NOTE 12 - STOCKHOLDERS' EQUITY, CONTINUED

On October 10, 1997, the Company closed an agreement with Winter Harbor pursuant to which Winter Harbor invested $12,100,000 in a new series of the Company's convertible preferred stock (the "Series M convertible preferred stock"). Winter Harbor purchased approximately 2,545 shares of Series M convertible preferred stock, originally convertible into approximately 2,545,000 shares of common stock, for an aggregate cash consideration of approximately $7,000,000 (equivalent to $2.75 per share of common stock). The agreement with Winter Harbor also provided for the purchase of approximately 1,855 additional shares of Series M convertible preferred stock, originally convertible into approximately 1,855,000 shares of common stock. Such additional shares of Series M convertible preferred stock were paid for by Winter Harbor exchanging $5,000,000 in outstanding notes payable and accrued interest of approximately $100,000. As additional consideration for its equity investment in Series M convertible preferred stock, Winter Harbor was issued additional warrants by the Company to acquire 10,000,000 shares of common stock. The exercise price on each of the warrants has subsequently been reset to $1.48 as of December 31, 2000 and $1.25 in January 2001 (see Note 3). All of the warrants have demand registration and anti-dilution rights and contain cashless exercise provisions.

The Series M convertible preferred stock is entitled to receive cumulative dividends in the amount of 10% per annum before any other Series of preferred (other than Series F) or common stock receives any dividends. Thereafter, the Series M convertible preferred stock participates with the common stock in the issuance of any dividends on a per share basis. The Series M convertible preferred stock will have the right to veto the payment of dividends on any other class of stock.

The basis for conversion shall be adjusted upon the occurrence of certain events, including without limitation, issuance of stock dividends, recapitalization of the Company or the issuance of stock by the Company at less than the fair market value thereof. At December 31, 2000, the conversion price of the Series M convertible preferred stock was $1.48 (and $1.25 in January 2001) as a result of shares of Series N preferred stock being converted at that price. The Series M convertible preferred stock will vote with the common stock on an as-converted basis on all matters which are submitted to a vote of the stockholders, except as may otherwise be provided by law or by the Company's Articles of Incorporation or By-Laws; provided, however, that the Series M convertible preferred stockholders will have the right to appoint two members of the Company's board of directors. Furthermore, the Series M convertible preferred stockholders shall have the right to be redeemed at fair market value in the event of a change of control of the Company, shall have preemptive rights to purchase securities sold by the Company, and shall have the right to preclude the Company from engaging in a variety of business matters without the concurrence of Winter Harbor, including without limitation: mergers, acquisitions and disposition of corporate assets and businesses, hiring or discharging key employees and auditors, transactions with affiliates, commitments in excess of $500,000, the adoption or settlement of employee benefit plans and filing for protection from creditors. As of December 31, 2000, all 4,400 shares of the Company's Series M convertible preferred stock remain issued and outstanding.

Because the above redemption provisions are not entirely within the control of the Company, the Series M convertible preferred stock is presented as a separate line item above stockholders' deficit. All of the Series M convertible preferred stock was converted into common shares of the Company in March 2001 (See Note 16 - Subsequent Events).

On July 9, 1998 the Company obtained a $10,000,000 equity investment, net of $530,000 in closing costs, from JNC Opportunity Fund Ltd. ("JNC"). Under the original terms of the equity investment, JNC purchased 1,000 shares of the Company's newly created 5% Series E convertible preferred stock, which were convertible into the Company's common stock. In addition, JNC obtained a warrant to purchase 250,000 shares of the Company's common stock at an exercise price of $5.873 (equal to 120% of the market price of the Company's publicly traded common shares as of the date of closing).

On July 28, 1998, the terms of the JNC equity investment were amended to provide a floor to the conversion price, and to effect the amendment the Company created a 5% Series F convertible preferred stock for which the Series E preferred shares originally issued to JNC were exchanged one for one. Pursuant to the amendment, the Series F preferred shares were originally convertible into common shares at a conversion price of the lesser of $4.00 per common share or 87% of the moving average market price of the Company's common shares at the time of conversion, subject to a $1.25 floor. JNC also received an additional warrant to

purchase 100,000 shares of the Company's common stock at an exercise price of $4.00 per common share. See "Note 11 - Legal Proceeding" for additional information relating to the Series F preferred stock and settlement with JNC.

NOTE 12 - STOCKHOLDERS' EQUITY, CONTINUED

In certain instances, including a change in control of the Company in excess of 33% ownership and if the Company's common stock is not listed on NASDAQ or a subsequent market or is suspended for more than three non-consecutive trading days, the holders of the Series F preferred stock may require that the Company redeem their Series F preferred stock. Because these redemption provisions were not entirely within the control of the Company, Series F preferred stock was presented as a separate line item above stockholders' deficit as of December 31, 1999.

In addition, the Company issued warrants to purchase 75,000 shares of the Company's common stock at a price of $4.89 per share to two individuals as a brokerage fee in connection with the JNC equity investment.

During 2000, 1999 and 1998, JNC converted 248, 750 and 2 shares of Series F redeemable preferred stock into 1,104,972, 3,518,051 and 10,004 shares of common stock, respectively. In addition, during 2000, 1999 and 1998, JNC was paid a stock dividend of 87,477, 165,220 and 240 shares of common stock, respectively, on the converted shares. As of December 31, 2000, all of the Series F redeemable preferred stock had been converted.

On July 23, 1999, the Company completed its offering of 20,000 shares of Series N preferred stock. The offering was fully subscribed through cash subscriptions and the Company exercised its rights to exchange notes payable to Winter Harbor of $8,000,000 and $4,000,000, plus accrued interest. In total the Company received $7,281,086 in cash (before expenses of $486,679) and exchanged $12,718,914 in debt and accrued interest. The Series N conversion price was initially set at $2.78. The conversion rate was adjusted to $1.48 as of December 31, 2000 and $1.25 in January 2001 based on 110% of the average trading price for any 20 day period following the date that Series N preferred stock is first issued subject to a floor of $1.25. The Series N preferred stock votes with the common stock on an as converted basis and is senior to all other preferred stock of the Company, except that the Series N preferred stock will in all rights be equal in seniority to the already outstanding Series F preferred stock. Dividends will be paid on an as converted basis equal to common stock dividends.

During 2000 and 1999, holders of the Series N preferred stock converted 1,129 and 3,685 of those shares into 467,169 and 1,413,369 shares of common stock, respectively, at conversion prices ranging between $2.78 and $1.64

As the conversion price of the Series N preferred stock at issuance was less than the market price, the Company recognized a $6,978,417 deemed preferred stock dividend in the third quarter of 1999. All shares of Series N preferred stock held by Winter Harbor were converted into common stock of the Company in March 2001 (see Note 16 - Subsequent Events).

At December 31, 2000, of the 10,000,000 shares of preferred stock authorized, 9,486,500 remain undesignated and unissued. Dividends in arrears at December 31, 2000 were $602,702 and $4,543,187 for Series C and M preferred stock, respectively.

COMMON STOCK

On April 14, 1999, the shareholders approved an amendment to the Articles of Incorporation increasing the authorized common stock from 75,000,000 shares to 150,000,000 shares.

NOTE 13 - STOCK-BASED COMPENSATION PLANS

At December 31, 2000, the Company has several stock-based compensation plans, which are described below. The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed option plans

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under the plans and based on the incremental fair value associated with the repricing of options consistent with the method outlined by SFAS 123, "Accounting for Stock-Based Compensation", the Company's net loss and loss per share would have been increased to the pro forma amounts indicated as follows:

NOTE 13 - STOCK-BASED COMPENSATION PLANS, CONTINUED

	2000	1999	1998
Net loss as reported	$ (25,752,178)	$ (24,659,288)	$ (27,958,079)
Net loss pro-forma	$ (33,262,209)	$ (33,442,845)	$ (38,224,529)
Basic and diluted loss per share as reported	$ (1.03)	$ (1.57)	$ (2.14)
Basic and diluted loss per share pro-forma	$ (1.25)	$ (1.98)	$ (2.73)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 102%, 97% and 103% in 2000, 1999, and 1998, respectively, risk free rates ranging from 4.67% to 6.83%, 4.35% to 6.08% and 4.26% to 5.67% in 2000, 1999, and 1998, respectively, expected lives of 3 years for each year, and dividend yield of zero for each year.

	2000		1999		1998	
	Options and Warrants	Weighted Average Exercise Price	Options and Warrants	Weighted Average Exercise Price	Options and Warrants	Weighted Average Exercise Price
Outstanding at beginning of year	41,945,091	$ 2.67	30,265,670	$ 4.54	20,998,872	$ 4.68
Granted	5,508,339	4.13	12,138,246	2.18	9,978,671	5.48
Exercised	(1,612,231)	3.10	(74,280)	2.03	(399,540)	1.71
Expired	(180,144)	3.56	(301,462)	3.59	(145,834)	5.42
Forfeited	(306,063)	3.40	(83,083)	4.13	(166,499)	6.67
Outstanding at end of year	45,354,992	$ 2.57	41,945,091	$ 2.67	30,265,670	$ 4.54
Options and warrants exercisable at year end	38,662,539		37,074,871		24,479,374	
Weighted-average fair value of options and warrants granted during the year		$ 2.25		$ 2.61		$ 4.69

The following table summarizes information about fixed stock options and warrants outstanding at December 31, 2000.

Exercise price	Options and Warrants Outstanding at 12/31/00	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable at 12/31/00	Weighted Average Exercise Price
$0.875 to $2.50	29,788,741	5.08	$1.66	29,419,746	$1.65
$2.56 to $3.88	5,095,837	8.69	2.88	2,709,461	2.91
$3.90 to $4.94	6,223,638	6.18	3.92	5,647,706	3.90
$5.06 to $13.88	4,246,773	7.03	6.66	885,626	6.57
	45,354,989	5.82	$2.57	38,662,539	$2.18

1997 RECRUITMENT STOCK OPTION PLAN

In October 2000, the shareholders of the Company approved an amendment of the 1997 Recruitment Stock Option Plan which provides for the issuance of incentive stock options, non-qualified stock options and stock appreciation rights (SARs) up to an aggregate of 7,400,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). The price at which shares of common stock covered by the option can be purchased is determined by the Company's Board of Directors; however, in all instances the exercise price is never less than the fair market value of the Company's common stock on the date the option is granted.

NOTE 13 - STOCK-BASED COMPENSATION PLANS, CONTINUED

As of December 31, 2000, there were incentive stock options to purchase 2,951,045 shares of the Company's common stock and non-qualified stock options to purchase 1,038,208 shares of the Company's common stock outstanding. The outstanding options vest over three years at exercise prices of $1.19 to $13.88 per share. Options issued under the plan must be exercised within ten years of grant and can only be exercised while the option holder is an employee of the Company. The Company has not awarded any SARs under the plan. During 2000, 1999 and 1998, options to purchase 439,542, 126,042 and 228,500 shares of common stock, respectively, were forfeited or expired. During 2000 options to purchase 411,420 shares of common stock were exercised.

DIRECTOR STOCK OPTION PLAN

The Company's Director Stock Option Plan authorizes the grant of stock options to directors of the Company. Options granted under the Plan are non-qualified stock options exercisable at a price equal to the fair market value per share of common stock on the date of any such grant. Options granted under the Plan are exercisable not less than six months or more than ten years after the date of grant.

As of December 31, 2000, options for the purchase of 7,669 shares of common stock at prices ranging from $0.875 to $3.875 per share were outstanding, all of which are exercisable. In connection with the adoption of the 1995 Director Plan, the Board of Directors authorized the termination of future grants of options under the plan; however, outstanding options granted under the plan will continue to be governed by the terms thereof until exercise or expiration of such options. In 2000, options to purchase 500 shares of common stock were exercised.

1995 DIRECTOR STOCK OPTION AND APPRECIATION RIGHTS PLAN

The 1995 Director Stock Option and Appreciation Rights Plan (the "1995 Director Plan") provides for the issuance of incentive options, non-qualified options and stock appreciation rights to directors of the Company. The 1995 Director Plan provides for the grant of incentive options, non-qualified options, and SARs to purchase up to 250,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events).

The 1995 Director Plan also provides for the grant of non-qualified options on a discretionary basis to each member of the Board of Directors then serving to purchase 10,000 shares of common stock at an exercise price equal to the fair market value per share of the common stock on that date. Each option is immediately exercisable for a period of ten years from the date of grant. The Company has 190,000 shares of common stock reserved for issuance under the 1995 Director Plan. As of December 31, 2000, options to purchase 170,000 shares of common stock at prices ranging from $1.00 to $1.25 per share are outstanding and exercisable. No options were granted or exercised under this plan in 1998, 1999 or 2000.

1995 EMPLOYEE STOCK OPTION AND APPRECIATION RIGHTS PLAN

The 1995 Employee Stock Option and Appreciation Rights Plan (the "1995 Employee Plan") provides for the issuance of incentive options, non-qualified options, and SARs.

Directors of the Company are not eligible to participate in the 1995 Employee Plan. The 1995 Employee Plan provides for the grant of stock options which qualify as incentive stock options under Section 422 of the Internal Revenue Code, to be issued to officers who are employees and other employees, as well as non-qualified options to be issued to officers, employees and consultants. In addition, SARs may be granted in conjunction with the grant of incentive options and non-qualified options.

The 1995 Employee Plan provides for the grant of incentive options, non-qualified options and SARs of up to 400,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). To the extent that an incentive option or non-qualified option is not exercised within the period of exercisability specified therein, it will expire as to the then unexercisable portion. If any incentive option, non-qualified option or SAR terminates prior to exercise thereof and during the duration of the 1995 Employee Plan, the shares of common stock as to which such option or right was not exercised will become available under the 1995 Employee Plan for the grant of additional options or rights to any eligible employee. The shares of common stock subject to the 1995 Employee Plan may be made available from

either authorized but unissued shares,

NOTE 13 - STOCK-BASED COMPENSATION PLANS, CONTINUED

treasury shares or both. The Company has 400,000 shares of common stock reserved for issuance under the 1995 Employee Plan. As of December 31, 2000, options to purchase 182,750 shares of common stock with an exercise price of $3.90 are outstanding under the 1995 Employee Plan. During 2000, 1999 and 1998, options to purchase 3,333, 45,834 and 23,833 shares, respectively, of common stock were forfeited or expired. Options to purchase 94,250 shares of common stock were exercised in 2000.

OTHER WARRANTS AND OPTIONS

Pursuant to the terms of a Financial Consulting Agreement dated as of November 3, 1994 between the Company and JW Charles Financial Services, Inc., the Company issued a common stock purchase warrant (the "JWC Warrant") covering 250,000 (331,126 as adjusted) shares of common stock to JW Charles Financial Services as partial consideration for its rendering financial consulting services to the Company. The warrant is exercisable at a price of $1.51 per share and expires on November 3, 2001. During 1998, warrants to purchase 165,563 shares of common stock were exercised.

In April 1996, the Company approved the issuance of 1,000,000 options to John Edwards as part of his employment agreement. The options vest over a three-year period and expire in 2006 and have an option price of $3.90.

On July 1, 1996, the Company approved the issuance of options to purchase 1,500,000 and 500,000 shares of common stock to Clay Wilkes and Alex Radulovic respectively as part of their employment agreements. Each option has an exercise price of $7.00 per share, vesting in 25% increments in the event that the average closing bid price of a share of the Company's common stock for five consecutive trading days exceeds $10, $15, $20 and $25, respectively. Each option becomes exercisable (to the extent vested) on June 30, 1997, vests in its entirety on June 30, 2001 and lapses on June 30, 2002. As of December 31, 2000, 500,000 of the options had vested.

In September 1996, the Company closed a private placement offering of Series C preferred stock. As a result of this transaction, the Company issued warrants to purchase 750,000 shares of common stock at an exercise price of $2.50 (reset to $1.48 as of December 31, 2000) per share as compensation to the Placement Agent. These warrants expire on August 20, 2001. During 2000, 1999 and 1998, warrants to purchase 417,061, 73,050 and 46,477 shares of common stock were exercised, respectively. As of December 31, 2000 there were 177,259 Placement Agent warrants outstanding.

John Edwards agreed to amend his employment contract on August 21, 1996, which reduced his salary. In consideration of the salary reduction, the Company granted him options, which vested immediately, to purchase 250,000 shares of common stock. The options have a term of 10 years and an exercise price of $3.90.

In October 1996 the Company agreed to issue options to purchase 250,000 shares of common stock each to William Flury and Karl Ryser Jr. pursuant to their employment agreements. The options vested quarterly over a three-year period and expire in 2006 and have an exercise price of $3.90. In 2000, 250,000 options were exercised.

During 1997, the Company issued options to purchase 1,210,000 shares of common stock (210,000 of which were issued under the 1997 recruitment stock option plan) to consultants at exercise prices ranging from $4.875 to $8.438 (repriced to $3.90 on December 13, 1998), which was based on the closing price of the stock at the grant date. The fair value of the options issued was recorded as deferred compensation of $4,757,134 to be amortized over the expected period the services were to be provided. As a result of the repricing, the Company recorded additional deferred compensation expense totaling $262,200 (of which $21,103, $44,364 and $196,733 was expensed in 2000, 1999 and 1998, respectively), representing the incremental fair value of the repriced options over the original options. During 2000, 1999 and 1998, $279,150, $852,714 and $1,157,901, respectively, of the deferred compensation was amortized to expense. During 2000, 1999 and 1998, options to purchase 91,000, 16,669 and 60,000, respectively, shares of common stock expired. During 2000, 169,000 options were exercised. The remaining options must be exercised within ten years of the grant date.

During 1997, the Company issued non-qualified options to purchase 2,295,000 shares of common stock to certain executive employees. The options must be exercised within ten years of the grant date and have an exercise price of

$3.90. During 2000 and 1999, options to purchase 0 and 66,670 shares of common stock, respectively, were forfeited. During 2000, options to purchase 78,000 shares of common stock were exercised.

NOTE 13 - STOCK-BASED COMPENSATION PLANS, CONTINUED

During 1998, the Company issued non-qualified options to purchase 935,000 shares of common stock to certain executive employees at exercise prices ranging from $2.563 to $3.125, which price was based on the closing price of the stock at the grant date. The options must be exercised within ten years of the grant date. During 2000 and 1999, options to purchase 43,332 and 58,333 shares of common stock, respectively, were forfeited. During 2000, options to purchase 4,000 shares of common stock were exercised.

During 1999, the Company issued non-qualified options to purchase 655,000 shares of common stock to certain executive employees at exercise prices ranging from $2.50 to $3.563, which price was based on the closing price of the stock at the grant date. The options must be exercised within ten years of the grant date. During 2000, options to purchase 230,000 shares of common stock were exercised.

During 1999, the Company issued non-qualified options to purchase 200,000 shares of common stock to a consultant at an exercise price of $3.00, which was based on the closing price of the stock at the grant date. The fair value of the options issued was recorded as deferred compensation of $300,000 to be amortized over the expected period the services were to be provided. During 2000 and 1999 deferred compensation of $137,500 and $162,500, respectively, was amortized to expense.

During 2000, the Company issued non-qualified options to purchase 2,585,000 shares of common stock to certain executive employees at exercise prices ranging from $2.75 to $6.375, which price was based on the closing price of the stock at the grant date. The options must be exercised within ten years of the grant date.

Subsequent to December 31, 2000 and prior to March 15, 2001 approximately 1,900,000 employee options to purchase common stock were forfeited due to termination of employment.

During 2000 the Company obtained approval from its shareholders to establish the 2000 Employee Stock Purchase Plan. This plan allows all eligible employees of the Company to have payroll withholding of 1 to 15 percent of their wages. The amounts withheld during a calendar quarter are then used to purchase common stock at a 15 percent discount off the lower of the closing sale price of the Company's stock on the first or last day of each quarter. This plan was approved by the Board of Directors, subject to shareholder approval, and was effective beginning the third quarter of this year. The Company issued 23,494 shares to employees based upon payroll withholdings during 2000.

NOTE 14 - SEGMENT OF BUSINESS REPORTING

The Company's three reportable segments are as follows:

- Telecommunications services - includes long-distance toll services and enhanced calling features such as V-Link(TM). The telecommunications services products are marketed primarily to residential and small business customers.

- Marketing services - includes training and promotional materials to IRs in the network marketing sales channel and WebCentre set-up and monthly recurring fees. Additionally, revenues are generated from registration fees paid by IRs to attend regional and national sales conferences. This revenue source was terminated in February 2000.

- Technology licensing and development - provides research and development to enhance the Company's product and technology offerings. Products developed by this segment include V-Link(TM), Indavo(TM), and other proprietary technology. The Company licenses certain developed technology to third party users, such as Lucent, Brooktrout and others.

With the Company's shift in focus from retail to wholesale sales in February 2000, revenues from Big Planet amounted to 61% of telecommunication services revenue from February 2000 through the end of the year. The percentage of telecommunication services revenue from Big Planet during the fourth quarter amounted to 46% of fourth quarter revenue due to the addition of a new large wholesale customer. As a result of financial uncertainty with I-Link in January and February of 2001 resulting from Red Cube not funding the Company, and prior to the Counsel Corporation transaction in March 2001, Big Planet was uncertain as to the ability of I-Link to continue operations. Therefore, Big Planet signed an

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NOTE 14 - SEGMENT OF BUSINESS REPORTING, CONTINUED

agreement to transition their unified messaging (V-Link(TM)) business to another company. They anticipate the possibility of moving the customers in the third or fourth quarter of 2001 if the new unified messaging vendor achieves certain milestone of product features, billing capabilities and service development. Additionally, Big Planet is evaluating new I-Link products for release in the first half of 2001. The Company cannot predict what future telecommunication services revenue from this customer may be. The percentage of telecommunication services revenue from another large customer during the fourth quarter was 32%. Telecommunication services revenue from this customer in the first quarter of 2001 is expected to decrease compared to the fourth quarter of 2000 by approximately 50% as the customer transferred some of their traffic to other carriers due to our financial condition in the early 2001 prior to the Counsel Corporation agreement. The Company cannot predict what future telecommunication services revenue from this customer may be.

There are no intersegment revenues. The Company's business is conducted principally in the U.S.; foreign operations are not material. The table below presents information about net loss and segment assets used by the Company as of and for the year ended December 31:

	For the Year Ending December 31, 2000			
	Telecommunication Services	Marketing Services	Technology Licensing and Development	Total Reportable Segments
Revenues from external customers	$ 20,567,000	$ 464,000	$ 9,373,000	$ 30,404,000
Interest revenue	--	--	--	--
Interest expense	16,000	--	--	16,000
Depreciation and amortization expense	2,409,000	15,000	98,000	2,522,000
Segment income (loss)	(10,599,000)	(204,000)	3,218,000	(7,585,000)
Other significant non-cash items:				
Amortization of deferred compensation on stock options	--	--	--	--
Provision for doubtful accounts	113,000	--	--	113,000
Expenditures for segment assets	5,528,000	--	8,000	5,536,000
Segment assets	14,832,000	--	201,000	15,033,000

	For the Year Ending December 31, 1999			
	Telecommunication Services	Marketing Services	Technology Licensing and Development	Total Reportable Segments
Revenues from external customers	$ 26,440,000	$ 3,673,000	2,507,000	$ 32,620,000
Interest revenue	--	--	--	--
Interest expense	51,000	--	--	51,000
Depreciation and amortization expense	2,128,000	115,000	115,000	2,358,000
Segment loss	(1,818,000)	(2,456,000)	(1,472,000)	(5,746,000)
Other significant non-cash items:				
Amortization of deferred compensation on stock options	163,000	557,000	--	720,000
Provision for doubtful accounts	3,703,000	--	--	3,703,000
Expenditures for segment assets	3,191,000	282,000	282,000	3,755,000
Segment assets	8,423,000	620,000	1,464,000	10,507,000

NOTE 14 - SEGMENT OF BUSINESS REPORTING, CONTINUED

	For the Year Ending December 31, 1998			
	Telecommunication Services	Marketing Services	Technology Licensing and Development	Total Reportable Segments
Revenues from external customers	$ 19,635,000	$ 4,548,000	$ 1,466,000	$ 25,649,000
Interest expense	63,000	--	--	63,000
	127,000	--	--	127,000
Depreciation and amortization expense	827,000	30,000	35,000	892,000
Segment loss	(5,258,000)	(1,332,000)	(1,823,000)	(8,413,000)
Other significant non-cash items:				
Amortization of deferred compensation on stock options	--	706,000	--	706,000
Provision for doubtful accounts	3,161,000	--	--	3,161,000
Expenditures for segment assets	1,012,000	46,000	56,000	1,114,000
Segment assets	7,006,000	115,000	883,000	8,004,000

The following table reconciles reportable segment information to the consolidated financial statements of the Company:

	2000	1999	1998
Total interest revenue for reportable segments	$ --	$ --	$ 63,000
Unallocated interest revenue from corporate accounts	487,000	179,000	207,000
	$ 487,000	$ 179,000	$ 270,000
Total interest expense for reportable segments	$ 16,000	$ 51,000	$ 127,000
Unallocated amortization of discount on notes payable	--	3,361,000	7,405,000
Unallocated interest expense associated with issuance of convertible debt	--	--	--
Unallocated interest expense from related party debt	1,054,000	1,571,000	851,000
Other unallocated interest expense from corporate debt	433,000	103,000	21,000
	$ 1,503,000	$ 5,086,000	$ 8,404,000
Total depreciation and amortization for reportable segments	$ 2,523,000	$ 2,358,000	$ 892,000
Unallocated amortization expense from intangible assets	2,612,000	2,894,000	2,894,000
Other unallocated depreciation from corporate assets	1,264,000	231,000	407,000
	$ 6,399,000	$ 5,483,000	$ 4,193,000
Total segment loss	$ (7,585,000)	$ (5,746,000)	$ (8,413,000)
Unallocated non-cash amount in consolidated net loss:			
Amortization of discount on notes payable	--	(3,361,000)	(7,405,000)
Loss on write-off and disposal of certain assets	--	(1,847,000)	--
Litigation settlement expense	(640,000)	--	--
Amortization of deferred compensation on stock options issued for services	(542,000)	(296,000)	(452,000)
Amortization of intangible assets	(2,612,000)	(2,894,000)	(2,894,000)
Acquired in-process research and development	--	--	--
Other corporate expenses	(14,373,000)	(10,016,000)	(8,616,000)
	$(25,752,000)	$(24,160,000)	$(27,780,000)

NOTE 14 - SEGMENT OF BUSINESS REPORTING, CONTINUED

	2000	1999	1998
Total amortization of deferred compensation for reportable segments	$ --	$ 720,000	$ 706,000
Unallocated amortization of deferred compensation	542,000	296,000	452,000
	$ 542,000	$ 1,016,000	$ 1,158,000
Expenditures for segment long-lived assets	$ 5,536,000	$ 3,755,000	$ 1,114,000
Unallocated expenditures for development of information systems	--	--	1,723,000
Other unallocated expenditures for corporate assets	93,000	703,000	422,000
	$ 5,629,000	$ 4,458,000	$ 3,259,000
Segment assets	$15,033,000	$10,507,000	$ 8,004,000
Intangible assets not allocated to segments	3,939,000	6,551,000	9,420,000
Furniture, fixtures and equipment not allocated to segments	954,000	1,240,000	1,496,000
Software and information systems not allocated to segments	443,000	228,000	2,476,000
Net assets of discontinued operations	--	--	417,000
Other assets not allocated to segments	809,000	3,132,000	2,042,000
	$21,178,000	$21,658,000	$23,855,000

NOTE 15 - COMMITMENTS

EMPLOYMENT AND CONSULTING AGREEMENTS

The Company has entered into employment and consulting agreements with eight employees, primarily executive officers and management personnel. These agreements generally continue over the entire term unless terminated by the employee or consultant of the Company, and provide for salary continuation for a specified number of months. Certain of the agreements provide additional rights, including the vesting of unvested stock options in the event a change of control of the Company occurs or termination of the contract without cause. The agreements contain non-competition and confidentiality provisions. As of December 31, 2000, if the contracts were to be terminated by the Company, the Company's liability for salary continuation would be approximately $1,165,000.

NOTE 16 - SUBSEQUENT EVENTS

TRANSACTIONS WITH WINTER HARBOR:

On March 1, 2001, Winter Harbor elected to convert a note payable from I-Link for $7,768,000 plus accrued interest of $2,537,072 ($2,376,498 as of December 31, 2000) into 4,122 shares of Series M convertible preferred stock of I-Link as allowed under the original loan agreement. Upon conversion of the debt, the company issued 5,000,000 warrants to Winter Harbor as required under the loan agreement.

On March 1, 2001 the Company entered into a Warrant Exchange Agreement with Winter Harbor. Pursuant to the terms and provisions of this Agreement, Winter Harbor agreed to assign, transfer, convey and deliver to I-Link warrants to acquire 33,540,000 (including 5,000,000 warrants issued upon conversion of the convertible debt discussed above) shares of common stock of I-Link beneficially owned by Winter Harbor in exchange for the issuance by I-Link to Winter Harbor of 5,000,000 shares of I-Link's common stock.

TRANSACTIONS WITH COUNSEL:

On March 1, 2001 I-Link entered into a Senior Convertible Loan and Security Agreement, (the "Loan Agreement") with Counsel Communications, LLC, ("Counsel LLC") and a wholly-owned subsidiary of Counsel Corporation, (collectively, "Counsel"). Pursuant to the terms and provisions of the Loan Agreement, Counsel LLC agreed to make periodic loans to I-

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NOTE 16 - SUBSEQUENT EVENTS, CONTINUED

Link in the aggregate principal amount not to exceed $10,000,000. Of that amount, $3,000,000 was available to I-Link immediately upon the execution of the Loan Agreement. The $10,000,000 capital investment is structured as a 3-year note convertible with interest at 9% per annum, compounded quarterly. Counsel LLC can convert the loan into shares of common stock of I-Link at a conversion price of $0.56 per common share. At any time after September 1, 2002, the outstanding debt including accrued interest shall automatically convert into common stock using the then current conversion rate, on the first date that is the twentieth consecutive trading day that the common stock has closed at a price per share that is equal to or greater than $1.00 per share. The conversion price is subject to adjustment in accordance with the terms and provisions of the Loan Agreement. The Loan Agreement provides for traditional anti-dilution protection and is subject to certain events of default. Proceeds to the Company will be $10,000,000 less debt issuance costs of approximately $700,000.

By executing the above Loan Agreement, I-Link granted Counsel LLC a first priority security interest in all of I-Link's assets owned at the time of the execution of the Loan Agreement or subsequently acquired, including but not limited to I-Link's accounts receivable, general intangibles, inventory, equipment, books and records, and negotiable instruments held by the Company (collectively, the "Collateral"). The Loan Agreement also included demand registration rights for common stock issuable upon conversion of the Loan Agreement.

In addition to the foregoing agreements, I-Link and Counsel LLC executed a Securities Support Agreement, dated March 1, 2001 (the "Support Agreement") for the purpose of providing certain representations and commitments by I-Link to Counsel LLC as an inducement to Counsel to enter into a separate agreement with Winter Harbor and First Media, L.P, a limited partnership and the parent company of Winter Harbor (collectively, the "Winter Harbor Parties") (the "Securities Purchase Agreement"). I-Link was not a party to the Securities Purchase Agreement. In accordance with the terms and provisions of the Securities Purchase Agreement, Counsel agreed to purchase from the Winter Harbor Parties all of the debt and equity securities in I-Link, including shares of Series M and Series N preferred stock of I-Link, beneficially owned by the Winter Harbor Parties for an aggregate consideration of $5,000,000.

I-Link's commitments to Counsel LLC set forth in the Support Agreement included I-Link's agreement to appoint two designees of Counsel, reasonably acceptable to the Company, to the Board of Directors of I-Link. The Company also agreed that immediately following the initial funding (which was received in March 2001) of the Loan Note, I-Link would solicit the proxies of I-Link's shareholders to elect three additional nominees designated by Counsel, thus, increasing the size of the Company's Board of Directors to nine members.

Under the Support Agreement, I-Link also agreed to engage appropriate advisors and proceed to take all steps necessary to merge Nexbell Communications Inc. (a subsidiary of Counsel LLC) into I-Link. The merger has not yet taken place nor have the terms been determined under which the merger may take place. Nexbell is a designated Cisco Powered Network member in the VoIP category and operates a private, managed packet telephony network delivering packet voice services to over 400 metropolitan areas in the United States.

On March 7, 2001, as part of the agreements discussed above, Counsel converted all of the Series M and N convertible preferred stock it obtained from Winter Harbor into 61,966,057 shares of I-Link's common stock. The Series N shares were converted at equivalent of $1.25 per common share and Series M at $.56 per common share, in accordance with their respective conversion features.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of
I-Link Incorporated and Subsidiaries:

In our opinion, the accompanying financial statement schedule is fairly stated in all material respects in relation to the basic financial statements, taken as a whole, of I-Link Incorporated and subsidiaries for the years ended December 31, 2000, 1999 and 1998, which are covered by our report dated March 19, 2001. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. This information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements.

PricewaterhouseCoopers LLP
Salt Lake City, Utah
March 19, 2001

I-LINK INCORPORATED AND SUBSIDIARIES
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions (a)	Balance at End of Period
Allowance for doubtful accounts:				
December 31, 1998	1,385,000	3,160,621	2,604,621	1,941,000
December 31, 1999	1,941,000	3,703,077	3,855,077	1,789,000
December 31, 2000	1,789,000	113,168	1,801,503	100,665

(a) For the allowance for doubtful accounts represents amounts written off as uncollectible and recoveries of previously reserved amounts.

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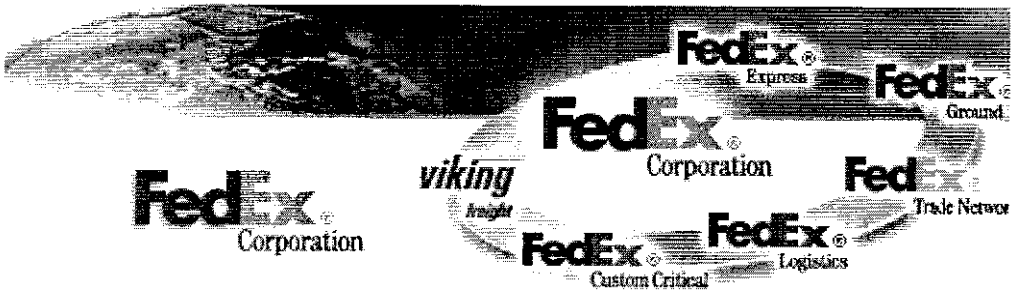

Help

Routing Slip - *Route to Mailroom for processing*

Package ID:

071120015 8-432-683

Sender's Information:

Name:	Ethan P. Holmes	Phone Number:	202-295-8352
Practice:	3000 K Street, NW Washington, DC 20007	Your Name:	M. Kunselman

Client/Matter #: 15214.0002

Recipients's Information:

Name:	D. Le Vine	Phone Number:	916-351-4400
Company:	California ISO		
Address 1:	151 Blue Ravine Road		
Address 2:			
City.	Folsom	State: CA	Zip: 95630

Package Information:

Service Type:	Payment:	Account Number:
FedEx Priority Overnight	Sender	
Saturday Delivery:	Release:	Residential Delivery:
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Mail Center Instructions:

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Show Recipients - Personal
Shipping History

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