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RECORDS AND REPORTING

September 27, 2000

VIA OVERNIGHT DELIVERY

Florida Public Service Commission
Tariff Section
2540 Shumard Oak Blvd.
Gunter Bldg.
Tallahassee, Florida 32399-0850

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:

Re: 360networks (USA) inc.

001489-TX

Dear Sir/Madam:

Enclosed please find one original and six (6) copies of 360networks (USA) inc.'s (360networks) Application for Authority to Provide Local Exchange Telecommunications Service Within the State of Florida.

I also have enclosed a check in the amount of $250.00 payable to the Florida Public Service Commission to cover the cost of filing these documents.

Please return a stamped copy of the extra copy of this letter in the enclosed preaddressed prepaid envelope.

If you have any questions regarding this matter, please do not hesitate to call me. Thank you for your attention to this matter.

Sincerely,

Lance J.M. Steinhart, Esq.
Attorney for 360networks (USA) inc.

Enclosures
cc: Julie Hawkins

DOCUMENT NUMBER-DATE
12324 SEP 28 8
FPSC-RECORDS/REPORTING

** **FLORIDA PUBLIC SERVICE COMMISSION** **

DIVISION OF TELECOMMUNICATIONS
BUREAU OF CERTIFICATION AND SERVICE EVALUATION

ORIGINAL

APPLICATION FORM
for
AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

Instructions

- This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allotted space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

- If you have questions about completing the form, contact:

  Florida Public Service Commission
  Division of Telecommunications
  Bureau of Certification and Service Evaluation
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6600

APPLICATION

1. This is an application for √ (check one):

   (✔) **Original certificate** (new company).

   (   ) **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   (   ) **Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   (   ) **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

   360networks (USA) inc.

3. Name under which the applicant will do business (fictitious name, etc.):

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   143 Union Boulevard

   Ste. 300

   Lakewood Colorado 80228

5. Florida address (including street name & number, post office box, city, state, zip code):

   None at this time

6. Structure of organization:

( ) Individual ( ) Corporation
(✔) Foreign Corporation ( ) Foreign Partnership
( ) General Partnership ( ) Limited Partnership
( ) Other ______________

7. **If individual,** provide:

Name:______________________________

Title:______________________________

Address:______________________________

City/State/Zip:______________________________

Telephone No.:______________ **Fax No.:**______________

Internet E-Mail Address:______________________________

Internet Website Address:______________________________

8. **If incorporated in Florida,** provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

____

9. **If foreign corporation,** provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

F99000004356

10. **If using fictitious name-d/b/a,** provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

(a) **The Florida Secretary of State fictitious name registration number:**

____

11. **If a limited liability partnership**, provide proof of registration to operate in Florida:

(a) **The Florida Secretary of State registration number:**

____

12. **If a partnership**, provide name, title and address of all partners and a copy of the partnership agreement.

Name:_______________________________________

Title:_______________________________________

Address:_____________________________________

City/State/Zip:_______________________________

Telephone No.:__________________ **Fax No.:**__________________

Internet E-Mail Address:_________________________

Internet Website Address:________________________

13. **If a foreign limited partnership**, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) **The Florida registration number:**_______________________

14. Provide **F.E.I. Number**(if applicable): 84-1496451

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

No

____

____

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

No

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: Lance J.M. Steinhart

Title: Regulatory Counsel

Address: 6455 East Johns Crossing

City/State/Zip: Duluth, Georgia 30097

Telephone No.: 770/232-9200 **Fax No.:** 770/232-9208

Internet E-Mail Address: lsteinhart@telecomcounsel.com

Internet Website Address:

(b) Official point of contact for the ongoing operations of the company:

Name: Julie R. Hawkins

Title: AssistantGeneral Counsel

Address: 143 Union Boulevard Ste. 300

City/State/Zip: Lakewood Colorado 80228

Telephone No.: (303) 854-5000 **Fax No.:** (303) 854-5100

Internet E-Mail Address: julie.hawkins@360.net

Internet Website Address: www.360networks.com

(c) Complaints/Inquiries from customers:

Name: Terry Bate

Title: Director of Client Services

Address: 143 Union Boulevard Ste. 300

City/State/Zip: Lakewood Colorado 80228

Telephone No.: (303) 854-5000 Fax No.: (303) 854-5100

Internet E-Mail Address: julie.hawkins@360.net

Internet Website Address: www.360networks.com

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

None

(b) has applications pending to be certificated as an alternative local exchange company.

Applicant is in the process of obtaining authorization throughout the United States.

(c) is certificated to operate as an alternative local exchange company.

Iowa, Kentucky, Montana, New York, Oregon, Rhode Island, Utah, Wisconsin, Wyoming and the District of Columbia.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None

18. Submit the following:

A. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

B. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

C. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

Signature [signature] Date 9/26/00

Senior Vice President — Title

(303) 854-5000 — Telephone No.

Address: 143 Union Boulevard Ste. 300

(303) 854-5100 — Fax No.

Lakewood Colorado 80228

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - INTRASTATE NETWORK
C - AFFIDAVIT

** APPENDIX C **

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

Signature: David Lee [signature] — Date: 9/26/00

Senior Vice President — (303) 854-5000
Title — Telephone No.

Address: 143 Union Boulevard Ste. 300 — (303) 854-5100
Fax No.

Lakewood Colorado 80228

LIST OF ATTACHMENTS

FINANCIAL INFORMATION

MANAGEMENT INFORMATION

STATEMENT OF FINANCIAL CAPABILITY

FINANCIAL INFORMATION

AUDITORS' REPORT

To the Directors and Shareholders of
***360networks Inc.* (formerly Worldwide Fiber Inc.)**

We have audited the consolidated balance sheets of *360networks Inc.* (formerly Worldwide Fiber Inc.) as at December 31, 1999 and 1998 and the consolidated income statements and statements of changes in shareholders' equity and cash flows for the year ended December 31, 1999 and for the period from February 5, 1998 (date of incorporation) to December 31, 1998. 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 generally accepted auditing standards in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the year ended December 31, 1999 and for the period from February 5, 1998 (date of incorporation) to December 31, 1998 in accordance with generally accepted accounting principles in the United States.

On February 25, 2000 except for Note 16 which is as of March 20, 2000, we reported separately to the Directors of *360networks Inc.* on consolidated financial statements for the year ended December 31, 1999 and period from February 5, 1998 (date of incorporation) to December 31, 1998 prepared in accordance with generally accepted accounting principles in Canada.

PricewaterhouseCoopers LLP

Vancouver, Canada
February 25, 2000 except for Note 15 which is
as of March 20, 2000

360networks Inc.
(formerly Worldwide Fiber Inc.)
Consolidated Balance Sheets
As at December 31, 1999 and 1998
(tabular amounts expressed in thousands of U.S. dollars)

	1999	1998
Assets		
Current assets		
Cash and cash equivalents	$ 521,362	$ 156,366
Short term investments	21,167	—
Accounts receivable (note 4)	35,351	3,272
Unbilled revenue (note 4)	115,661	10,582
Inventory (note 4)	196,959	29,230
Due from parent-net (note 6)	—	13,412
Deferred tax asset (note 11)	8,838	—
	899,338	212,862
Property and equipment—net (note 4)	77,009	4,014
Assets under construction	300,403	11,461
Deferred tax asset (note 11)	12,040	1,273
Deferred financing costs—net	22,199	6,650
	$1,310,989	$ 236,260
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 4 and 6)	$ 191,178	$ 20,296
Deferred revenue	18,831	13,651
Income taxes payable	34,343	7,609
	244,352	41,556
Deferred tax liability (note 11)	3,073	—
Senior notes (note 7)	675,000	175,000
	922,425	216,556
Minority interest	8,876	1,443
Redeemable Convertible Preferred Stock		
Authorized:		
100,000,000,000 Series A Non-Voting Redeemable Convertible Preferred Shares		
100,000,000,000 Series B Subordinate Voting Redeemable Convertible Preferred Shares		
45,000,000 Series C Redeemable Preferred Shares, no par value		
Issued and outstanding:		
150,951,312 (1998—nil) Series A Non-Voting Redeemable Convertible Preferred Shares *(including accretion of discount from redemption value of $6,465,000 and net of issuance costs of $1,638,000)* (note 8)	349,827	—
Shareholders' Equity		
Capital stock (note 9)		
Authorized:		
Unlimited number of Class A Non-Voting, Class B Subordinate Voting and Class C Multiple Voting Shares, no par value		
Issued and outstanding:		
353,426,400 (1998—nil) Class A Non-Voting Shares	236,436	—
82,629,600 (1998—80,004,800) Class B Subordinate Voting Shares	10,455	7,400
81,840,000 (1998—nil) Class C Multiple Voting Shares	45,232	—
Other capital accounts	(221,387)	1,841
(Deficit) retained earnings	(40,875)	9,020
	29,861	18,261
	$1,310,989	$ 236,260

Commitments (note 14)
Subsequent events (note 15)

The accompanying notes are an integral part of these consolidated financial statements.

360networks Inc.
(formerly Worldwide Fiber Inc.)

Consolidated Income Statements

For the year ended December 31, 1999 and period from
February 5, 1998 (date of incorporation) to December 31, 1998.
The Company's operations commenced on June 1, 1998

(tabular amounts expressed in thousands of U.S. Dollars except per share amounts)

	1999	1998
Revenue	$ 359,746	$ 164,319
Costs	250,612	147,621
Gross profit	109,134	16,698
Expenses		
Selling, general and administrative	21,846	2,274
Stock-based compensation	7,116	—
Depreciation	2,998	464
	31,960	2,738
	77,174	13,960
Interest expense	33,908	492
Interest income	18,122	267
Income before equity income, income taxes and minority interest	61,388	13,735
Equity income (note 5)	—	928
Income before income taxes and minority interest	61,388	14,663
Provision for income taxes (note 11)		
Current	40,338	5,643
Deferred	(10,024)	—
	30,314	5,643
	31,074	9,020
Minority interest	7,434	—
Net income for the period	$ 23,640	$ 9,020
Basic and fully diluted (loss) earnings per share (note 2)	$ (0.03)	$ 0.43
Weighted average number of shares used to compute basic and fully diluted (loss) earnings per share	327,313,808	20,964,178

The accompanying notes are an integral part of these consolidated financial statements.

360networks Inc.

(formerly Worldwide Fiber Inc.)

Consolidated Statements of Changes in Shareholders' Equity

For the year ended December 31, 1999 and period from February 5, 1998 (date of incorporation) to December 31, 1998

(tabular amounts expressed in thousands of U.S. dollars)

	Class A Non-Voting Shares		Class B Subordinate Voting Shares (formerly Class A common shares)		Class C Multiple Voting Shares		Other Capital Accounts					
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Note receivable	Additional paid in capital	Deferred compensation	Accumulated other comprehensive income	(Deficit) retained earnings	Total shareholders' equity
Balance, February 5, 1998	—	$ —	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Incorporation shares issued, February 5, 1998			1,600	—								—
Issuance of shares for certain Ledcor assets with deferred tax asset (note 5)			3,200	7,400				1,088				8,488
Issuance of shares for investments (note 5)			80,000,000	—								—
Excess of proceeds over cost on fiber optic strands to be reacquired from parent company (note 1)								1,154				1,154
Comprehensive income												
Net earnings for the period											9,020	
Accumulated other comprehensive income-foreign currency translation										(401)		
Total comprehensive income												8,619
Balance, December 31, 1998	—	—	80,004,800	7,400	—	—	—	2,242	—	(401)	9,020	18,261
Issuance of shares for certain Ledcor assets with deferred tax asset (note 1)			319,995,200	25,019								25,019
Repurchase of Class B Subordinate Voting Shares in exchange for Class B Subordinate Voting Shares and Series C Redeemable Preferred Shares(note 9)			(400,000,000)	(32,419)								(32,419)
			381,496,000	32,419								32,419
Issuance of shares for cash (note 9)			2,400,000	5,832					(2,832)			3,000
Redemption of Series C Redeemable Preferred Shares and stock dividend (note 9)											(45,000)	(45,000)
Issuance of shares for certain Ledcor assets with deferred tax asset (note 1)					72,000,000	6,872		(2,242)				3,630
Issuance of shares (note 9)	52,160,000	208,640			9,840,000	39,360	(77,500)		(170,500)			—
Conversion of Class B Subordinate Voting Shares to Class A Non-Voting Shares (note 9)	301,266,400	27,796	(301,266,400)	(27,796)								—
Accretion of Preferred Stock to redemption value											(6,465)	(6,465)
Purchase price adjustment to Preferred Shares								22,070			(22,070)	—
Employee option grants								22,337	(22,337)			—
Amortization of deferred compensation expense									7,116			7,116
Comprehensive income												
Net income for the period											23,640	
Accumulated other comprehensive income-foreign currency translation										660		
Total comprehensive income												24,300
Balance, December 31, 1999	353,426,400	$236,436	82,629,600	$ 10,455	81,840,000	$45,232	$(77,500)	$ 44,407	$(188,553)	$ 259	$(40,875)	$ 29,861

The accompanying notes are an integral part of these consolidated financial statements.

360networks Inc.
(formerly Worldwide Fiber Inc.)

Consolidated Statements of Cash Flows

For the year ended December 31, 1999 and period from February 5, 1998
(date of incorporation) to December 31, 1998
(tabular amounts expressed in thousands of U.S. dollars)

	1999	1998
Cash flows used in operating activities		
Net income for the year	$ 23,640	$ 9,020
Adjustments to reconcile net income to net cash used for operating activities		
Depreciation	2,998	464
Amortization of deferred financing costs	1,732	—
Equity income	—	(928)
Stock-based compensation	7,116	—
Changes in operating working capital items		
Accounts receivable	(31,887)	(196)
Unbilled revenue	(103,597)	(992)
Inventory	(164,713)	(5,517)
Due from parent	13,841	(16,230)
Accounts payable and accrued liabilities	151,420	2,904
Deferred revenue	(14,008)	13,708
Income taxes payable	26,405	6,491
Advances to WFI USA	—	(21,783)
Deferred income taxes	(10,024)	—
	(97,077)	(13,059)
Cash flows (used in) from investing activities		
Additions to assets under construction	(283,598)	—
Additions to property and equipment	(16,518)	(1,065)
Purchase of short-term investments	(21,167)	—
Cash acquired on acquisition of WFI USA	—	2,242
	(321,283)	1,177
Cash flows from financing activities		
Proceeds from issuance of capital stock	348,000	—
Proceeds from issuance of notes	500,000	175,000
Deferred financing costs	(17,281)	(6,650)
Redemption of Series C Redeemable Preferred Shares	(45,000)	—
	785,719	168,350
Effect of exchange rate changes on cash	(2,363)	(102)
Net increase in cash and cash equivalents	364,996	156,366
Cash and cash equivalents, beginning of period	156,366	—
Cash and cash equivalents, end of period	$ 521,362	$156,366

The accompanying notes are an integral part of these consolidated financial statements.

360networks Inc.

(formerly Worldwide Fiber Inc.)

Notes to Consolidated Financial Statements

December 31, 1999 and 1998

(tabular amounts expressed in thousands of U.S. dollars)

1. *The Company*

360networks inc. (formerly Worldwide Fiber Inc.) (the "Company") was incorporated on February 5, 1998 and is indirectly a subsidiary of Ledcor Inc. On May 31, 1998 the Company began its operations after certain assets of the Telecommunications Division ("Division") of Ledcor Industries Limited ("Ledcor"), a Ledcor Inc. subsidiary were transferred to the Company. Prior to May 31, 1998, the operations were carried out by the Division.

The Company's operations consist of designing, engineering, constructing and installing terrestrial and marine fiber optic systems for sale or lease to third parties or for its own use. For the period ended December 31, 1998, the Company's revenues related primarily to the Construction Services Agreements with Ledcor (see note 1(b)). For the year ended December 31, 1999, the Company's revenue is derived primarily from the construction of fibre optic network assets for telecommunications companies in North America.

Transactions with Ledcor and its affiliates

a) On May 31, 1998, the Company entered into undertaking agreements whereby certain fiber optic network assets, located in Canada and the U.S. would be transferred to the Company by Ledcor in exchange for 319,995,200 Class A Non-Voting Shares. The Company constructed these assets for Ledcor under the Construction Services Agreements noted below. Construction of the assets was substantially complete at December 31, 1998 and the Company completed the exchange on March 31, 1999. This transaction was accounted for using the carrying values reported in the accounts of Ledcor as a transaction between a parent and a wholly owned subsidiary and accordingly, the fixed assets acquired by the Company are recorded at the carrying amount of the assets in the accounts of Ledcor. The cost of property and equipment acquired at March 31, 1999 amounted to $21,883,000. As a result of the transaction, the Company also received a deferred tax benefit of $3,136,000 which is reflected as a deferred tax asset.

On May 28, 1999, the Company entered into an agreement with affiliates of Ledcor, whereby the Company would acquire certain fiber optic network assets. Closing occurred on September 27, 1999. As consideration, the Company issued 72,000,000 Class C Multiple Voting Shares to affiliates of Ledcor. In addition, the Company assumed certain rights and obligations under build agreements with a third party including obligations relating to the completion of those builds and certain support structure, maintenance, license and access, and underlying rights obligations. The cost of the property and equipment acquired amounted to $25,289,000, the cost of the assets in the accounts of Ledcor. The Company also received a deferred tax benefit of $3,341,000, as a result of a higher tax cost versus accounting cost of fixed assets. The Company also recorded deferred revenue of $25,000,000 relating to a build commitment assumed from Ledcor.

b) Construction Services Agreements entered into May 31, 1998, to provide construction services to Ledcor to complete various projects including completion of the fiber optic network assets to be transferred to the Company. As the Company is required to obtain the fiber optic network assets from Ledcor, the revenues and costs associated with this portion of the agreement have not been reflected in the income statement for the period ended December 31, 1998. The costs to construct the network were reflected on completion of construction and the issuance of the shares. As at December 31, 1998, the Company had billed Ledcor $18,138,000 for the services related to construction of the fiber optic network assets which exceeds their costs by $2,099,000. This excess, net of income taxes of $945,000, had been excluded from the consolidated income statement and had been reported as additional paid in capital.

c) A Management Services Agreement was entered into May 31, 1998 whereby Ledcor provides the Company with management staff, administrative and other support services. The Company reimburses Ledcor for direct costs and pays Cdn. $200,000 per month for the Company's share of corporate overheads.

d) Employee Services Agreements were entered into May 31, 1998 whereby the Company obtains the services of certain employees from Ledcor on a cost reimbursement basis.

e) The Company has entered into an agreement with Ledcor, whereby personnel of Ledcor who were involved in the designing and planning of the transatlantic *360atlantic* cable stations will oversee management and supervision of construction of these facilities for a fee to Ledcor of approximately $1,700,000.

2. *Summary of significant accounting policies*

Basis of presentation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States and include the accounts of the Company, its wholly owned subsidiaries and its 75% interests in Worldwide Fiber (USA), Inc. ("WFI USA"), WFI-CN Fiber Inc. and Worldwide Fiber IC LLC. All significant intercompany transactions and balances have been eliminated on consolidation. For investments where the Company exercises significant influence, the investment is accounted for using the equity method.

On December 31, 1998, the Company increased its interest in WFI USA from 50% to 75% (note 5). The 1998 consolidated income statement and statement of cash flows accounted for the Company's initial 50% interest in WFI USA using the equity method for the period May 31, 1998 to December 31, 1998. The Company's consolidated balance sheets include WFI USA's assets and liabilities, and minority interest therein.

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit and highly liquid short-term interest bearing securities with maturity at the date of purchase of three months or less.

Short term investments

Short term investments consist of highly liquid short term interest bearing securities with maturities at the date of purchase greater than three months. Interest earned is recognized immediately in the income statement.

Property and equipment

Fiber optic network assets constructed for the Company's own use are recorded as property and equipment when the asset is fully constructed. Fiber optic network assets, construction equipment and other property and equipment are recorded at cost. Property and equipment are depreciated using the following rates and methods:

(a) Fiber optic network assets—straight-line method over 25 years.

(b) Equipment—hourly usage rates, estimated to depreciate the equipment over the estimated useful lives of the equipment.

Assets under construction

Assets under construction include fiber optic network assets constructed for the Company's own use and include direct expenditures of materials and labour, indirect costs attributable to the projects and interest.

Long-lived assets

The company reviews the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the asset to the net carrying value of the asset.

Inventory

Inventory consists of fiber optic network assets to be sold or leased under sales-type leases, construction supplies and small tools.

Fiber optic network assets are recorded at the lower of cost and market. Cost includes direct materials and subcontractor charges, labour, and interest (see "capitalization of interest") determined on an average cost basis.

Construction supplies and small tools inventory are recorded at the lower of cost and replacement value.

(tabular amounts expressed in thousands of U.S. dollars)

Comprehensive Income

Comprehensive income consists of currency translation adjustments and net income.

Income taxes

Income taxes are accounted for using an asset and liability approach, which requires the recognition of taxes payable or refundable for the current period and deferred tax liabilities and assets for future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance, where, based on available evidence, the probability of realization of the deferred tax asset does not meet a *more likely than not criteria.*

Fair value of financial instruments

The fair value of the Company's financial instruments, consisting of cash and cash equivalents, short-term investments, accounts receivable, unbilled revenue, due from parent, accounts payable and accrued liabilities, and income taxes payable approximate their carrying values due to their short-term nature. As at December 31, 1999, the fair value of the $500,000,000 12% Senior Notes was $515,000,000 and the fair value of the $175,000,000 12.5% Senior Notes ("1998 Notes") was $182,000,000. The fair value of the 1998 Notes at December 31, 1998 approximated its carrying value. Fair value is based on a quoted market price.

Earnings per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares (including Class A Non-Voting Shares, Class B Subordinate Voting Shares and Class C Multiple Voting Shares) outstanding for the period. Diluted earnings per share reflects the potential dilution of securities by including other potential common stock, including stock options and redeemable convertible preferred shares, in the weighted average number of common shares outstanding for a period, if dilutive.

The following table sets forth the computation of (loss) earnings per share:

	1999 $	1998 $
Net income	23,640	9,020
Less:		
Stock dividend	5,000	—
Preferred stock accretion	6,465	—
Purchase price adjustment to preferred shares	22,070	—
Net (loss) income available to common stockholders	(9,895)	9,020

(tabular amounts expressed in thousands of U.S. dollars)

4. *Balance Sheet components*

	1999 $	1998 $
Accounts receivable		
Trade accounts receivable	34,736	3,107
Interest receivable and other	615	165
	35,351	3,272
Unbilled revenue		
Revenue earned on uncompleted contracts	333,116	22,236
Less: Billings to date	217,455	11,654
	115,661	10,582
Inventory		
Fiber optic network assets	188,013	28,085
Construction supplies and small tools	8,946	1,145
	196,959	29,230
Property and equipment		
Land	5,891	—
Fiber optic network assets	64,079	—
Equipment	10,501	4,478
	80,471	4,478
Less: Accumulated depreciation	3,462	464
Property and equipment—net	77,009	4,014
Accounts payable and accrued liabilities		
Subcontractor and supplier costs	100,461	13,468
Subcontractor holdbacks payable	25,676	4,843
Other accrued liabilities	36,474	1,493
Interest payable	28,567	492
	191,178	20,296

5. *Acquisitions*

Telecommunications Division assets

Effective May 31, 1998, the Company entered into a series of agreements whereby equipment, fiber optic network assets and other assets related to the business of the Telecommunications Division of Ledcor were transferred to the Company. In addition, the Company was granted a license to use Ledcor's patented rail plow technology. This license agreement was for an initial term income of WFI USA from May 31, 1998 to December 31, 1998 in the amount of $928,000. Prior to May 31, 1998, the equity interest was reported as part of the Telecommunications Division of Ledcor.

(tabular amounts expressed in thousands of U.S. dollars)

On December 31, 1998 the Company increased its interest in WFI USA to 75% by surrendering its note receivable from WFI USA of $3,915,000 for 100 non-voting common shares and 100 Class A Voting Preferred Shares of WFI USA. The acquisition has been accounted for using the purchase method effective December 31, 1998. The purchase price of the additional 25% has been allocated to assets and liabilities based on their fair values. As a result, the net assets acquired were as follows:

	$
Current assets	3,742
Inventory	6,048
Fiber optic network assets	1,795
Current liabilities	10,052

On December 31, 1998, the Company entered into a Shareholders' Agreement ("Agreement") with Ledcor, Mi-Tech and Michels Pipeline Construction, Inc. ("Michels") (an affiliate of Mi-Tech). Pursuant to this agreement, Mi-Tech will have the option to convert all of its 25% interest in WFI USA into Shares of the Company should the Company complete a public offering of Shares with an aggregate value of at least $20,000,000 or there is a change of control of WFI USA. In connection with the conversion, Mi-Tech will be granted certain registration rights in accordance with the Agreement. In addition, after the tenth anniversary of this agreement, Mi-Tech has the option to require WFI USA to purchase all of the Shares owned by Mi-Tech and its affiliates at fair market value. If Mi-Tech exercises this option, the Company can elect to sell all the Shares or assets of WFI USA in which case it will not be required to purchase Mi-Tech's Shares in WFI USA. In the event of a proposed sale of the Shares of WFI USA held by the Company, Mi-Tech will have certain tag-along rights.

Also as part of the Agreement the Company:

a) Agreed not to participate in any projects or business nor provide advice or assistance to any business which undertakes projects within WFI USA's scope of business, as defined in the Agreement, for a period of four years from the date of the Agreement.

b) Is restricted from selling, transferring, encumbering or divesting its ownership or control of WFI USA.

c) WFI USA has an option to purchase from Mi-Tech 24 fiber optic strands along certain existing routes owned by Mi-Tech and its affiliates at fair market value.

affiliates, sell assets of the Company or its subsidiaries, issue or sell equity interests of the Company's subsidiaries or enter into certain mergers and consolidations.

8. *Redeemable Convertible Preferred Stock*

On September 9, 1999 the Company authorized various classes of preferred shares.

Series A Non-Voting Convertible Preferred Shares

On September 9, 1999, the Company issued 141,868,928 Series A Non-Voting Convertible Preferred Shares ("Series A Preferred Shares") for $345,000,000. On December 22, 1999, the Company issued an additional 9,082,384 Series A Preferred Shares to the holders of such shares pursuant to the terms of their original purchase agreement dated September 7, 1999.

The Series A Preferred Shares are entitled to dividends on an equivalent basis to the Class A Non-Voting Shares into which the Series A Preferred Shares can be converted. The Series A Preferred Shares rank senior to all classes of capital stock upon liquidation, dissolution and wind-up and are junior in right of payment of all indebtedness of the Company and its subsidiaries.

The Series A Preferred Shares have a mandatory redemption on November 2, 2009 at a liquidation value consisting of the original purchase price of $2.43 per share plus an adjustment equal to 6% per annum of the purchase price, plus declared and unpaid dividends and the excess of the market value of the Class A Non-Voting Shares over the liquidation value.

Upon a qualified underwritten public offering of at least $150,000,000 with a share price of at least 300% of the purchase price of the Series A Preferred Shares, each Series A Preferred Share may, at the option of the Company, be converted into Class A Non-Voting Shares at a ratio equal to one plus 6% per annum. If a qualified underwritten public offering occurs by September 9, 2000 the conversion will be on a one for one basis.

The Series A Preferred Shares may be converted by the holders into Class A Non-Voting Shares, at any time, on the same basis as the Company's conversion right and may be converted into Series B Non-Voting Convertible Preferred Shares on a one for one basis. In addition, the holders of the Series A Preferred Shares have anti-dilution protection.

Series B Subordinate Voting Convertible Preferred Shares

The Series B Subordinate Voting Convertible Preferred Shares ("Series B Preferred Shares) are entitled to dividends on an equivalent basis to any dividends declared or paid on Class B Subordinate Voting Shares into which the Series B Preferred Shares can be converted. The Series B Preferred Shares rank senior to all classes of capital stock upon liquidation, dissolution and wind-up and are junior in right of payment of all indebtedness of the Company and its subsidiaries. The Series B Preferred Shares are entitled to one vote per share.

The Series B Preferred Shares are mandatorily redeemable on November 2, 2009 at a liquidation value of $2.43 per share plus an adjustment equal to 6% per annum of the purchase

Share capital transactions

On September 9, 1999, the Company amended its share capital by re-designating 400,000,000 Class A Voting Shares to Class B Subordinate Voting Shares, cancelling its remaining classes of Shares and creating Class A Non-Voting Shares, Class C Multiple Voting Shares, Series A and B Convertible Preferred Shares and Series C Redeemable Preferred Shares. Subsequently, the Company declared a stock dividend of 80,000,000 Series C Redeemable Preferred Shares for $5,000,000. Concurrently, the Company repurchased the 400,000,000 outstanding Class B Subordinate Voting Shares from its parent in exchange for the issuance of 381,496,000 Class B Subordinate Voting Shares and 640,000,000 Series C Redeemable Preferred Shares. The Company then redeemed the 720,000,000 outstanding Series C Redeemable Preferred Shares for $45,000,000 cash resulting in a charge to retained earnings of $40,000,000.

On August 31, 1999 the Company issued 2,400,000 Class B Subordinate Voting Shares for $3,000,000.

On November 24, 1999, a shareholder converted 301,266,400 Class B Subordinate Voting Shares into 301,266,400 Class A Non-Voting Shares. On December 22, 1999, the Company issued 52,160,000 Class A Non-Voting Shares and 9,840,000 Class C Multiple Voting Shares under an employment agreement to an executive officer for $77,500,000. The Company also received a promissory note of $77,500,000 from the executive officer.

On November 24, 1999, the Board of Directors approved an eight-for-one share split of all classes of the Company's stock. All share amounts in 1998 and 1999 have been presented on a post stock split basis.

10. *Stock Based Compensation*

Stock Option Plan

The Company has a Long Term Incentive and Share Award Plan that permits the grant of non-qualified stock options, incentive stock options, share appreciation rights, restricted shares, restricted share units, performance shares, performance units, dividend equivalents and other share-based awards to employees and directors. A maximum of 7,133,008 Class A Non-Voting shares may be subject to awards under the plan, which generally have a vesting period of four years. The stock options have terms expiring on or before November 15, 2009.

(tabular amounts expressed in thousands of U.S. dollars)

The pro forma compensation expense is estimated using the Black Scholes option-pricing model assuming no dividend yield and the following weighted average assumptions for options granted during the year ended December 31, 1999:

Expected volatility (private company)	0.0%
Risk free interest rate	5.2%
Expected life (in years)	4.0

Restricted stock and other stock issuances

During the year, the Company issued stock to certain directors and officers of the Company. To the extent that these stock issuances are considered to be below fair value, stock based compensation is recognized and amortized over the appropriate periods. The Company recognized $176,164,000 of deferred stock-based compensation related to stock issued to these officers and directors in 1999 of which $2,832,000 was expensed in the year.

The shares issued to the executive officer are subject to a repurchase by the Company at the lesser of fair market value of the shares and the original purchase price of the shares plus interest. The restriction lapsed with respect to 15,500,000 shares immediately on commencement of employment and lapses for 12,400,000 shares in 2000, 13,639,968 shares in 2001 and 2002 and the remainder in 2003. Under certain conditions, the executive officer may put back a certain number of shares to the Company, or at the option of the Company to Worldwide Fiber Holdings Ltd., at fair market value to repay the promissory note. Deferred compensation related to these shares will be amortized over the periods covered by the repurchase restriction.

11. Income taxes

Income before equity income, income taxes and minority interest.

The components of income before equity income, income taxes and minority interest are as follows:

	1999 $	1998 $
Canadian	46,881	5,683
U.S.	14,507	8,052
	61,388	13,735

(tabular amounts expressed in thousands of U.S. dollars)

Deferred income taxes

Significant components of the Company's deferred tax asset and liability are as follows:

	1999 $	1998 $
Deferred tax asset		
Expenses not deductible in current period	8,838	—
Tax loss carryforwards	4,259	—
Property and equipment	7,596	1,088
Other	185	185
	20,878	1,273
Valuation allowance	—	—
Net deferred tax asset	20,878	1,273
Deferred tax liability		
Property and equipment	1,760	—
Financing costs	1,313	—
	3,073	—

Management believes that, based on a number of factors, it is more likely than not that the deferred tax asset will be fully utilized, such that no valuation allowance has been recorded.

12. *Concentration of credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, unbilled revenue and due from parent which are not collateralized. The Company limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality financial institutions. Concentrations of credit risk with respect to accounts receivable and unbilled revenue are considered to be limited due to the credit quality of the customers comprising the Company's customer base.

The Company performs ongoing credit evaluations of its customers' financial condition to determine the need for an allowance for doubtful accounts. The Company has not experienced significant credit losses to date. Accounts receivable was comprised of 22 customers at December 31, 1999 and 12 customers at December 31, 1998.

The concentration of credit risk relating to the amount due from the parent is considered limited due to the credit quality of the Company's parent. The Company's three largest customers represented 22%, 15% and 10% of the Company's total revenue for 1999. As described in Note 1, substantially all of the Company's revenues during the period ended December 31, 1998 were earned from construction services provided to Ledcor.

(tabular amounts expressed in thousands of U.S. dollars)

Operating leases

The Company leases certain facilities and equipment used in its operations under operating leases. Future minimum lease payments under these lease agreements at December 31, 1999 are as follows:

2000	$7,489
2001	$6,244
2002	$3,349
2003	$1,153
2004	$ 671

The Company pays Ledcor approximately $825,000 per year in connection with its lease of the Toronto facilities. The lease expires in 2009.

Supply Agreements

On June 18, 1999, a subsidiary of the Company entered into a supply agreement, with Tyco Submarine Systems Ltd. ("Tyco") whereby Tyco will serve as the primary contractor for the Company's trans-Atlantic cable project called "*360atlantic*". The initial contract price is approximately $607 million. The Company paid $214 million in the year ended December 31, 1999 on this contract. (1998—$NIL)

The Company has placed purchase orders of $27 million with suppliers of bandwidth equipment.

CN/IC Agreements

On May 28, 1999, the Company entered into agreements with Canadian National Railway Company ("CN") and Illinois Central Railroad Company ("IC") to license rights-of-way along certain of their respective rail transportation systems (the "Routes"). In connection with these license agreements, the Company formed subsidiary companies with CN (WFI-CN Fibre Inc.) and IC (Worldwide Fiber LLC) (the Company having a 75% interest and CN or IC having the remaining 25% interest) for the purpose of licensing the rights-of-way from CN and IC and developing the projects along the Routes.

15. *Subsequent events*

Share Capital Reorganization

Concurrent with the closing of a public offering, the Company will reorganize the share capital as follows: the holders of existing Class B Subordinate Voting Shares will convert or exchange their shares into Class A Non-Voting Shares and all authorized but unissued Class B Subordinate Voting Shares will be cancelled; the Series A Non-Voting Preferred Shares will be converted or exchanged into our Class A Non-Voting Shares and all of the authorized but unissued Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares will be cancelled; the existing

360atlantic credit facility

The Company has entered into a credit agreement with certain lenders pursuant to which the lenders have provided a credit facility totalling U.S. $565,000,000.

Share split

On March 20, 2000, the Board of Directors approved a two-for-one share split of all classes of the Company's stock. All share amounts in 1998 and 1999 have been presented on a post-stock split basis.

Share Issuances

Subsequent to December 31, 1999, the Company issued 411,214 Class A Non-Voting Shares to a consultant of the Company. In addition, the Company will issue additional Series A Preferred Shares in connection with the purchase price adjustment provisions of a subscription agreement.

Name change

On March 14, 2000, the Company changed its name from Worldwide Fiber Inc. to 360*networks Inc.*

MANAGEMENT INFORMATION

RESUMES

Ron Stevenson has served as our Vice Chairman since March 200, a Director since our inception, was previously our President and is a Director of Ledcor Inc. Before joining us, Mr. Stevenson spent 28 years with Ledcor. From 1989 to 1998, Mr. Stevenson was Executive Vice President of Operations for Ledcor Industries' telecommunications and civil divisions and was responsible for construction and project development.

David Love has served as our Senior Vice President, Network Operations since September 1999. Mr. Love's involvement in the telecommunications industry, both domestic and international, spans over 28 years. Prior to joining us, Mr. Love managed large network deployments and multi-state network operations at US West. He has international experience with MediaOne International directing the design and network operations for broadband services using hybrid fiber coax technology in Belgium.

Bruce Tinney has been our Senior Vice President, Infrastructure Sales since our inception. Before joining us, Mr. Tinney spent more than 22 years in the telecommunications industry in a variety of executive positions, including Director of Business Development for Qwest Communications from 1996 to 1998 and Vice President of Operations for Fanch Communications from 1991 to 1996. Before joining Fanch Communications, Mr. Tinney spent over 15 years with Time Warner Communications in a number of leadership positions.

Jerry Tharp has overseen our U.S. operations as President of 360-USA since our inception. Mr. Tharp's involvement in the telecommunications industry spans over 40 years. Before joining us, Mr. Tharp was the Director of Business Development for Mi-Tech from 1996 to 1997 and the Vice President, Construction and Engineering for Qwest Communications International Inc. from 1994 to 1996. From 1987 to 1994, Mr. Tharp held several positions with MCI WorldCom Inc. dealing with ROW, construction and engineering issues. His telecommunications career started with US West and its predecessor corporation, where he held numerous positions.

STATEMENT OF FINANCIAL CAPABILITY

FOR 360NETWORKS (USA) INC.

Applicant has sufficient financial capability to provide the requested service in the State of Florida and has sufficient financial capability to maintain the requested service and to meet its lease or ownership obligations. In support of Applicant's stated financial capability, a copy of 360networks Inc.'s Financial Statements for year the years ended December 31, 1999 and December 31, 1999 is attached to the application. Applicant is a wholly owned subsidiary of 360networks Inc. The balance sheet as of December 31, 1999 indicates that the company has approximately $521,000,000 in cash and cash equivalents, and the income statement indicates that the company had net income of approximately $23.6 million for the year ended December 31, 1999. Applicant intends to fund the provision of service through internally generated cash flow, and from cash contributions from its parent company, which is committed to provide necessary funding in order for Applicant to provide service in the State of Florida.. Applicant also has the ability to borrow funds, if required, based upon its financial capabilities, to provide service in the State of Florida.