78,961**	$	85,821
Accrued liabilities		**270,640**		366,740
Accrued interest payable		**43,589**		40,240
Income taxes payable		**3,655**		761
Current portion of long-term debt *(note 7)*		**2,210**		2,741
		399,055		496,303
Long-term debt *(note 7)*		**3,628,465**		2,763,565
Other long-term liabilities		**26,581**		27,678
Deferred foreign exchange		**–**		73,960
Minority interest *(note 8)*		**–**		104,274
Shareholders' equity *(note 9):*				
Common shares		**1,039,065**		956,697
Warrants		**1,192**		1,812
Deficit		**(780,704)**		(257,497)
		259,553		701,012
	$	**4,313,654**	$	4,166,792

Commitments and contingencies *(note 13)*
Reconciliation to accounting principles generally accepted in the United States *(note 20)*

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Alan D. Horn
Director

D. Craig Young
Director

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

Years ended December 31, 2000, 1999 and 1998	**2000**	1999	1998
Revenue	**$ 1,505,378**	$ 866,721	$ 76,238
Expenses:			
Service costs	**1,034,860**	586,761	64,487
Selling, general and administrative	**411,947**	253,677	61,737
	1,446,807	840,438	126,224
Earnings (loss) before interest, taxes, depreciation, amortization and integration costs	**58,571**	26,283	(49,986)
Integration costs and provision for restructuring *(note 10)*	**(10,249)**	157,790	9,200
Earnings (loss) before interest, taxes, depreciation and amortization	**68,820**	(131,507)	(59,186)
Depreciation and amortization	**402,551**	232,782	54,668
Loss from operations	**(333,731)**	(364,289)	(113,854)
Other income (expense):			
Interest income	**17,243**	35,070	36,659
Interest expense	**(319,046)**	(259,589)	(127,981)
Gain on sale of minority interest *(note 2)*	**–**	462,028	–
Other income	**13,739**	1,998	–
	(288,064)	239,507	(91,322)
Loss before minority interest and provision for income taxes	**(621,795)**	(124,782)	(205,176)
Minority interest *(note 8)*	**104,274**	124,460	–
Provision for income taxes *(note 11)*	**5,686**	4,964	7,625
Loss for the year	**(523,207)**	(5,286)	(212,801)
Deficit, beginning of year	**(257,497)**	(252,211)	(39,410)
Deficit, end of year	**$ (780,704)**	$ (257,497)	$ (252,211)
Loss per common share	**$ (5.48)**	$ (0.06)	$ (3.02)
Weighted average number of common shares outstanding (in thousands)	**95,561**	92,457	70,504

See accompanying notes to consolidated financial statements.

(In thousands of Canadian dollars) *Years ended December 31, 2000, 1999 and 1998*	**2000**	1999	1998
Cash provided by (used in):			
Operating activities:			
Loss for the year	**$ (523,207)**	$ (5,286)	$ (212,801)
Adjustments required to reconcile loss to cash flows from operating activities:			
Depreciation and amortization	**402,551**	232,782	54,668
Accretion of Senior Discount Note interest	**125,916**	118,735	67,458
Amortization of debt issue costs	**17,103**	–	–
Write-down of networks and equipment	**–**	35,568	–
Gain on sale of minority interest	**–**	(462,028)	–
Minority interest	**(104,274)**	(124,460)	–
Gain on sale of Shared Technologies *(note 2(e))*	**(13,011)**	–	–
Other	**(1,911)**	(10,230)	8,978
Change in non-cash working capital *(note 17)*	**(162,455)**	47,325	(1,535)
Net cash used in operating activities	**(259,288)**	(167,594)	(83,232)
Investing activities:			
Acquisitions, net of cash acquired	**(197,867)**	31,362	(610,509)
Disposition of Shared Technologies *(note 2(e))*	**17,656**	–	–
Additions to property, plant and equipment	**(500,113)**	(724,409)	(373,940)
Additions to property, plant and equipment included in accrued liabilities	**27,878**	95,105	–
Decrease (increase) to other assets	**(1,164)**	12,145	(12,286)
Decrease to restricted investments	**42,429**	47,178	41,502
Change in non-cash working capital	**–**	–	(18,676)
Net cash used in investing activities	**(611,181)**	(538,619)	(973,909)
Financing activities:			
Issue of share capital, net of issue costs	**36,983**	26,424	269,495
Warrants	**(620)**	(1,617)	–
Issues of long-term debt	**634,350**	869,730	1,221,984
Debt issue costs	**(5,234)**	(6,481)	(33,807)
Increase (decrease) in other long-term liabilities	**(12,700)**	2,605	–
Issue of 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	**652,779**	145,149	1,419,401
Effect of exchange rate changes on cash	**(3,054)**	(4,334)	36,744
Increase (decrease) in cash and short-term deposits	**(220,744)**	(565,398)	399,004
Cash and short-term deposits, beginning of year	**289,331**	854,729	455,725
Cash and short-term deposits, end of year	**$ 68,587**	$ 289,331	$ 854,729

See accompanying notes to consolidated financial statements.

(Tabular amounts in thousands of Canadian dollars, except per share amounts)
Years ended December 31, 2000, 1999 and 1998

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 Corp. (formerly 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 subsidiaries the most significant of which is 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 and E-Business solutions to businesses in Canada.

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 20.

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:

Revenue on long distance, and other usage based services and products is recognized based upon minutes of traffic processed. Revenue on local, data and other products and services is recognized upon delivery in accordance with contract terms including customer acceptance. Revenue from technical support is recognized over the term of the contract during which the support services are rendered. Revenue on multiple element arrangements is allocated to each element based on the relative fair value of the elements.

(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 acquisitions is recorded at the date of acquisition and is amortized on a straight-line basis over its estimated useful life of 5 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 with 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 10 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 terms 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 enacted or substantively enacted tax laws and 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 laws and rates is recognized as part of the provision for income taxes in the period that includes the enactment date (or the period in which the change in rates are 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, 2000, 1999 and 1998 would have an anti-dilutive effect on loss per common share.

(n) Stock option plans:

The Company has two stock option 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.

2. ACQUISITIONS AND DISPOSITIONS:

2000

(a) Acquisition of TigerTel Inc.:

On January 6, 2000, the Company acquired all of the issued and outstanding shares of TigerTel Inc. (“TigerTel”), a Canadian business telecommunications provider for $70.0 million in cash. The acquisition has been accounted for by the purchase method of accounting and the results of operations included from the date of acquisition.

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

Current assets	$	10,373
Capital assets		7,093
Other assets		694
Goodwill		70,032
		88,192
Current liabilities		11,337
Long-term debt		6,875
		18,212
Purchase price	$	69,980

(b) Acquisition of Brak Systems Inc.:

On March 20, 2000, the Company acquired all of the issued and outstanding shares of Brak Systems Inc. ("Brak") for $30.2 million in cash. Brak is a Canadian Internet security company. The acquisition has been accounted for by the purchase method of accounting and the results of operations included from the date of acquisition.

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

Current assets	$	4,044
Capital assets		548
Other assets		990
Goodwill		29,554
		35,136
Current liabilities		4,708
Long-term debt		202
		4,910
Purchase price	$	30,226

(c) Acquisition of Netcom Canada Holding Inc.:

On April 10, 2000, the Company exercised its right to acquire the remaining 49% of issued and outstanding shares of Netcom Canada Holding Inc. ("Netcom"), an Internet service provider for U.S. $46.2 million (Cdn. $67.5 million) in cash. Prior to the acquisition, the Company held 51% of the issued and outstanding shares of Netcom. The acquisition has been accounted for by the purchase method of accounting and the results of operations included from the date of acquisition.

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

Current assets	$	6,192
Other assets		5,545
Goodwill		66,892
		78,629
Current liabilities		11,157
Purchase price	$	67,472

On March 16, 1999, the Company acquired 51% of the issued and outstanding shares of Netcom. 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

(d) Acquisition of DMC Inc.:

On May 31, 2000, the Company acquired all of the issued and outstanding shares of DMC Inc. ("DMC"). DMC is a Canadian Business specializing in the deployment of business-focused Internet and E-Business strategies and

solutions. 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 of $95.5 million was funded by a combination of the issuance of 769,231 of the Company's Class B Non-Voting Shares priced at market on date of acquisition and $50 million in cash, $25 million of which is held in escrow until May 31, 2001, pending attainment of certain specified performance targets.

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

Current assets	$	3,993
Capital assets		501
Goodwill		92,309
		96,803
Current liabilities		1,308
Purchase price	$	95,495

(e) Shared Technologies of Canada:

On July 18, 2000, the Company reduced its ownership in Shared Technologies of Canada ("STOC") from 70% to 15%. Proceeds on disposition were $16.5 million: $13.6 million received in cash and a receivable of $2.9 million recorded. STOC also repaid intercompany loans owing of $4.5 million. The disposition generated a gain on sale of $13.0 million before income taxes. The remaining 15% investment in STOC, still held by the Company, is accounted for by the cost method of accounting.

1999

(f) 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.

Effective June 30, 2000, the minimum $37.50 per share price began to 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 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 $744.6 million, which represents the value attributed to the 69% interest in AT&T LDS and ACC, including acquisition costs of $34.7 million, 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

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 acquisitions of TigerTel, DMC, Brak and Netcom as if these transactions had occurred on January 1, 2000 and January 1, 1999, respectively:

		2000		1999
Revenue	**$**	**1,517,091**	$	1,456,893
Expenses:				
Service costs		**1,041,041**		993,855
Selling, general and administrative expenses		**417,633**		426,428
		1,458,674		1,420,283
Earnings before interest, taxes, depreciation, amortization and integration costs		**58,417**		36,610
Integration costs and provision for restructuring		**(10,249)**		157,790
Earnings (loss) before interest, taxes, depreciation and amortization		**68,666**		(121,180)
Depreciation and amortization		**411,983**		333,814
Loss from operations		**(343,317)**		(454,994)
Other income (expense):				
Interest expense, net		**(301,803)**		(242,828)
Gain on sale of minority interest		**–**		462,028
Gain on sale of residential business		**–**		29,349
Other income		**13,774**		(801)
		(288,029)		247,748
Loss before minority interest and provision for income taxes		**(631,346)**		(207,246)
Minority interest		**101,983**		121,523
Provision for income taxes		**5,696**		6,660
Loss for the year	**$**	**(535,059)**	$	(92,383)
Loss per common share	**$**	**(5.55)**	$	(0.99)

This financial information has not been adjusted to give effect to the disposition of STOC on July 18, 2000.

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.

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, 2000 and 1999 are $19.6 million (U.S. $13.1 million) and $71.7 million (U.S. $49.7 million), respectively, and within restricted investments at December 31, 1999 $42.4 million (U.S. $29.4 million).

(b) Restricted investments:

		2000		1999
Restricted securities	**$**	**–**	$	42,429
Less current portion		**–**		42,429
	$	**–**	$	–

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 matured 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 were pledged as security for the benefit of the holders of the 12.0% Senior Notes.

4. PROPERTY, PLANT AND EQUIPMENT:

2000		**Cost**		**Accumulated depreciation**		**Net book value**
Telecommunications facilities and equipment	**$**	**1,800,550**	**$**	**290,287**	**$**	**1,510,263**
Land and buildings		**152,727**		**24,794**		**127,933**
Other capital assets		**547,311**		**168,470**		**378,841**
Equipment under capital leases		**28,756**		**5,318**		**23,438**
Leasehold improvements		**27,780**		**8,834**		**18,946**
Application software		**99,332**		**38,094**		**61,238**
	$	**2,656,456**	**$**	**535,797**	**$**	**2,120,659**

1999		Cost		Accumulated depreciation		Net book value
Telecommunications facilities and equipment	$	1,481,644	$	124,677	$	1,356,967
Land and buildings		114,697		10,054		104,643
Other capital assets		466,091		88,065		378,026
Equipment under capital leases		27,199		1,405		25,794
Leasehold improvements		14,275		2,907		11,368
Application software		63,013		15,417		47,596
	$	2,166,919	$	242,525	$	1,924,394

As of December 31, 2000 and 1999, property, plant and equipment include $48.3 million and $137.4 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 2000 amounted to $6.9 million (1999 - $3.7 million) and has been calculated using the Company's weighted average cost of borrowing of 10.773% (1999 - 9.674%) applied to the monthly amount expended in networks in progress that are not in service.

5. GOODWILL:

2000	**Cost**	**Accumulated amortization**	**Net book value**
Goodwill	**$ 1,870,112**	**$ 164,957**	**$ 1,705,155**

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

6. OTHER ASSETS:

2000	**Cost**	**Accumulated amortization**	**Net book value**
Debt issuance costs	**$ 71,146**	**$ 18,654**	**$ 52,492**
Option premiums on financial instruments	**38,271**	**20,638**	**17,633**
Non-compete agreement	**32,500**	**20,311**	**12,189**
Long-term investments	**10,755**	**–**	**10,755**
Other	**21,484**	**1,862**	**19,622**
	$ 174,156	**$ 61,465**	**$ 112,691**

1999	Cost	Accumulated amortization	Net book value
Debt issuance costs	$ 65,912	$ 10,434	$ 55,478
Option premiums on financial instruments	38,271	12,609	25,662
Non-compete agreement	32,500	12,187	20,313
Long-term investments	568	–	568
Other	20,115	438	19,677
	$ 157,366	$ 35,668	$ 121,698

7. LONG-TERM DEBT:

	2000	1999
12.0% Senior Notes (2000 - U.S. $248.4 million; 1999 - U.S. $247.9 million) (a)	**$ 372,419**	$ 358,102
10.75% Senior Discount Notes (2000 - U.S. $140.4 million; 1999 - U.S. $126.4 million) (b)	**210,455**	182,429
9.95% Senior Discount Notes (2000 - U.S. $764.3 million; 1999 - U.S. $693.6 million) (c)	**1,146,036**	1,001,008
10.625% Senior Notes (2000 - U.S. $225.0 million; 1999 - U.S. $225.0 million) (d)	**337,388**	324,742
7.65% Senior Notes (2000 - U.S. $500.0 million; 1999 - U.S. $500.0 million) (e)	**749,750**	721,650
7.15% Senior Notes (f)	**150,000**	150,000
7.625% Senior Notes (U.S. $250.0 million) (g)	**374,875**	–
Senior Credit Facilities (h)	**270,000**	–
Capital lease obligations (i)	**19,752**	28,375
	3,630,675	2,766,306
Less current portion of capital lease obligations	**2,210**	2,741
	$ 3,628,465	$ 2,763,565

At December 31, 2000, principal repayments on long-term debt required within five years consist of $150 million for the 7.15% Senior Notes due in 2004, U.S. $250 million for the 7.625% Senior Notes due 2005 and $270 million of the Credit Facility due 2003 through to 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 received 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 at a price of 101% of par value, plus accrued and unpaid interest. 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. 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 at a price of 101% of par value, plus accrued and unpaid interest. 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 2000 was 11.04% (1999 - 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 June 15, 2001, 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 109.95%. In the event of a change in control as specified in the Indenture governing the 9.95% Notes, the 9.95% Notes are redeemable at the option of the holders at a price of 101% of par value, plus accrued and unpaid interest. 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 2000 was 10.2% (1999 - 10.2%).

(d) 10.625% Senior Notes:

The Company's 10.625% Senior Notes (the "10.625% Notes") are due November 1, 2008 and are repayable in the amount of U.S. $225.0 million. 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 105.313% of par value and declining to par in 2006 plus accrued and unpaid interest. In addition, prior to November 1, 2001 in the event the Company receives cash proceeds from certain equity issues, it may use all or a certain portion of such cash proceeds to redeem up to 25% of the 10.625% Notes at a redemption price of 110.625%. In the event of a change in control as specified in the Indenture governing the 10.625% Notes, the 10.625% Notes are redeemable at the option of the holders at a price of 101% 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, as defined in the Indenture governing the 7.65% Notes, 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 passu 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 Company's 7.15% Senior Notes (the "7.15% Notes") are due September 23, 2004 and are repayable in the amount of $150 million. 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, as defined in the Indenture governing the 7.15% Notes, 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 passu 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 transfer, all or substantially all of its assets to another entity.

(g) 7.625% Senior Notes:

The Company's 7.625% Senior Notes (the "7.625% Notes") are due March 15, 2005 and are repayable in the amount of U.S. $250.0 million. The 7.625% 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 7.625% Notes has the right to require the Company to repurchase all or any part of such holders' 7.625% Notes in the event of a change in control of the Company, as defined in the Indenture governing the 7.625% Notes, at a repurchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date. The 7.625% Notes are unsecured, subordinated to all existing and future secured indebtedness of the Company and rank pari passu to existing unsecured indebtedness. The Indenture covering the 7.625% 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.

(h) Credit facilities:

The Company has a credit agreement with a syndication of various financial institutions to provide the Company with the following:

(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 September 30, 2003 through March 31, 2004, when the facility expires. The operating facility is due in full on March 31, 2004. 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 Senior Debt, as defined, to Consolidated EBITDA, as defined; Consolidated EBITDA to Consolidated Cash Debt Service, as defined; Consolidated Senior Debt, as defined, to Total Capitalization, as defined; and Minimum Consolidated EBITDA; and to raise additional financing prior to June 30, 2001. Management plans to obtain this financing through raising additional debt or equity, and through securitization of accounts receivable.

As at December 31, 2000, $260 million has been drawn under the revolving term facility and $10 million has been drawn on the operating facility.

(i) 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, 2000:

2001	$	3,147
2002		1,864
2003		1,864
2004		1,864
2005		1,861
2006 and thereafter		22,200
Total minimum lease payments		32,800
Less imputed interest at rates varying from 4% to 14.3%		13,048
Balance of the obligations		19,752
Less current portion		2,210
	$	17,542

8. MINORITY INTEREST:

The minority interest arose primarily from the June 1, 1999 acquisition by AT&T Corp., which is now held by AT&T BT Canada Holdings Limited Partnership, of approximately 31% of the Company's operating subsidiary, AT&T Canada Corp. The losses of AT&T Canada Corp. have drawn down the minority interest balance to nil. In accordance with generally accepted accounting principles, losses in excess of the minority interest balance are charged against the majority interest. When future earnings materialize, the majority interest will be credited for all those earnings up to the amount of those losses previously absorbed.

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 and unlimited number of Class B Non-Voting Shares without nominal or par value. Other than with respect to voting rights and conversion rights, the two 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.

Each Class B Non-Voting Share may, under certain circumstances at the option of the holder, be converted into one Class A 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, restrictions, 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 an amendment to the Telecommunications Act, 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, 1998	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 (i)	–	172	–	172
Conversion (ii)	–	325	(325)	–
Share split (iii)	155	46,645	–	46,800
Balances, December 31, 1999	310	93,561	–	93,871
Issued - options *(note 9(c))*	–	1,959	–	1,959
Issued for acquisitions *(note 2(d))*	–	769	–	769
Issued - warrants	–	155	–	155
Issued - other *(note 9(d))*	–	40	–	40
Balances, December 31, 2000	310	96,484	–	96,794

	Amounts			
Class	Voting A	Non-Voting B	Non-Voting C	Total
Common shares				
Balances, January 1, 1998	$ 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 (i)	–	1,617	–	1,617
Conversion (ii)	–	1,363	(1,363)	–
Balances, December 31, 1999	416	956,281	–	956,697
Issued - options	–	33,629	–	33,629
Issued for acquisitions	–	45,385	–	45,385
Issued - warrants	–	620	–	620
Issued - other	–	2,734	–	2,734
Balances, December 31, 2000	$ 416	$ 1,038,649	$ –	$ 1,039,065

Warrants	Number	Amount
Balances, December 31, 1998 and 1997 (i)	250,000	$ 3,429
Exercised for shares	(117,914)	(1,617)
Balances, December 31, 1999	132,086	$ 1,812
Exercised for shares	(45,183)	(620)
Balances, December 31, 2000	86,903	$ 1,192

(i) Warrants:

Warrants entitle the holder thereof to acquire 3.429 Class B Non-Voting Shares at an exercise price of U.S. $0.01 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.

(ii) Share conversion:

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

(iii) 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, 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		28.17
Granted	3,760,500	42.70 to 90.00	56.28
Cancelled	(1,342,908)	2.25 to 90.00	47.97
Exercised	(1,959,348)	0.50 to 45.10	17.19
Outstanding, December 31, 2000	10,476,884	2.25 to 90.00	37.80

At December 31, 2000, 4,206,142 options (1999 - 2,630,691) were exercisable at a weighted average exercise price of $22.83 per share (1999 - $11.00).

The following table summarizes information concerning options outstanding at December 31, 2000:

	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
$ 0.000 - 9.00	406,505	1.3	$ 4.62	406,505	$ 4.62
9.001 - 18.00	2,061,021	1.5	12.77	1,937,754	12.65
18.001 - 27.00	527,949	1.8	21.21	375,118	20.97
27.001 - 36.00	84,997	2.1	28.07	50,340	27.96
36.001 - 45.00	3,961,643	3.3	41.47	1,284,753	41.30
45.001 - 54.00	2,079,502	4.2	50.16	143,130	47.67
54.001 - 63.00	518,567	4.4	56.34	8,542	55.90
63.001 - 72.00	736,800	4.1	65.49	–	–
72.001 - 81.00	29,600	4.2	74.56	–	–
81.001 - 90.00	70,300	4.2	85.73	–	–

(d) Employee Share Ownership Plan:

The Employee Share Ownership Plan offers all full-time permanent employees the opportunity to purchase securities of the Company. Employees may contribute between one to five percent of their salary to buy units in a single stock mutual fund, the Company's Stock Fund, which in turn holds only Class B Non-Voting Shares. The Company contributes the equivalent of 25% of participant contributions per quarter. In the event that the Company meets its business objectives, as defined at the beginning of the current year, the Company will make an additional 25% contribution to all fund participants based on their contributions throughout the year. The Company's contributions are made through the issuance of Class B Non-Voting Shares from treasury. 200,000 Class B Non-Voting Shares have been authorized for issuance for this purpose. In 2000, the Company issued 40,253 shares under the plan.

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 were comprised of the following:

(a) Integration costs	$	24,400
(b) Provision for restructuring		97,804
(c) Write-down of carrying value of certain assets		35,586
Total provision		157,790
Cumulative draw-down		135,564
Provision balance at December 31, 2000	$	22,226

(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 included amounts principally for employee severance and lease and other contract cancellation costs. The Company's initiatives were expected to 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 had 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 related 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.

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

During 2000, the provision has been drawn down by $61,957. Restructuring activities were substantially completed including termination of 156 employees in 2000 (1999 - 497). Included in the draw-down is $10,249 reversal of the provision deemed no longer required as a result of negotiation of lower expenditures than originally anticipated and the impact of changes in the real estate market that made it uneconomical to exit certain properties. The remaining balance of $22,226 represents expenditures for lease and other contract cancellations related to excess space in various leased premises and termination penalties of contracts with various alternate access facility providers where settlement of penalties has not been mutually agreed to or flow of payment remains outstanding.

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:

		2000		1999
Future income tax assets:				
Future income tax deductions	**$**	**54,772**	$	66,223
Operating loss carryforwards		**985,985**		856,727
Future tax liabilities:				
Deferred pension asset		**(4,748)**		(4,077)
Debt and share issue costs		**(5,411)**		(2,599)
Tax depreciation claimed in excess of depreciation booked		**(114,098)**		(727)
		916,500		915,547
Less valuation allowance		**(916,500)**		(915,547)
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:

		2000			1999	
Computed at combined statutory rate	**$**	**(270,481)**	**43.50 %**	$	(56,152)	45.00 %
Tax effect of:						
Expenses not deductible for income tax purposes		**43,058**	**(6.90)**		9,914	(7.94)
Income not taxable for income tax purposes		**(1,867)**	**0.30**		(207,913)	166.62
Large Corporations Tax		**5,686**	**(0.90)**		4,964	(3.98)
Change in valuation allowance		**229,290**	**(36.90)**		254,151	(203.68)
	$	**5,686**	**(0.90)%**	$	4,964	(3.98)%

At December 31, 2000, the Company has non-capital losses of approximately $2.267 billion, available to reduce future years' taxable income, which expire as follows:

2001	$	358,400
2002		22,500
2003		204,700
2004		226,400
2005		319,500
2006		184,600
2007		535,200
2008		415,200

Certain amendments to tax filings may be made to avoid the expiry of losses that would otherwise expire in 2001.

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:

	2000	1999	1998
Plans providing pension benefits	**$ 5,627**	$ 3,578	$ –
Plans providing other benefits	**474**	576	–

Information about the Company's defined benefit plans as at December 31, 2000, in aggregate, is as follows:

	Pension benefit plans	Other benefit plans
Accrued benefit obligation:		
Balance, beginning of year	$ 443,824	$ 5,965
Interest cost	33,218	353
Actuarial loss (gain)	32,146	(1,012)
Current service cost	6,769	213
Participant contribution	2,397	–
Plan amendments	1,031	–
Benefits paid	(37,320)	(129)
Settlements	(4,400)	–
Balance, end of year	$ 477,665	$ 5,390
Plan assets:		
Fair value, beginning of year	$ 528,069	$ –
Actual return on plan assets	44,953	–
Employer contributions	7,538	129
Employees' contributions	2,397	–
Benefits paid	(37,320)	(129)
Settlements	(4,400)	–
Fair value, end of year	$ 541,237	$ –

	Pension benefit plans	Other benefit plans
Funded status - plan surplus (deficit)	$ 63,572	$ (5,390)
Unamortized actuarial gain	(21,940)	(1,510)
Unrecognized prior service costs	928	–
Accrued benefit asset (liability)	42,560	(6,900)
Valuation allowance	(31,934)	–
Accrued benefit asset (liability),net of valuation allowance	$ 10,626	$ (6,900)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average assumptions as of December 31, 2000):

	Pension benefit plans	Other benefit plans
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	8.00%	–
Rate of compensation increase	3.50%	–

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, 2000 is as follows:

	Pension benefit plans	Other benefit plans
Current service cost	$ 6,769	$ 213
Interest cost	33,218	353
Expected return on plan assets	(37,397)	–
Prior service costs amortization	103	–
Valuation allowance provided against accrued benefit asset	2,937	–
Actuarial gain recognized	(3)	(92)
Net benefit plan expense	$ 5,627	$ 474

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 and customer contracts, the Company is committed to make the following payments for the years ending December 31, as follows:

2001	$ 141,340
2002	212,982
2003	64,670
2004	54,279
2005	50,709
Thereafter	285,016
	$ 808,996

(b) In the normal course of business the Company is subject to proceedings, lawsuits and other claims. Such matters are subject 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, 2000.

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) In the normal course of business, the Company issues Letters of Credit in compliance with its Right-of-Way agreements with various municipalities and utility companies. In general, the terms of the Letter of Credit permit the municipality or the utility company to draw on the Letter of Credit to recover any losses incurred under the Right-of-Way agreement, as defined. As at December 31, 2000, the Company had Letters of Credit outstanding of $0.9 million with nil drawn.

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, 2000 was approximately $3,440.9 million (1999 - $2,953.7 million), based on current trading values.

The fair value of foreign currency options, cross currency swaps and forward contracts at December 31, 2000 was approximately $84.5 million (1999 - ($76.9) 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. 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. For the years ended December 31, 2000 and

1999, the Company held 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, 2000, the positive fair value of the option was $23.9 million.

(ii) 9.95% Notes:

Foreign currency option which gives the Company the right (a) to acquire U.S. $244.1 million at the current exchange rate between the Canadian and U.S. dollar on June 16, 2003; (b) to acquire U.S. $244.1 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. $244.1 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, 2000, the positive fair value of the option was $7.4 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, 2000, the fair value of the swaps was net $4.3 million (the gross positive value was $19.1 million and the negative gross value was $14.8 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, 2000, the positive fair value of the swaps was $12.4 million.

(iv) 7.625% Notes:

Cross currency swaps under which the Company sold U.S. $250.0 million at a rate of Cdn. $1.4575 to U.S. $1.00 on March 10, 2000 and received $364.4 million. The Company is obligated to purchase U.S. $250.0 million on March 15, 2005 at a rate of Cdn. $1.4575 to U.S. $1.00. At December 31, 2000, the positive fair value of the swaps was $18.6 million.

(v) All other financings:

One forward exchange contract under which the Company sold U.S. $470.0 million dollars at a rate of Cdn. $1.4614581 to U.S. $1.00. The Company was obligated to buy U.S. $470.0 million at a rate of Cdn. $1.4602481 to U.S. $1.00 on January 31, 2001 which was extended to February 28, 2001. At December 31, 2000, the positive fair value of the forward contract was $18 million.

(c) Interest rate risk:

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

		Fixed interest rate maturing within			
December 31, 2000	**Floating rate**	**1 year**	**1 - 5 years**	**After 5 years**	**Non-interest bearing**
Financial assets:					
Cash and short-term deposits	**$ 68,587**	**$ –**	**$ –**	**$ –**	**$ –**
Accounts receivable	**–**	**–**	**–**	**–**	**242,161**
Financial liabilities:					
Current liabilities	**–**	**2,210**	**–**	**–**	**396,845**
Long-term debt	**270,000**	**–**	**542,417**	**2,816,048**	**–**

		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	–	–	493,562
Long-term debt	–	–	150,000	2,613,565	–

(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.

15. SEGMENTED INFORMATION:

The Company currently operates in one operating segment, the telecommunications industry in Canada. The Company offers a number of products, delivered through its integrated fibre optics networks, sold by a national sales force and provisioned by one operations group. The Company makes decisions and evaluates financial performance primarily based on its products. This view may change in the future as the business evolves.

Revenue by product is as follows:

		2000		1999		1998
Data	**$**	**465,407**	$	282,273	$	38,489
Long distance		**700,039**		401,191		11,410
Local		**177,424**		93,379		15,344
Internet and E-Business solutions		**129,865**		52,471		5,976
Other		**32,643**		37,407		5,019
	$	**1,505,378**	$	866,721	$	76,238

During the years ended December 31, 2000, 1999 and 1998, no customers of the Company individually represented more than 10% of the Company's revenues.

16. 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:

		2000		1999		1998
Revenue	**$**	**114,278**	$	49,584	$	–
Expenses		**117,173**		84,928		–

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

		2000		1999		1998
Accounts receivable	**$**	**14,265**	$	6,697	$	–
Accounts payable		**12,181**		10,110		–

17. RECONCILIATION OF CHANGE IN NON-CASH WORKING CAPITAL:

		2000		1999		1998
Changes in non-cash working capital:						
Accounts receivable	**$**	**(5,795)**	$	(21,135)	$	(15,982)
Other current assets		**1,734**		8,185		(7,287)
Accounts payable		**(110,155)**		79,213		17,326
Accrued liabilities		**(46,803)**		(57,750)		(2,810)
Accrued interest payable		**3,349**		36,252		3,470
Income taxes payable		**(4,785)**		2,560		3,748
	$	**(162,455)**	$	47,325	$	(1,535)

18. SUPPLEMENTAL CASH FLOW INFORMATION:

	2000	1999	1998
Supplemental disclosures of cash flow information:			
Interest paid	**$ 165,362**	$ 30,265	$ 47,855
Income taxes paid	**7,148**	3,218	4,521
Supplemental disclosures of non-cash investing and financing activities:			
Capital lease obligations incurred for the purchase of networks and equipment	**560**	202	22,169
Class B Non-Voting Shares issued for acquisition	**45,385**	–	–

19. RECLASSIFICATION OF PRIOR PERIODS AMOUNTS:

Certain amounts presented in the prior periods have been reclassified to conform with the presentation adopted in the current year.

20. 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 the loss for the year, deficit and basic loss per common share as reported:

	Years ended December 31		
	2000	1999	1998
Loss for the year, Canadian GAAP	**$ (523,207)**	$ (5,286)	$ (212,801)
Stock-based compensation expense (i)	**(4,364)**	(597)	(597)
Loss for the year, U.S. GAAP	**(527,571)**	(5,883)	(213,398)
Opening deficit, U.S. GAAP	**(266,609)**	(260,726)	(47,328)
Closing deficit, U.S. GAAP	**$ (794,180)**	$ (266,609)	$ (260,726)
Basic loss per common share under U.S. GAAP	**$ (5.52)**	$ (0.06)	$ (3.03)
Weighted average number of common shares outstanding (in thousands)	**95,561**	92,457	70,504

(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.

In March 2000, FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions involving Stock Compensation - an Interpretation of Accounting Principles Board ("APB") Opinion No. 25." FIN 44 clarifies the following: the criteria for determining whether a plan qualifies as a non-compensatory plan; the accounting consequences of various modifications to the terms of the previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in combination. FIN 44 is effective July 1, 2000, but certain conclusions in FIN 44 covers specific events that occurred after either December 15, 1998 or January 12, 2000. The Company accounted for FIN 44 in the current year as part of the reconciliation to accounting principles generally accepted in the United States.

(ii) 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 U.S. denominated long-term debt has been fully hedged, and as a result, foreign exchange gains or losses on hedge instruments are recorded in the same period as the corresponding gains and losses on the related long-term debt.

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 insignificant to these consolidated financial statements.

(b) Other disclosures:

(i) Stock-based compensation expense disclosure:

Had the Company determined compensation expense 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. In 2000, under the Black-Scholes model, 3,760,500 options with a weighted average fair value of $15.16 per share were granted using the following assumptions: risk free rate of return ranging from 5.32% to 6.55%, estimated volatility factor ranging from 0.09 to 12.72, estimated option life of five years and no dividend payments.

In 1999, under the Black-Scholes option pricing model, 6,109,104 options 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 payment.

	2000	1999	1998
Loss attributable to common shareholders, U.S. GAAP - as reported	**$ (527,571)**	$ (5,883)	$ (213,398)
Loss attributable to common shareholders, U.S. GAAP - pro forma	**(582,564)**	(49,219)	(223,798)
Loss per share - as reported	**(5.52)**	(0.06)	(3.03)
Loss per share - pro forma	**(6.10)**	(0.53)	(3.18)
Weighted average number of shares outstanding (in thousands)	**95,561**	92,457	70,504

(ii) Accounts receivable:

Accounts receivable are net of an allowance for doubtful accounts of $31.1 million (1999 - $20.8 million) at December 31, 2000.

(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, with subsequent amendments and interpretations in 1999 and 2000, 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 will be required to implement SFAS No. 133, as amended by SFAS No. 137 for its fiscal year ending December 31, 2001. The Company has assessed the impact on its financial position, results of operations or cash flows of adopting SFAS No. 133. On January 1, 2001, the Company will recognize a one-time transition gain of $26.0 million which represents the net effect of recognizing the market value of the Company's derivative portfolio of $84.5 million, the derecognition of the unamortized balance of the swaption premiums of $17.6 million and the derecognition of the deferred foreign exchange losses of $40.9 million as at December 31, 2000. This one time transition gain will flow through the Accumulated Other Comprehensive Income ("AOCI") account. The Company has designated derivatives with a notional value of U.S. $1,890 million as Cash Flow Hedges which hedge the foreign currency rate risk of cash flows relating to its U.S. dollar-denominated debt with a face value of U.S. $1,890 million. These Cash Flow Hedges are expected to be highly effective in hedging the foreign currency rate risk. The changes in market value of the effective portion of the derivatives designated as Cash Flow Hedges will flow through the AOCI account each month. The AOCI account forms a component of shareholder's equity. However, included in the Cash Flow Hedges are two swaptions that contain both intrinsic value and time value components. The changes in market value of the intrinsic value component will flow through the AOCI account while the change in market value of the time value component will be recognized in earnings on a monthly basis. The market value of the Cash Flow Hedges as at December 31, 2000 was $66.5 million. In addition, the Company holds a foreign exchange forward contract with a notional value of U.S. $470 million that has not been designated as a hedging instrument and therefore the changes in its market value will be marked through earnings each month. The market value of this contract as at December 31, 2000 was $18.0 million.

BOARD OF DIRECTORS

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

André Bureau *(3)*
Director

Steven B. Chisholm *(1,4)*
Director

John Haigh *(4)*
Director

Stephen H. Halperin *(1,3)*
Director

Alan D. Horn *(1,2)*
Director

Philip R. Ladouceur *(1)*
Director

James J. Meenan *(1,2)*
Director

Jonathan M. Nelson *(4)*
Director

Edward S. Rogers *(4)*
Director

Paul J. Salem *(2,3)*
Director

D. Craig Young *(2,3)*
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

John T. McLennan
Vice Chairman &
Chief Executive Officer

Harry W. Truderung
President & Chief Operating Officer

David A. Lazzarato
Executive Vice President &
Chief Financial Officer

Ronald Close
President,
Strategic Initiatives & E-Business

Laurence (Larry) Hudson
President, Operations

Stewart A. Berry
Executive Vice President,
Marketing

Mark Ethier
Executive Vice President, Sales

Kerry E. Long
Executive Vice President &
Chief Information Officer

Scott Ewart
Senior Vice President,
General Counsel & Secretary
Chief Privacy Officer

Mike Kologinski
Senior Vice President,
Internet & E-Business Services

Judy McLeod
Senior Vice President,
Human Resources

Ronald W. Preston
Senior Vice President,
Network

Dean Prevost
Senior Vice President,
Strategic Planning &
Business Development

Brock Robertson
Senior Vice President,
Treasury & Investor Relations

Jean P. Taillon
Senior Vice President,
Customer Service

Chris Peirce
Vice President,
Regulatory & Government Affairs

Donald G. Welham
Vice President & Controller

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Auditors

KPMG 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
2000												
TEL.B (C$)	92.00	52.50	88.40	91.00	47.00	49.50	51.00	43.05	45.95	48.25	42.00	43.50
ATTC (US$)	63.25	35.75	61.00	62.25	31.75	33.19	34.25	29.19	30.50	32.19	27.69	29.19
1999												
TEL.B (C$)	42.50	22.58	41.63	46.88	40.00	46.88	49.00	44.75	46.18	58.25	46.13	58.00
ATTC (US$)	28.25	14.938	27.50	32.031	26.50	32.031	32.781	30.063	31.406	42.75	31.375	40.25
1998												
TEL.B (C$)	21.00	11.75	18.00	21.25	16.88	20.50	25.00	13.95	13.98	25.50	12.00	25.50
ATTC (US$)	15.00	8.125	12.625	14.625	11.813	14.125	17.375	8.938	8.938	16.75	7.75	16.75

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 Company currently does not pay dividends.

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ANNUAL MEETING:

The Annual General Meeting of shareholders will be held on Wednesday, May 2nd, 2001, at 9:00 a.m. at The Royal York Hotel, Toronto, Ontario.

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