



NETWORK | CO-LOCATION | DEDICATED HOSTING

Quarterly Report
September 30, 2006



Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At September 30, 2006
(unaudited - prepared by management)

	September 2006 US\$	June 2006 US\$
Assets		
Current:		
Cash and cash equivalents	5,359,917	5,666,477
Restricted Cash	505,000	505,000
Accounts receivable	4,743,231	5,241,027
Prepaid expenses	685,459	719,547
	<hr/> 11,293,607	<hr/> 12,132,051
Other assets	3,773,355	3,951,004
Property, plant and equipment	25,231,322	24,523,659
Goodwill, licences and other intangibles	6,766,402	7,676,380
	<hr/> 47,064,686	<hr/> 48,283,094
Liabilities		
Current:		
Accounts payable and accrued liabilities	7,477,635	10,038,981
Deferred revenue	3,677,805	3,748,932
Current portion of deferred gain	39,407	-
Current portion of deferred lease inducements	140,717	84,184
Current portion of notes payable	3,658,647	3,664,375
Income taxes payable	498,320	401,679
	<hr/> 15,492,531	<hr/> 17,938,151
Deferred gain	748,729	-
Deferred lease inducements	1,045,694	423,446
Notes payable	16,576,299	17,387,783
Long Term Debt	8,445,532	8,087,469
	<hr/> 42,308,785	<hr/> 43,836,849
Shareholders' Deficiency		
Common Shares	14,335,185	14,326,836
Warrants	1,060,865	1,060,865
Contributed Surplus	829,430	777,574
Deficit	(11,458,278)	(11,707,729)
Cumulative Translation Adjustment	(11,301)	(11,301)
	<hr/> 4,755,901	<hr/> 4,446,245
	<hr/> 47,064,686	<hr/> 48,283,094

Approved by the Directors:

"Lance Tracey"

"Michael Cytrynbaum"

Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three Months Ended September 30
(unaudited - prepared by management)

	Three Months Ended September 2006 US\$	Three Months Ended September 2005 US\$
Revenue	17,486,167	9,678,279
Cost of Sales	11,266,206	5,959,856
Gross Profit	6,219,961	3,718,423
Operating expenses	4,447,782	2,623,114
Operating Income before other items	1,772,179	1,095,309
Other Items:		
Amortization of preferred share discount	357,139	144,227
Interest expense - long term	825,826	992,497
Interest expense - short term	-	34,854
Interest accretion on notes payable	55,655	477,624
Integration costs	224,562	67,563
Foreign exchange loss (gain)	(32,887)	383,469
Gain on disposal of fixed assets	(4,685)	-
Loss from equity accounted investment	-	13,114
Income (Loss) before income taxes	346,569	(1,018,039)
Income tax expense	97,118	-
Income (Loss) for the period	249,451	(1,018,039)
Deficit, beginning of period	(11,707,729)	(8,520,249)
Deficit, end of period	(11,458,278)	(9,538,288)
Basic earnings (loss) per share	0.00	(0.02)
Diluted earnings (loss) per share	0.00	(0.02)

Peer 1 Network Enterprises, Inc.
Consolidated Statement of Cash Flows
Three Months Ended September 30
(unaudited – prepared by management)

	Three Months Ended September 2006 US\$	Three Months Ended September 2005 US\$
Cash flows from operating activities		
Income (Loss) for the period	249,451	(1,018,039)
Amortization	2,605,764	1,440,876
Amortization of preferred share discount	357,139	144,227
Stock-based compensation included in income (loss) for period	54,748	25,565
Increase in deferred lease inducements	678,781	61,141
Settlement of loan renewal fee	-	400,000
Bad debt expense	210,419	161,780
Loss (Gain) on disposal of property and equipment	(4,685)	-
Increase in accrued interest and accretion on notes payable	47,712	738,593
	4,199,329	1,954,143
Change in non-cash working capital items		
(Increase) decrease in accounts receivable	287,377	(1,604,620)
(Increase) decrease in prepaid expenses	34,088	(1,427,301)
Increase (decrease) in accounts payable and accrued liabilities	(3,457,859)	1,303,548
Increase in income taxes payable	96,641	-
Increase in deferred revenue	(71,127)	1,804,851
	1,088,449	2,030,621
Cash flows from investing activities		
Acquisition of property and equipment	(2,152,967)	(13,632,373)
Investment in goodwill, licences and other intangibles	(324,694)	(3,327,546)
Proceeds on disposition of equipment	13,360	-
Investment in other assets	177,649	(2,844,727)
	(2,286,652)	(19,804,646)
Cash flows from financing activities		
Proceeds from (repayment of) notes payable and long term debt	(864,000)	25,330,983
Share capital issued	5,457	87,640
Net proceeds on sale leaseback	1,750,186	-
Repayment of shareholder notes	-	(2,249,629)
	891,643	23,168,994
Increase (Decrease) in cash and cash equivalents	(306,560)	5,394,969
Cash and cash equivalents - beginning of period	5,666,477	292,071
Cash and cash equivalents - end of period	5,359,917	5,687,040

Notes to Unaudited Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation:

Peer 1 Network Enterprises, Inc. ("the Company") was incorporated under the laws of British Columbia. The Company is a provider of Internet infrastructure solutions and related managed services. Peer 1's service offerings include bandwidth, co-location, and dedicated hosting services. Customers include hosting providers, online gaming companies, Internet phone (VoIP) companies and small and medium-sized businesses across North America. Peer 1 has established data centers and points of presence ("POPs") in 17 cities across North America and Europe including: Vancouver, Toronto, Montreal, New York, Seattle, San Jose, San Antonio, Los Angeles, Miami, Atlanta, Fremont, Herndon, Ashburn, Chicago, Dallas, Amsterdam and London, England.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly do not include all information and note disclosures required for the annual financial statements under Canadian generally accepted accounting principles. It is management's opinion that all adjustments considered necessary for fair presentation of the financial position, results of operations and cash flow for the three month period have been made. These financial statements have been prepared in accordance with the same accounting principles applied in the preparation of the annual audited consolidated financial statements filed with the British Columbia Securities Commission for the fiscal year ended June 30, 2006. The annual financial statements should be referenced in conjunction with this interim report. Certain comparative amounts have been reclassified to correspond to the presentation in the current period.

2. Basis of Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Peer 1 Network Inc., Peer 1 Network (USA) Inc., Peer 1 Network (Seattle) Inc., Peer 1 Network (San Jose) Inc., Peer 1 Network (New York) Inc., Peer 1 Network (Nevada) GP, Inc., Peer 1 Network (Nevada) LP, Inc., ServerBeach Ltd., Data Center Technologies IP Inc., Peer 1 Dedicated Hosting Inc., Colobrokers.com Inc., 585065 B.C. Ltd., Peer 1 Network (Texas), LP and, Peer 1 Network (LA), Inc.

3. Functional And Reporting Currency Change:

Effective October 1, 2005, the Company changed its functional currency to the US dollar from the Canadian dollar in order to more accurately represent the currency of the economic environment in which it operates as a result of increasing US dollar denominated revenues and expenditures. Concurrent with the change in its functional currency, the Company has adopted the US dollar as its reporting currency. For comparative purposes, the results for the three months ended September 30, 2006 have been presented in US dollars. The consolidated financial statements of the Company for the comparative periods ended on or before June 30, 2005 which were based on the Canadian functional currency have been translated into the US reporting currency using the current rate method as follows: assets and liabilities using the rate of exchange prevailing at the balance sheet date; shareholders' equity using the applicable

historic rate; and revenues and expenses using a monthly average rate of exchange. Translation adjustments have been included as part of the cumulative translation adjustment.

For periods commencing July 1, 2005 monetary assets and liabilities denominated in foreign currencies are translated into US dollars using exchange rates in effect at the balance sheet date. All other assets and liabilities are translated at the exchange rates prevailing at the dates the assets were acquired or liabilities incurred. Revenue and expense items are translated at the average exchange rate for the period. Foreign exchange gains and losses are included in the determination of the income for the period.

4. Share Capital

a) Authorized :

Unlimited Common shares without par value

Unlimited Preferred shares without par value

b) Issued and Fully Paid:

	Number	Amount
Balance, June 30, 2006	77,325,913	\$ 14,326,836
Stock Option Exercise	<u>16,000</u>	<u>8,349</u>
Balance, September 30, 2006	<u>77,341,913</u>	\$ <u>14,335,185</u>

c) Warrants Outstanding

The following non-transferable share purchase warrants are outstanding:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Outstanding 6/30/2006</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 9/30/2006</i>
Jul 18, 2007	Cdn\$0.40	3,100,000			3,100,000
Sept 2, 2010	US\$0.23	2,306,571			2,306,571
Jan 31, 2011	Cdn\$0.40	833,333	-	-	833,333
		6,239,904	-	-	6,239,904

d) Contributed Surplus:

	Amount
Balance, June 30, 2006	\$ 777,574
Stock options exercised	(2,902)
Stock based compensation	<u>54,758</u>
Balance, September 30, 2006	\$ <u>829,430</u>

e) Shares held in escrow:

As of September 30, 2006, 7,365,601 shares of the Company are subject to an escrow agreement and may not be transferred, assigned, or otherwise dealt with without the consent of the regulatory body that has jurisdiction.

f) Stock Options

The company has the following stock options outstanding:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Outstanding 6/30/2006</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 9/30/2006</i>
May 30, 2011	Cdn\$0.75	75,000			75,000
April 3, 2011	Cdn\$0.65	465,000			465,000
Sept 6, 2011	Cdn\$0.63	-	2,973,100		2,973,100
Jan 16, 2011	Cdn\$0.59	200,000			200,000
Jan 31, 2011	Cdn\$0.55	40,000			40,000
Dec 1, 2010	Cdn\$0.47	500,000			500,000
Nov 30, 2010	Cdn\$0.47	10,000			10,000
May 30, 2009	Cdn\$0.46	15,000		5,000	10,000
July 24, 2007	Cdn\$0.45	2,128,250			2,128,250
Nov 7, 2007	Cdn\$0.45	300,000			300,000
June 30, 2009	Cdn\$0.45	15,000			15,000
Sept 30, 2010	Cdn\$0.45	2,500			2,500
March 8, 2009	Cdn\$0.44	300,000			300,000
Jan 29, 2009	Cdn\$0.42	10,000			10,000
Oct 6, 2010	Cdn\$0.41	100,000			100,000
Oct 31, 2010	Cdn\$0.40	2,500			2,500
Nov 7, 2007	Cdn\$0.39	100,000			100,000
July 29, 2010	Cdn\$0.39	110,000			110,000
Oct 20, 2009	Cdn\$0.38	175,000		5,000	170,000
Aug 31, 2010	Cdn\$0.36	7,500			7,500
May 31, 2010	Cdn\$0.35	35,000			35,000
Sept 9, 2008	Cdn\$0.32	332,000		6,000	326,000
Sept 30, 2009	Cdn\$0.31	5,000			5,000
Mar 1, 2010	Cdn\$0.30	30,000			30,000
Feb 28, 2010	Cdn\$0.30	10,000			10,000
Apr 30, 2010	Cdn\$0.30	20,000			20,000
Nov 30, 2009	Cdn\$0.28	12,000			12,000
Dec 31, 2009	Cdn\$0.28	10,000		5,000	5,000
Jan 31, 2010	Cdn\$0.24	15,000			15,000
		5,024,750	2,973,100	21,000	7,976,850

5. Related Party Transactions

The Company has entered into a number of related party transactions with companies either owned or subject to significant influence by management, directors and principal shareholders.

The significant transactions with related parties are as follows:

2007 **2006**

Transactions during the quarter -

Revenue earned	\$40,094	\$24,312
Interest expensed	-	\$585,669
Other expenses	\$101,901	\$1,718,379

These transactions are in the normal course of operations and are measured at their exchange amounts, which is the amount of consideration established and agreed to by the related parties. Included in other expenses is \$0 (\$139 in 2006) in accounts receivable that has been written off.

2007 **2006**

Balances at quarter end -

Accounts receivable from related companies	\$73,192	\$22,515
Accounts payable to a related party	\$1,984	\$4,402

The balances are payable on demand and have arisen from the sale of products and provision of services referred to above.

6. Segmented Information

Following the acquisition of ServerBeach assets on October 20, 2004 and commencement of the provision of dedicated servers, two reporting segments are now in operation.

	<i>Three months ended September 30, 2006</i>			<i>Three months ended September 30, 2005</i>		
	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>
Revenue	\$4,997,433	\$12,488,734	\$17,486,167	\$4,680,812	\$4,997,467	\$9,678,279
Income (loss)	\$(630,247)	\$879,698	\$249,451	\$(1,171,965)	\$153,926	\$ (1,018,039)
Total						
Assets	\$17,530,391	\$29,534,295	\$47,064,686	\$18,207,939	\$28,421,329	\$ 46,629,268

The Company operates in two geographic segments, USA and Canada.

	<i>Three months ended September 30, 2006</i>			<i>Three months ended September 30, 2005</i>		
	<i>USA</i>	<i>Canada</i>	<i>Total</i>	<i>USA</i>	<i>Canada</i>	<i>Total</i>
Revenue	\$13,766,177	\$ 3,719,990	\$17,486,167	\$6,595,555	\$3,082,724	\$9,678,279
Income (loss)	\$(278,391)	\$527,842	\$249,451	\$(368,235)	\$(649,804)	\$ (1,018,039)
Total						
Assets	\$35,200,345	\$11,864,341	\$47,064,686	\$36,603,975	\$10,025,293	\$ 46,629,268