



NETWORK | CO-LOCATION | MANAGED HOSTING

**Consolidated Financial Statements
For The Fiscal Years Ended June 30, 2008 and 2007**



AUDITORS' REPORT

To the Shareholders of **Peer 1 Network Enterprises, Inc.:**

We have audited the consolidated balance sheets of Peer 1 Network Enterprises, Inc. (the "Company") as at June 30, 2008 and 2007 and the consolidated statements of operations, comprehensive income and deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Cinnamon Jang Willoughby & Company"

Chartered Accountants

Burnaby BC, Canada

August 31, 2008

Comments by Independent Registered Chartered Accountants for U.S Readers on Canada-United States of America Reporting Differences

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are differences in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the changes described in Note 18 to the financial statements. Our report to the shareholders dated August 31, 2008 is expressed in accordance with Canadian reporting standards which do not require a reference to such differences in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) that refers to the audit report on the Company's internal control over financial reporting. Our report to the shareholders dated August 31, 2008 is expressed in accordance with Canadian reporting standards, which do not require a reference to the audit report on the Company's internal control over financial reporting in the financial statement auditors' report.

"Cinnamon Jang Willoughby & Company"

Chartered Accountants

Burnaby BC, Canada

August 31, 2008

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Balance Sheet
June 30, 2008
(in thousands of United States dollars)

Assets	2008	2007
Current:		
Cash and cash equivalents	\$ 11,026	\$ 8,754
Restricted cash (Note 3)	250	505
Accounts receivable	4,704	4,424
Future income tax asset (Note 12)	104	1,392
Prepaid expenses	801	689
	16,885	15,764
Other assets (Note 4)	2,825	4,079
Future income tax asset (Note 12)	1,841	2,574
Property and equipment (Note 5)	33,818	26,924
Equipment under capital lease (Note 6)	1,267	-
Goodwill	1,715	1,715
Intangible Assets (Note 8)	2,500	3,030
	\$ 60,851	\$ 54,086
Liabilities		
Current:		
Accounts payable and accrued liabilities	\$ 8,810	\$ 8,754
Deferred revenue	4,206	4,236
Current portion of deferred gain (Note 7)	79	79
Current portion of deferred lease inducements (Note 9)	134	144
Current portion of notes payable (Note 10)	3,286	3,350
Current portion of obligations under capital lease (Note 6)	226	-
Income taxes payable	1,435	476
	18,176	17,039
Deferred gain (Note 7)	571	650
Deferred lease inducements (Note 9)	739	965
Notes payable (Note 10)	12,008	16,257
Obligation under capital lease (Note 6)	655	-
	32,149	34,911
Shareholders' Equity		
Capital stock (Note 11)	26,539	25,254
Warrants (Note 11)	678	917
Contributed surplus (Note 11)	2,509	1,092
Deficit per consolidated statement of operations, comprehensive income and deficit	(1,013)	(8,077)
Accumulated other comprehensive loss	(11)	(11)
	28,702	19,175
	\$ 60,851	\$ 54,086

Commitments and contingencies (Note 16)
Subsequent events (Note 19)

On behalf of the Board of Directors

“Chris Theodoropoulos”
Director

“David Harrison”
Director

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statement of Operations and Deficit
For the Year Ended June 30, 2008
(in thousands of United States dollars, except per share amounts)

	2008	2007
Revenue		
Co-location Services	\$27,397	\$21,401
Dedicated Hosting Services	<u>61,950</u>	<u>52,696</u>
	89,347	74,097
Cost of revenue	48,835	45,594
Gross profit	40,512	28,503
Operating expenses	25,824	21,153
Operating Income before other items	14,688	7,350
Other Items:		
Interest income	(328)	(336)
Amortization of preferred share discount	-	1,361
Integration costs	93	650
(Gain) Loss on disposal of property plant & equipment	(12)	138
Foreign exchange loss (gain)	367	(33)
Impairment of intangible assets (Note 8)	-	1,185
Interest expense – long term	2,267	3,432
	2,387	6,397
Income before income taxes	12,301	953
Income tax expense (recovery) (Note 12)	5,237	(2,678)
Net Income and comprehensive income	7,064	3,631
Deficit, beginning	8,077	11,708
Deficit, ending	\$ 1,013	\$ 8,077
Basic and diluted income per share (Note 11)	\$ 0.06	\$ 0.04

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2008
(in thousands of United States dollars)

	2008	2007
Operating Activities:		
Net Income	\$ 7,064	\$ 3,631
Adjustments for -		
Amortization of preferred share discount	-	1,361
Amortization of property and equipment	9,458	9,415
Amortization of intangible assets	1,590	1,530
Increase in accrued interest and accretion of convertible debt	18	142
Bad debt expense	494	628
(Gain) Loss on disposal of property and equipment	(12)	138
Impairment of intangible assets	-	1,185
Amortization of deferred gain	(79)	(59)
Amortization of deferred loan origination fees	648	946
Future income tax expense (recovery)	2,040	(3,962)
Stock-based compensation included in income for the year	1,453	449
(Decrease) Increase in deferred lease inducements	(236)	602
Changes in non-cash working capital -		
Decrease (Increase) in accounts receivable	(775)	189
Decrease (Increase) in prepaid expenses	(112)	31
Increase (Decrease) in accounts payable and accrued liabilities	341	(1,852)
Increase in income taxes payable	912	74
(Decrease) Increase in deferred revenue	(30)	487
Cash flows from operating activities	22,774	14,935
Investing Activities:		
Decrease in restricted cash	255	-
Investment in other assets	(177)	(1,310)
Acquisition of property and equipment	(17,017)	(11,165)
Acquisition of intangible assets	(975)	(1,017)
Proceeds on disposition of equipment	46	51
Cash flows used in investing activities	(17,868)	(13,441)
Financing Activities:		
Net Proceeds on sale leaseback	-	1,750
Repayments of notes payable	(3,554)	(3,456)
Proceeds from notes payable	-	1,869
Payment of capital lease obligations	(91)	-
Issuance of capital stock	1,011	1,431
Cash flows (used in) from financing activities	(2,634)	1,594
Increase in Cash and Equivalents	2,272	3,088
Cash and Equivalents, beginning	8,754	5,666
Cash and Cash Equivalents, ending	\$ 11,026	\$ 8,754

Supplemental Disclosure of Cash Flow Information (Note 13)

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
June 30, 2008
(tabular dollar amounts are presented in thousands of
United States dollars, except number of shares and per share amounts)

1. Nature of Operations:

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. The Company provides co-location facilities with high performance Internet bandwidth and dedicated servers to web-centric and enterprise customers across North America. The Company has established local offices and data centres throughout Canada and the USA, and also has established points of presence in London, UK and Amsterdam in the Netherlands. The corporate headquarters are in Vancouver.

2. Significant Accounting Policies:

a) Basis of Consolidated Financial Statements -

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 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.

b) Cash and Cash Equivalents -

Cash and cash equivalents consist of cash and highly liquid money market instruments.

c) Property and Equipment -

The following assets are recorded at cost. Amortization is provided on a declining balance basis at the following annual rates:

Data Centre equipment	20%
Computer equipment	30%
Furniture and fixtures	30%
Network equipment	20%
Equipment under capital lease	20%

Dedicated servers rented to customers as part of the dedicated server business unit are amortized straight line over their expected useful life, which varies from 24 to 36 months. Inventory of parts held for server assembly are classified in this component of property and equipment, and are not subject to amortization until the assets are put into use.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
June 30, 2008
(tabular dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

c) Property and Equipment - (continued) -

Amortization of leasehold improvements is provided on a straight-line basis over the terms of the respective leases.

The carrying values of property and equipment are reviewed when indications of impairment exist. When the net carrying amount of the property and equipment exceeds the estimated net recoverable amount, the asset is written down to its estimated fair value and a charge is recorded in the consolidated statement of operations.

d) Leases -

Leases are classified as either capital or operating leases. A lease that transfers substantially all the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the future minimum lease payments or the property's fair value at the beginning of such lease.

e) Goodwill -

Goodwill is recorded at the amount originally recognized. Goodwill is tested for impairment in value on an annual basis. Fair value is determined based on the present value of discounted cash flows. Following the impairment test at year-end, management has concluded that there has been no impairment in the value of goodwill.

f) Intangible assets –

Computer software comprising PC based software acquired for internal use is amortized on a straight line basis over three years. Computer software acquired as a component of revenue producing assets, or internal systems such as accounting or customer relations management systems is amortized over the expected useful life of the software. Amortization commences when the asset is put into service. Licenses are recorded at cost. Amortization is provided on a straight-line basis over the term of the licenses.

g) Deferred Lease Inducements -

Lease inducements, including rent free periods, are deferred and accounted for as a reduction of rent expense over the term of the related leases on a straight-line basis.

h) Debt Instruments -

Where the Company issues debt instruments with detachable warrants or conversion options in connection with a debt instrument, the estimated fair market value of the warrants and conversion feature are credited to shareholders' equity. The reduced liability component of the debt is accreted by a charge to interest expense.

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Notes to Consolidated Financial Statements
June 30, 2008
(tabular dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

i) Future Income Taxes -

Income taxes are calculated using the asset and liability method of tax allocation. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet, and unutilized losses carried forward are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the year that the temporary differences are expected to reverse. The carrying value of the future income tax asset is limited to the amount that is more likely than not to be realized.

j) Financing Costs -

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs incurred to obtain debt financing are netted against the related indebtedness, deferred and amortized by a charge to interest expense over the term of the related debt using the effective interest rate method. Financing costs expensed for 2008 are \$ 648,459 (\$946,382 in 2007).

k) Capitalization of Internally Developed Software –

Internally developed software is stated at cost less accumulated amortization and is amortized using the straight line method over its estimated useful life. Software assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. Costs are capitalized during the software application development stage. Upgrades and enhancements are capitalized if they result in added functionality which enables the software to perform tasks it was previously incapable of performing.

Software maintenance, training, data conversion and business process reengineering costs are expensed in the period in which they are incurred.

l) Foreign Currency Translation -

Monetary assets and liabilities denominated in currencies other than United States dollars are translated at the rate of exchange in effect at the end of the year. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains or losses are recognized immediately in the consolidated statement of operations.

The Company's non-US subsidiaries are managed as integrated operations and accordingly are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year. Exchange gains or losses arising from the translation are included in operations.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
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2. Significant Accounting Policies: (continued)

m) Revenue Recognition -

The two primary sources of revenue are from Co-location Services and Dedicated Hosting Services. Co-location Services includes Co-location, Internet bandwidth connectivity, and other Co-location related services including, IP monitoring, tape back-up, technical support, additional access cards, additional power and DNS services. Dedicated Hosting Services includes the provision of dedicated hosting servers and Internet bandwidth connectivity. Co-location Services and Dedicated Hosting Services revenue is recognized once an agreement is in place, the price is fixed or determinable, the service is provided and there is probable assurance of cash collection. Revenue is earned through monthly charges at contractually agreed upon prices. Revenue is recognized ratably over the term of the contract as services are provided to the customer. One-time installation fees are deferred and recognized on a straight-line basis over the contractual period, which typically varies from six months to three years.

n) Stock-based Compensation -

The Company has a stock-based compensation plan for executives and other key employees. The stock-based compensation expense is recognized in accordance with CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Beginning January 1, 2004, the Company changed its accounting policy related to employee stock options, and began to recognize compensation expense for stock or stock option grants to employees, based on the fair value of the stock or stock options issued. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options is recorded as share capital.

o) Earnings Per Share -

The diluted earnings per share is calculated based on the weighted-average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. The basic earnings per share is calculated based on the weighted-average number of common shares outstanding during the year.

p) Use of Estimates -

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Significant estimates are used in determining, but are not limited to, the valuation of accounts receivable, the estimated useful lives of property and equipment and intangible assets, the recoverability of long-lived assets, the measurement of accrued liabilities, the measurement of future income tax valuation allowances and stock-based compensation expense. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results may differ from these estimates.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
June 30, 2008
(tabular dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

q) Comparative Numbers –

The 2007 comparative figures have been reclassified, where applicable, in order to conform with the presentation used in the current year.

r) Changes in Accounting Policies –

Effective July 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861

Financial Instruments – Disclosure and Presentation and, section 3865, Hedges, retroactively without restatement. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition, measurement and presentation of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook sections had no impact on opening deficit.

Under section 3855, financial instruments must be classified into one of these five categories: held for trading, held-to-maturity, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, obligations under capital lease and notes payable are classified as other financial liabilities.

The Company had neither available for sale, nor held-to-maturity instruments during the year ended June, 30, 2008.

The Company had no "other comprehensive income or loss" transactions during the year ended June 30, 2008. The effect of the adoption of these standards was that (\$11), the opening balance of Cumulative translation adjustment was reclassified to Accumulated other comprehensive loss.

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Notes to Consolidated Financial Statements
June 30, 2008
(tabular dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

r) Changes in Accounting Policies – (continued)

Prior to July 1, 2007 transaction and financing costs incurred to obtain financing were deferred and amortized on a straight-line basis over the term of the respective indebtedness. The unamortized balance was included in Other assets. Pursuant to CICA Handbook Section 3855, effective July 1, 2007, transactions and financing costs are capitalized to the related liability and are measured at amortized cost using the effective interest method. The Company recalculated the amortization of the loan origination fees for the prior period using the effective interest method and concluded that the difference is immaterial, and therefore no adjustment has been made to opening balances at July 1, 2007.

The effect of the adoption of these standards is summarized in the following table:

	As at June 30, 2007	Reclassified to accumulated other comprehensive loss	Adjustment on adoption of new standards	As at July 1, 2007
Other assets	\$ 4,079	\$ -	\$ (1,507)	\$ 2,572
Notes payable	16,257	-	(1,507)	14,750
Shareholders' Equity cumulative				
Translation adjustment	(11)	11	-	-
Accumulated other Comprehensive loss	\$ -	\$ (11)	\$ -	\$ (11)

Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, are stated at amounts approximating fair value due to their short-term nature. The fair values of notes payable and obligations under capital lease are stated at amounts that approximate their fair value.

s) Recent Accounting Pronouncements -

In December 2006, the CICA released new Handbook Section 1535, Capital Disclosures, effective for annual and interim periods beginning on or after October 1, 2007. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital. The Company will adopt this standard on July 1, 2008.

In December 2006, the CICA released new Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentations effective for annual and interim periods beginning on or after October 1, 2007. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
June 30, 2008
(tabular dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

s) Recent Accounting Pronouncements - (continued)

classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The Company will adopt these standards on July 1, 2008.

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets effective for interim and annual periods on or after Oct 1, 2008. Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Financial Reporting Standards (“IFRS”) IAS 38, Intangible Assets. This new standard is effective for the Company’s interim and annual financial statements commencing July 1, 2009. The Company is assessing the impact of the new standard on its financial statements.

In February 2008, the CICA’s Accounting Standards Board confirmed its strategy of replacing Canadian generally accepted accounting principles with IFRS for Canadian publicly accountable enterprises. These new standards will be effective for the Company’s interim and annual financial statements commencing July 1, 2011. The Company is assessing the impact of the transition to IFRS on its financial statements.

3. Restricted Cash:

The Company has issued a letter of credit of \$250,000 (\$505,000 in 2007) to a landlord in lieu of deposit requirements. The letter of credit has a term of one year, with annual renewal provisions. Certificate of deposit for the full amount of the issued letter of credit has been pledged as security, and is disclosed on the balance sheet as restricted cash.

4. Other Assets:

	2008	2007
Financing costs	\$ -	\$1,515
Network installation fees	82	94
Security deposits	2,729	2,456
Sublease rent incentive	14	14
	\$2,825	\$4,079

PEER 1 NETWORK ENTERPRISES, INC.

Notes to Consolidated Financial Statements

June 30, 2008

**(tabular dollar amounts are presented in thousands of
United States dollars, except number of shares and per share amounts)**

5. Property and Equipment:

	Cost	2008 Accumulated Amortization	Net
Computer equipment	\$ 1,326	\$ 566	\$ 760
Data Centre equipment	6,216	2,439	3,777
Dedicated servers	29,213	17,373	11,840
Furniture and fixtures	493	134	359
Leasehold improvements	13,464	4,225	9,239
Network equipment	11,379	3,536	7,843
	\$62,091	\$28,273	\$33,818

	Cost	2007 Accumulated Amortization	Net
Computer equipment	\$ 949	\$ 369	\$ 580
Data Centre equipment	4,975	1,793	3,182
Dedicated servers	20,360	11,909	8,451
Furniture and fixtures	303	68	235
Leasehold improvements	12,670	2,909	9,761
Network equipment	7,658	2,943	4,715
	\$46,915	\$19,991	\$26,924

Included in total cost is \$782,976 for projects which have not yet been put into use and have therefore not incurred amortization during the year.

In 2008, expenditures for property & equipment were \$16,608,797 (\$12,008,061 in 2007).

6. Equipment Under Capital Lease:

In February 2008, the company entered into a master capital lease agreement to acquire the right of use of certain network equipment. The leases under the master capital lease carry an interest rate of 6.3% and expire in January 2012. There are 5 separate leases under the master lease agreement with a term of 4 years and a \$1 purchase option per lease at expiry.

	Cost	2008 Accumulated Amortization	Net
Network equipment	\$1,357	\$90	\$1,267

PEER 1 NETWORK ENTERPRISES, INC.

Notes to Consolidated Financial Statements

June 30, 2008

(tabular dollar amounts are presented in thousands of
United States dollars, except number of shares and per share amounts)

6. Equipment Under Capital Lease: (continued)

Nil in 2007

	2008	2007
Total minimum lease payments payable	\$982	\$ -
Portion representing interest to be expensed over the remaining term of the leases	101	-
Principal Outstanding	881	-
Less: Current portion	226	-
Non-Current portion	\$655	\$ -

In aggregate the future minimum lease payments are \$ 981,566. The following is a schedule of
future minimum lease payments under the capital lease expiring Jan 31, 2012:

2009	\$274
2010	\$274
2011	\$274
2012	\$160

7. Sales and Leaseback:

On August 9, 2006 the Company exercised its option to purchase its leased data centre property located at 2300 NW Place, Miami, Florida. The gross purchase price was \$4,617,266 and was subject to closing adjustments. On September 26, 2006 the Company subsequently entered into a sale and leaseback arrangement for this property. The gross sale price was \$5,600,000. The Company leased the premises back from the purchaser for an initial term of 10 years with the option to renew for a further two 5 year periods. After adjustments, the Company recorded a deferred gain of \$788,135 on this transaction which is being amortized over the term of the lease. The unamortized balance of the deferred gain is \$ 650,212 (2007 - \$729,026).

8. Intangible Assets:

	Cost	2008 Accumulated Amortization	Net
Licenses	\$4,727	\$3,466	\$1,261
Computer software	3,076	1,837	1,239
	\$7,803	\$5,303	\$2,500

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Notes to Consolidated Financial Statements
June 30, 2008
(tabular dollar amounts are presented in thousands of
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8. Intangible Assets: (continued)

	Cost	2007 Accumulated Amortization	Net
Licenses	\$4,727	\$2,521	\$2,206
Computer software	2,017	1,193	824
	\$6,744	\$3,714	\$3,030

During 2007, the Company recorded an amount of \$1,185,000 with respect to an impairment provision on capitalized internally developed software. Events and circumstances indicated that the carrying value of these assets was not recoverable over their remaining lives and the assets were considered to have no future benefit to the Company. The impairment provision for the comparative year ended June 30, 2007 is shown on the income statement on the line caption *Impairment of intangible assets*.

Included in computer software is \$850,155 relating to system integration software which has not yet been put into service and therefore was not amortized during the year.

In 2008, expenditures for intangible assets were \$1,058,822 (\$741,625 in 2007).

9. Deferred Lease Inducements:

	2008	2007
Deferred lease inducements	\$873	\$1,109
Less: Current portion	134	144
	\$739	\$ 965

10. Notes Payable:

Notes payable include amounts payable to Fortress Credit Corp. Pursuant to the adoption of CICA Handbook Section 3855, amounts are shown net of related transaction and financing costs. Details are as follows:

	2008	2007
Notes payable	\$16,243	\$19,862
Unamortized deferred loan origination fees	781	
Unamortized proceeds allocated to warrants	168	255
Notes payable, net of related transaction and financing costs	\$15,294	\$19,607
Less: Current portion	(3,286)	(3,350)
	\$12,008	\$16,257

(Please also refer to Note 2 r.)

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
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10. Notes Payable: (continued)

On May 25, 2007 Peer 1 entered into a US\$40 million amended and restated loan agreement with Fortress Credit Corp., of which US\$20 million has been advanced. The loan agreement (the “amended and restated LSA”) is by and among Peer 1 Network (USA), Inc. and each of its subsidiaries that are signatories thereto as borrowers (the “Borrowers”), the Company and each of its subsidiaries that are signatories thereto as guarantors (the “Guarantors”), and Fortress Credit Corp. (“Fortress”) as the lender, arranger and administrative agent. Pursuant to the LSA, Fortress agreed to make two senior secured credit facilities (the “Credit Facilities”) available to the Borrowers: a term loan (the “Term Loan”) in the amount of US\$20 million; and a line of credit facility (the “Line”), in the maximum amount of US\$20 million.

The Term Loan

On May 29, 2007 (the “Closing Date”), the Term Loan was fully advanced in the amount of US\$20 million. The advances were comprised of the aggregate principal outstanding under previous term loan facilities with Fortress totaling approximately \$18,130,943 as at the Closing Date (initially advanced in 2005), together with such additional principal as is necessary to bring the total principal amount outstanding as at the Closing Date to US\$20 million. The Term Loan has a term of three years and is repayable in payments of \$266,667 per month. The credit facility shall terminate and all loans and other obligations outstanding shall be payable in full on the third anniversary of the Closing Date (the “Maturity Date”), subject to the option for Peer 1 to extend the credit facility for an additional two years upon giving no less than 90 days’ notice to Fortress before the Maturity Date.

The Line

The Line has been made available to the Borrowers in order to finance future acquisitions and growth capital expenditures. Borrowings under the Line can be made up to US\$20 million provided that as of the date of any borrowing, after giving effect to the requested borrowing, the Borrowers’ total funded debt outstanding under the Term Loan and the Line does not exceed 2.5 times actual trailing twelve month EBITDA (“TTM EBITDA”) as defined under the terms of the agreement. There is an annual standby fee of one-half of one percent of the difference between the monthly balance of the Line commitment amount and the outstanding borrowings under the Line, payable 1/12th monthly. Draws under the Line will amortize monthly based upon the following schedule:

Year 1: 1.25% of the outstanding balance;
Year 2: 2.0% of the outstanding balance; and
Year 3: 2.0% of the outstanding balance.

The Borrowers will repay the entire unpaid principal balance of the credit facility, including amounts owing under the Line, on the Maturity Date. The Borrowers shall have the ability, at their option, to terminate the Line on the first anniversary of the Closing Date if no advances have been made under the Line during that period. The Line will automatically terminate on the second anniversary of the Closing Date if no advances have been made under the facility during that time. As of June 30, 2008, no advances have been made under the Line.

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10. Notes Payable: (continued)

Security

The Credit Facilities are secured by a first priority lien on all assets of the Borrowers including, but not limited to, capital, stock, accounts receivable, inventory, property, plant and equipment and all real and personal property owned and used by the Borrowers in connection therewith, intangible assets, trademarks, brands and all products and proceeds thereof.

Loan Prepayments

A portion of the net proceeds received by any of the Borrowers from the issuance of equity securities must be used to prepay the loan. Additionally, the proceeds from the sale of any assets in excess of \$250,000 in a fiscal year must be used to prepay the loan.

Interest Rate

Obligations under the Credit Facilities will accrue interest at the rate equal to the greater of (a) 30-day LIBOR, or (b) three percent, plus the percent per annum equal to the Applicable Margin set forth below:

Total Debt / actual TTM EBITDA	Applicable Margin
> 2.00x, <= 2.50x	4.25%
> 1.00x, <= 2.00x	3.25%
<= 1.00x	3.00%

In connection with the original Loan and security Agreement (prior to the amendment) the Company issued warrants entitling the holders to acquire 2,306,570 Common shares at \$0.23 per share for a period of five years.

The Company is in compliance with the terms and conditions of the debt.

11. Shareholders' Equity:

Capital Stock:

a) Authorized –

Unlimited Common shares without par value

Unlimited Preferred shares without par value

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11. Shareholders' Equity: (continued)

b) Issued and Fully Paid -

	Number of Common Shares	Amount
Balance, June 30, 2006	77,325,913	\$14,327
Preferred Share Series A conversion	34,869,628	9,453
Share issuance costs	-	(236)
Stock options exercised	2,636,250	1,130
Warrants exercised	1,162,500	580
Balance, June 30, 2007	115,994,291	25,254
Stock options exercised	572,577	296
Warrants exercised	1,937,500	989
Balance, June 30, 2008	118,504,368	\$26,539

Preferred Share Series A Conversion

In May 2007 in accordance with the pre-existing terms of the Preferred Shares Series A, the holders of the 7,000 Preferred Shares Series A converted all 7,000 shares and cumulative compound unpaid dividends into 34,869,628 Common Shares of the Company. The conversion of the Preferred Shares Series A was

calculated based on dividing the face value of \$1,000 for each preferred share plus the cumulative compound unpaid dividends totaling \$988,631 by \$0.2291. As a result of the conversion, the carrying value of the Preferred Shares Series A classified as long term debt has, following the conversion, been classified to Common Shares.

Shares Held in Escrow -

Shares in the amount of 1,841,401 (5,524,201 in 2007) are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without regulatory approval.

Warrants -

Balance, June 30, 2006	\$1,061
Warrants exercised	(144)
Balance, June 30, 2007	917
Warrants exercised	(239)
Balance, June 30, 2008	\$ 678

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11. Shareholders' Equity: (continued)

Warrants – (continued)

The following non-transferable share purchase warrants are outstanding:

Exercise Price	2007	Issued	Expired/ Exercised	2008	Expiry Date
CDN\$0.40	1,937,500	-	1,937,500	-	
\$0.23	2,306,571	-	-	2,306,571	September 2, 2010
CDN\$0.40	833,333	-	-	833,333	January 31, 2011
	5,077,404	-	1,937,500	3,139,904	

Contributed Surplus –

Balance, June 30, 2006	\$ 778
Stock options exercised	(135)
Stock based compensation	449
Balance, June 30, 2007	1,092
Stock options exercised	(36)
Stock based compensation	1,453
Balance, June 30, 2008	\$2,509

Stock Options -

	<u>2008</u>		<u>2007</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning	9,547,004	\$0.78	5,024,750	\$0.41
Granted	230,000	\$1.32	7,395,200	\$0.87
Exercised	581,503	\$0.47	2,636,250	\$0.41
Expired	-	-	45,000	\$0.35
Forfeited	44,447	\$0.99	191,696	\$0.61
Outstanding, ending	9,151,054	\$.85	9,547,004	\$0.78
Options exercisable, ending	5,329,210	\$0.74	2,238,778	\$0.46

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11. Shareholders' Equity: (continued)

Stock Options – (continued)

The following table summarizes stock options outstanding and exercisable:

	Range of Exercise Prices	Number Outstanding 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Outstanding, ending	\$0.24 – \$0.62	4,178,400	2.81 Years	\$0.56
Outstanding, ending	\$0.63 – \$1.02	1,207,222	3.12 Years	\$0.63
Outstanding, ending	\$1.03 – \$1.41	3,765,432	3.98 Years	\$1.23
Options exercisable, ending	\$0.24 – \$0.62	2,975,733	2.65 Years	\$0.54
Options exercisable, ending	\$0.63 – \$1.02	922,778	3.06 Years	\$0.63
Options exercisable, ending	\$1.03 – \$1.41	1,430,699	3.99 Years	\$1.24

During the fiscal year ended June 30, 2008, directors and officers of the Company were granted aggregate 125,000 options with an exercise price of \$1.37 expiring December 12, 2012.

New Stock Option Plan

On September 6th, 2006 the Company announced that its Board of Directors had approved the adoption of a 2006 Combined Incentive and Nonqualified Stock Option Plan (“New Plan”) to replace the Company’s 2002 Incentive Stock Option Plan. The new plan received shareholder and TSX Venture Exchange approval.

Under the new plan 15,468,382 common shares have been reserved for the issuance of options. This number of shares represents 20% of the Company’s outstanding share capital as at September 6th, 2006. The previous plan had a reserve of 10% of the outstanding share capital from time to time. Under the new plan as under the 2002 plan which it replaced, the exercise price of each option equals the market price of the stock on the date of the grant. Outstanding options as at June 30, 2008, vest on varying terms from the date granted to over 36 months. Upon a change of control of the Company, 3,293,400 options would vest immediately.

The fair value of each option is estimated as at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2008	2007
Dividend yield	-	-
Expected volatility	60%	60%
Risk-free interest rate	4.0 %	4.3 %
Expected average option term	4.5 years	5 years

The weighted average fair value of the options granted to employees and directors of the Company during the year was \$0.74 (\$0.45 in 2007) per option. The 2008 stock based compensation expense is \$1,452,731 (\$449,000 in 2007).

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11. Shareholders' Equity: (continued)

Earnings Per Share:

2008 **2007**

Basic earnings per share

Net earnings available to common shareholders	\$ 7,064	\$ 3,631
Weighted average number of common shares outstanding	<u>118,255,679</u>	<u>81,906,473</u>
Basic earnings per share	<u>\$ 0.06</u>	<u>\$ 0.04</u>

Diluted earnings per share

Net earnings available to common shareholders	\$ 7,064	\$ 3,631
Weighted average number of common shares outstanding	118,255,679	81,906,473
Dilutive effect of warrants	2,522,696	3,816,146
Dilutive effect of stock options	<u>1,672,013</u>	<u>2,266,738</u>
Adjusted weighted average number of common shares outstanding	<u>122,450,388</u>	<u>87,989,358</u>
Diluted earnings per share	<u>\$ 0.06</u>	<u>\$ 0.04</u>

12. Income Taxes:

Income tax (recovery) expense consists of:

	2008	2007
Current tax expense	\$3,197	\$ 1,263
Future tax expense (recovery)	<u>2,040</u>	<u>(3,941)</u>
	<u>\$5,237</u>	<u>\$(2,678)</u>

Income taxes vary from the amount that would be computed by applying the estimated combined statutory income tax rate 36.47% (2007: 36.56%) for the following reasons:

	2008	2007
Expected income tax expense	\$4,486	\$ 348
Change in valuation allowance	-	(3,684)
Non-deductible expenses	807	720
Other	<u>(56)</u>	<u>(62)</u>
Income tax expense (recovery)	<u>\$5,237</u>	<u>\$(2,678)</u>

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12. Income Taxes: (continued)

Significant components of the future tax assets are shown below:

	2008	2007
Non-capital losses carried forward	\$ -	\$1,099
Accounting depreciation in excess of tax depreciation	1,154	2,006
Deferred lease inducements	345	424
Deferred gain	247	277
Other	199	160
Total future tax assets	1,945	3,966
Valuation allowance	-	-
	\$1,945	\$3,966

Peer 1 management evaluates the likelihood that future income tax assets will be realized based on projected future earnings and tax planning strategies.

13. Supplemental Disclosure of Cash Flow Information:

a) Supplemental Disclosure -	2008	2007
Interest paid	\$1,594	\$2,347
Income taxes paid	\$2,293	\$1,301
b) Non-cash Transactions -		
i) In May 2007 in accordance with the pre-existing terms of the Preferred Shares Series A, the holders of the 7,000 Preferred Shares Series A converted all 7,000 shares and cumulative compound unpaid dividends into 34,869,628 Common Shares of the Company. See Note 11(b).		
ii) In February 2008, the company entered into a master capital lease agreement to acquire the right of use of certain network equipment. In connection with the lease the Company incurred an obligation under the capital lease in the amount of \$ 1,006,246. See Note 6.		
iii) During the year fixed assets were disposed of as a trade in for deemed proceeds of \$553,036.		

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14. Related Party Balances and 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:

	2008	2007
Transactions During the Year -		
Revenue earned	\$ 99	\$ 98
Other expenses	\$162	\$454

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.

	2008	2007
Balances at Year-End -		
Accounts receivable from related companies	\$ 4	\$10
Accounts payable to a related party	\$21	\$35

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

15. Financial Instruments:

a) Foreign Currency Risk -

The Company has cash, accounts receivable and accounts payable denominated in Canadian dollars.

The carrying value of these items may change due to fluctuations in foreign exchange rates. The Company currently does not enter into hedging transactions.

b) Credit Risk -

The accounts receivable are subject to credit risk as several customers operate in a volatile segment of the economy. The Company mitigates this risk through receipt and review of credit applications, diligent collection procedures and encouraging customers to pay via credit cards or pre-authorized payment. A deposit at the onset for installation charges may also be required.

c) Interest Rate Risk -

The Company is exposed to interest rate risk as the obligations under the Credit Facilities will accrue interest at the rate equal to the greater of (a)30-day LIBOR, or (b) three percent, plus the percent per annum equal to the Applicable Margin set forth in note 11(b)

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15. Financial Instruments: (continued)

d) Liquidity Risk -

The Company has significant financial liabilities outstanding including accounts payable and notes payable. The Company is exposed to the risk that it may not have sufficient liquid assets readily convertible to meet its commitments associated with these financial liabilities.

16. Commitments and Contingencies:

a) Premises Leases -

The Company has entered into agreements to lease premises which expire between fiscal 2008 and 2018. The future minimum lease payments for the next five fiscal years are as follows:

2009	\$6,215
2010	\$5,994
2011	\$5,850
2012	\$5,367
2013	\$4,856

b) Services Agreements -

The Company has entered into a series of agreements to obtain bandwidth, backbone, peering, local loop/cross connect and points of presence services. These agreements expire between fiscal 2009 and 2011. Minimum lease payments for the next three fiscal years under the contracts are as follows:

c) Services Agreements – (continued)

	2009	2010	2011
Bandwidth	\$1,241	\$ -	\$ -
Backbone	2,112	1,022	18
Peering	243	-	-
Local loop/cross connect	615	246	-
Points of presence	85	8	-
	\$4,296	\$1,276	\$18

d) Legal contingencies -

In March 2007, the Company was served with a Writ of Summons and Statement of Claim issued in the Supreme Court of British Columbia. The plaintiffs claim that they are the assignees of an alleged right to receive 745,000 warrants of PEER 1 Network Enterprises, Inc. and they seek a declaration that PEER 1 Network Enterprises, Inc. be obliged to issue those warrants. The plaintiffs also seek any losses suffered due to any delay in issuing the said warrants, and costs. The Company has delivered a response to the Writ and Statement of Claim and the parties have delivered initial Lists of

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16. Commitments and Contingencies: (continued)

d) Legal contingencies – (continued)

Documents. At this early stage of the action, although the Company is of the belief that it has a meritorious defense in this claim and intends to vigorously defend the action, no assurance can be given that an adverse outcome in this case cannot occur. A contingent loss has not been recorded with respect to this claim and an estimate of the contingent loss if any cannot be made.

e) Outstanding legal matters -

The Company is involved in certain legal actions and claims. It is the opinion of management that all legal matters will be resolved without material effect on the Company's consolidated financial statements.

17. Segmented Information:

During the year, management of the Company completed integration initiatives including the implementation of reporting systems which allow for the management and allocation of resources of the Company on the basis of a re-aligned, integrated operating structure. Prior to the completion of these initiatives, the Company was managed on the basis of separate lines of business comprising two reporting segments. Following the completion of these integration initiatives and re-alignment, management has determined that the Company operates in a single reportable operating segment which involves the provision of outsourced data center infrastructure services. The Company's service offerings include the provision of physical space within its data centres, a complete suite of managed and unmanaged dedicated hosting services and high availability bandwidth connectivity.

Geographic segment information is shown on the basis of the geographic location of the permanent establishment that derived the results. The geographic segments in operation are as follows:

	Canada	US	2008 Total
Revenue	\$20,083	\$69,264	\$89,347
Property and equipment	\$ 6,877	\$28,208	\$35,085
Goodwill	-	\$ 1,715	\$ 1,715
Intangible assets	\$ 391	\$ 2,109	\$ 2,500
Amortization of property and equipment	\$ 1,080	\$ 8,378	\$ 9,458
Amortization of intangible assets	\$ 35	\$ 1,555	\$ 1,590
			2007 Total
	Canada	US	Total
Revenue	\$15,770	\$58,327	\$74,097
Property and equipment	\$ 8,539	\$18,385	\$26,924
Goodwill	-	\$ 1,715	\$ 1,715
Intangible assets	\$ 40	\$ 2,990	\$ 3,030
Amortization of property and equipment	\$ 1,143	\$ 8,272	\$ 9,415
Amortization of intangible assets	\$ 29	\$ 1,501	\$ 1,530

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18. Differences Between Canadian and United States Generally Accepted Accounting Principles:

These financial statements are expressed in United States dollars and are prepared in accordance with Canadian GAAP which conforms, in all material respects, with US GAAP except as described below:

Statement of Operations -	2008	2007
Net income and comprehensive income - Canadian GAAP	\$7,064	\$3,631
Add: Accretion interest charge on preferred shares	-	1,361
Net income and comprehensive income - US GAAP	\$7,064	\$4,992

Convertible Debt and Debt Issued with Stock Purchase Warrants -

The interest on convertible debt includes an accretion charge to reflect the increase in the equity component of the convertible debt. Under US GAAP APB No. 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", no portion of the security should be attributable to the conversion feature, so the accretion charge should be added back to net income (loss).

Employee Stock Options -

The Company accounts for all its employee stock options with the fair value method "FAS 123R". Under this method, compensation cost is measured at the grant date based on the fair value of the options granted. FAS 123R requires that the option be valued using a fair value option pricing model.

The Company adopted the fair value method for Canadian purposes effective January 1, 2004. As a result there is no adjustment to net income for 2005, but there is an adjustment to share capital and deficit to reflect the different dates of adoption.

Non-employee Stock Options -

The Company accounts for its non-employee stock options with the fair value method "FAS 123R". Under this method, compensation cost is measured at the grant date based on the fair value of the options granted. FAS 123R requires that the option be valued using the Black-Scholes Option Pricing Model.

Share Purchase Warrants -

Under FAS 133 as amended by FAS 149 and 150, beneficial detachable warrants issued as a component of debt have been reclassified as equity. As Canadian GAAP conforms to US GAAP, this has no material impact on the Company.

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18. Differences Between Canadian and United States Generally Accepted Accounting Principles: (continued)

Net Income Per Share -

On February 1997, SFAS No. 128 "Earnings per Share" was issued. SFAS 128 redefines earnings per share under US GAAP and replaces primary earnings per share with basic earnings per share. The net income per share, as reported, is different from basic income per share prescribed by SFAS 128 as follows:

	2008	2007
Weighted Average Number of Shares Outstanding –		
Canadian	118,255,679	81,906,473
Less: Escrow shares	1,841,401	5,524,201
US GAAP	116,414,278	76,382,272
Basic Income per share under US GAAP	\$0.06	\$0.07

Application of US GAAP -

In June 1997, FASB issued SFAS No. 130 "Reporting Comprehensive Income", which was effective for fiscal years beginning after December 15, 1997. The Company has determined that comprehensive income consists of its net income (loss) and foreign currency translation adjustments, and is shown net of tax in the statement of changes in shareholders' equity.

The application of US GAAP would have the following effects on the balance sheet items as reported under Canadian GAAP:

Balance Sheet

Shareholders' Equity

Deficit - Canadian GAAP	\$ 1,013	\$ 8,077
Cumulative effect of prior years' adjustments:		
Accretion interest charge on preferred shares	(2,450)	(2,450)
Stock based compensation	(422)	(422)
Accretion interest charge on convertible debt	(101)	(101)
Deficit/(Retained Earnings) - US GAAP	(1,960)	5,104
Capital - Canadian GAAP	29,715	27,252
Deduct: Stock based compensation	(422)	(422)
Capital - US GAAP	29,293	26,830
Shareholders' Equity – US GAAP	\$31,253	\$21,726

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18. Differences Between Canadian and United States Generally Accepted Accounting Principles: (continued)

Convertible Promissory Debentures -

Under US GAAP, in accordance with APB No. 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", no portion of the proceeds from the issuance of convertible debt securities should be accounted for as attributable to the conversion feature. Canadian GAAP requires the separate presentation of the liability and equity component of the convertible debentures.

Recent Accounting Pronouncements:

a) Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

b) Fair Value Measurements

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. In February 2008, FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157", which delays the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

c) Accounting for uncertainty in income taxes

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109 "Accounting for Income Taxes" ("SFAS 109"). The interpretation prescribes a recognition threshold and measurement attribute to the financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on derecognition, classification, interest and

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18. Differences Between Canadian and United States Generally Accepted Accounting Principles: (continued)

Recent Accounting Pronouncements: (continued)

c) Accounting for uncertainty in income taxes (continued)

penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 on July 1, 2007 which had no effect on its results of operations and financial condition.

d) Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 Accounting for uncertainty in income taxes

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133”. SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are account for under FAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. The guidance in SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early adoption encouraged. The Company is assessing the impact of SFAS 161 on its results of operations and financial conditions.

e) The Hierarchy of Generally Accepted Accounting Principles

In May 2008, FASB issued SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles.” The Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. The adoption of this statement is not expected to have a material effect on the Company’s financial statements.

19. Subsequent Events:

a) Additional leased space

On September 5, 2008, the Company entered into a lease amending agreement which will allow for an expansion at the existing leased data center facility in Herndon, Virginia. The agreement provides 8,614 square feet of additional contiguous space.

b) Stock option grants

In July of 2008, the Company’s board of directors approved the grant of options to certain employees of the Company to acquire a total of 3,261,600 shares. 600,000 of these options are exercisable at a price of CDN \$1.30 per share, vest immediately, and expire July 8, 2013, five years after the date of grant. 1,007,400 of these options are exercisable at a price of CDN \$1.30 per share and expire July 8,

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19. Subsequent Events: (continued)

b) Stock option grants (continued)

2013, five years after the date of grant. 1,654,200 of these options are exercisable at a price of CDN \$1.34 per share and expire July 3, 2013, five years after the date of grant. The options that do not vest immediately have vesting provisions as to one third on the first anniversary of the date of the grant, and thereafter 1/24th of the remaining unvested options vest monthly.

c) Escrow shares release

On August 11, 2008, the remaining balance of 1,841,401 common shares held in escrow was released.