



NETWORK | CO-LOCATION | DEDICATED HOSTING

Financial Statements
For the Three Months Ended September 30, 2007



Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At September 30, 2007
(unaudited - prepared by management)
(in thousands of United States Dollars)

	September 2007 US\$	June 2007 US\$
Assets		
Current:		
Cash and cash equivalents	10,694	8,754
Restricted Cash	505	505
Accounts receivable	4,690	4,424
Future income tax asset	1,071	1,392
Prepaid expenses	602	689
	17,562	15,764
Other assets	3,998	4,079
Future income tax asset	2,593	2,574
Property, plant and equipment	30,229	26,924
Goodwill, licences and other intangibles	4,516	4,745
	58,898	54,086
Liabilities		
Current:		
Accounts payable and accrued liabilities	11,336	8,754
Deferred revenue	4,373	4,236
Current portion of deferred gain	79	79
Current portion of deferred lease inducements	140	144
Current portion of notes payable	3,352	3,350
Income taxes payable	1,087	476
	20,367	17,039
Deferred gain	631	650
Deferred lease inducements	795	965
Notes payable	15,479	16,257
	37,272	34,911
Shareholders' Equity		
Common Shares	26,367	25,254
Warrants	678	917
Contributed Surplus	1,423	1,092
Deficit	(6,831)	(8,077)
Accumulated other comprehensive loss	(11)	(11)
	21,626	19,175
	58,898	54,086

See accompanying notes to financial statements

Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three Months Ended September 30
(unaudited - prepared by management)
(in thousands of United States Dollars, except per share amounts)

	Three Months Ended September 2007 US\$	Three Months Ended September 2006 US\$
Revenue	20,959	17,450
Cost of Sales	11,983	10,927
Gross Profit	8,976	6,523
Operating expenses	6,151	4,787
Operating Income before other items	2,825	1,736
Other Items:		
Interest Income	(118)	(66)
Amortization of preferred share discount	-	357
Interest expense - long term	596	856
Interest accretion on notes payable	22	56
Integration costs	93	225
Foreign exchange loss (gain)	99	(33)
Gain on disposal of fixed assets	(14)	(5)
Income (Loss) before income taxes	2,147	346
Future income tax expense	327	-
Current income tax expense	574	97
Income tax expense	901	97
Net income and comprehensive income	1,246	249
Deficit, beginning of period	(8,077)	(11,708)
Deficit, end of period	(6,831)	(11,459)
Basic and diluted earnings per share	0.01	0.00

See accompanying notes to financial statements

Peer 1 Network Enterprises, Inc.
Consolidated Statement of Cash Flows
For the three months ended September 30
(unaudited - prepared by management)
(in thousands of United States Dollars)

	Three Months Ended September 2007 US\$	Three Months Ended September 2006 US\$
Cash flows from operating activities		
Income for the period	1,246	249
Amortization	2,711	2,606
Amortization of preferred share discount	-	357
Increase in accrued interest and accretion on notes payable	20	48
Bad debt expense	83	210
Gain on disposal of property and equipment	(16)	(5)
Amortization of deferred gain	(20)	-
Amortization of deferred loan origination fees	146	235
Future income tax expense	327	-
Stock-based compensation included in income (loss) for period	352	55
Increase (decrease) in deferred lease inducements	(173)	679
	4,676	4,434
Change in non-cash working capital items		
(Increase) decrease in accounts receivable	(348)	287
Decrease in prepaid expenses	86	34
Increase (decrease) in accounts payable and accrued liabilities	188	(2,221)
Increase in income taxes payable	590	97
Increase (decrease) in deferred revenue	137	(71)
	5,329	2,560
Cash flows from investing activities		
Investment in other assets	(65)	(57)
Acquisition of property and equipment	(3,224)	(3,100)
Investment in goodwill, licences and other intangibles	(171)	(613)
Proceeds on disposition of equipment	18	13
	(3,442)	(3,757)
Cash flows from financing activities		
Repayment of notes payable	(800)	(864)
Share capital issued	853	5
Net proceeds on sale leaseback	-	1,750
	53	891
Increase (decrease) in cash and cash equivalents	1,940	(306)
Cash and cash equivalents - beginning of period	8,754	5,666
Cash and cash equivalents - end of period	10,694	5,360
Supplemental cash flow information:		
Interest paid	453	630
Interest received	118	66

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements

(in thousands, except for share and per share amounts)

1. Significant accounting policies:

a) 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. 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.

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, 2007 except as described in note 1b). 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.

b) 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; 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 and measurement 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

Notes to Unaudited Consolidated Financial Statements (cont'd)

(in thousands, except for share and per share amounts)

b) Changes in accounting policies (cont'd):

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 and notes payable, are classified as other financial liabilities. The Company had neither available for sale, nor held-to-maturity instruments during the three months ended September, 30, 2007.

The Company had no "other comprehensive income or loss" transactions during the three months ended September 30, 2007. 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.

The carrying values of accounts receivable, notes payable, accounts payable and accrued liabilities, approximates fair value at September 30, 2007.

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. Share Capital

a) Authorized :

Unlimited Common shares without par value

Unlimited Preferred shares without par value

Notes to Unaudited Consolidated Financial Statements (cont'd)
(in thousands, except for share and per share amounts)

b) Issued and Fully Paid:

	Number	Amount
Balance, June 30, 2007	115,994,291	\$ 25,254
Stock Option Exercise	219,004	130
Warrants exercised	<u>1,937,500</u>	<u>983</u>
Balance, September 30, 2007	<u>118,150,795</u>	\$ <u>26,367</u>

c) Warrants Outstanding

	Number	Amount
Balance, June 30, 2007	5,077,404	\$ 917
Warrants exercised	<u>1,937,500</u>	<u>239</u>
Balance, September 30, 2007	<u>3,139,904</u>	\$ <u>678</u>

The following non-transferable share purchase warrants are outstanding:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Outstanding 6/30/2007</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 9/30/2007</i>
Jul 18, 2007	Cdn\$0.40	1,937,500		1,937,500	-
Sept 2, 2010	US\$0.23	2,306,571	-	-	2,306,571
Jan 31, 2011	Cdn\$0.40	833,333	-	-	833,333
		5,077,404	-	1,937,500	3,139,904

d) Contributed Surplus:

	Amount
Balance, June 30, 2007	\$ 1,092
Stock options exercised	(21)
Stock based compensation	<u>352</u>
Balance, September 30, 2007	\$ <u>1,423</u>

e) Shares held in escrow:

As of September 30, 2007, 3,682,801 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.

Notes to Unaudited Consolidated Financial Statements (cont'd)
(in thousands, except for share and per share amounts)

f) Stock Options

The company has the following stock options outstanding:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Outstanding 6/30/2007</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 9/30/2007</i>
Feb 28, 2012	Cdn\$1.29	40,000			40,000
June 20, 2012	Cdn\$1.25	2,007,400			2,007,400
June 18, 2012	Cdn\$1.25	1,514,700			1,514,700
June 18, 2012	Cdn\$1.17	-	20,000		20,000
July 19, 2012	Cdn\$1.15	-	25,000		25,000
May 30, 2011	Cdn\$0.75	50,004		50,004	-
Jan 17, 2012	Cdn\$0.65	100,000			100,000
April 3, 2011	Cdn\$0.65	465,000			465,000
Oct 26, 2011	Cdn\$0.64	680,000			680,000
Sept 6, 2011	Cdn\$0.63	2,886,400			2,886,400
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	10,000			10,000
July 24, 2007	Cdn\$0.45	169,000		169,000	-
Nov 7, 2007	Cdn\$0.45	300,000			300,000
June 30, 2009	Cdn\$0.45	10,000			10,000
Sept 30, 2010	Cdn\$0.45	2,500			2,500
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
July 29, 2010	Cdn\$0.39	10,000			10,000
Oct 20, 2009	Cdn\$0.38	150,000			150,000
Aug 31, 2010	Cdn\$0.36	7,500			7,500
May 31, 2010	Cdn\$0.35	30,000			30,000
Sept 9, 2008	Cdn\$0.32	165,000			165,000
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	10,000			10,000
Nov 30, 2009	Cdn\$0.28	12,000			12,000
Dec 31, 2009	Cdn\$0.28	5,000			5,000
Jan 31, 2010	Cdn\$0.24	15,000			15,000
		9,547,004	45,000	219,004	9,373,000

4. 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:

	2008	2007
Transactions During the Quarter -		
Revenue earned	\$19	\$40
Interest expensed	-	-
Other expenses	\$71	\$102

Notes to Unaudited Consolidated Financial Statements (cont'd)

(in thousands, except for share and per share amounts)

4. Related Party Transactions (cont'd)

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
<hr/>		
Balances at Quarter End -		
Accounts receivable from related companies	\$8	\$73
Accounts payable to a related party	\$27	\$2

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

5. Contingencies

a) 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 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.

b) 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.

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, Co-location & Bandwidth, and Dedicated Servers:

	<i>Three months ended September 30, 2007</i>			<i>Three months ended September 30, 2006</i>		
	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>
Revenue	\$6,326	\$14,633	\$20,959	\$4,997	\$12,453	\$17,450
Income (loss)	\$292	\$954	\$1,246	\$(630)	\$879	\$ 249
Total Assets	\$21,498	\$37,400	\$58,898	\$17,531	\$29,534	\$ 47,065

Notes to Unaudited Consolidated Financial Statements (cont'd)
(in thousands, except for share and per share amounts)

6. Segmented Information (cont'd)

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

	<i>Three months ended September 30, 2007</i>			<i>Three months ended September 30, 2006</i>		
	<i>USA</i>	<i>Canada</i>	<i>Total</i>	<i>USA</i>	<i>Canada</i>	<i>Total</i>
Revenue	\$16,362	\$ 4,597	\$20,959	\$13,730	\$3,720	\$17,450
Income (loss)	\$555	\$691	\$1,246	\$(278)	\$527	\$ 249
Total Assets	\$45,728	\$13,170	\$58,898	\$35,201	\$11,864	\$ 47,065