

peer1

NETWORK | CO-LOCATION | DEDICATED HOSTING

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THREE AND SIX MONTHS ENDED DECEMBER 31, 2007 AND 2006
FINANCIAL STATEMENTS

Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At December 31, 2007
(unaudited - prepared by management)
(in thousands of United States Dollars)

	December 2007 US\$	June 2007 US\$
Assets		
Current:		
Cash and cash equivalents	6,952	8,754
Restricted Cash	250	505
Accounts receivable	3,089	4,424
Future income tax asset	905	1,392
Prepaid expenses	1,725	689
	<hr/>	<hr/>
	12,921	15,764
Other assets	3,760	4,079
Future income tax asset	2,098	2,574
Property, plant and equipment	32,221	26,924
Goodwill, licences and other intangibles	4,424	4,745
	<hr/>	<hr/>
	55,424	54,086
	<hr/>	<hr/>
Liabilities		
Current:		
Accounts payable and accrued liabilities	7,992	8,754
Deferred revenue	3,043	4,236
Current portion of deferred gain	79	79
Current portion of deferred lease inducements	135	144
Current portion of notes payable	3,331	3,350
Income taxes payable	1,046	476
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	15,626	17,039
Deferred gain	611	650
Deferred lease inducements	736	965
Notes payable	14,367	16,257
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	31,340	34,911
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Shareholders' Equity		
Common Shares	26,516	25,254
Warrants	678	917
Contributed Surplus	1,850	1,092
Deficit	(4,949)	(8,077)
Accumulated other comprehensive loss	(11)	(11)
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	24,084	19,175
	<hr/>	<hr/>
	55,424	54,086
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See accompanying notes to financial statements

Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three and Six Months Ended December 31
(unaudited - prepared by management)
(in thousands of United States Dollars, except per share amounts)

	Three Months Ended December 2007 US\$	Three Months Ended December 2006 US\$	Six Months Ended December 2007 US\$	Six Months Ended December 2006 US\$
Revenue	22,224	18,065	43,183	35,515
Cost of Sales	12,099	11,037	24,082	21,964
Gross Profit	10,125	7,028	19,101	13,551
Operating expenses	6,216	4,811	12,367	9,598
Operating Income before other items	3,909	2,217	6,734	3,953
Other Items:				
Interest Income	(108)	(81)	(226)	(147)
Amortization of preferred share discount	-	374	-	731
Interest expense - long term	564	851	1,160	1,707
Interest accretion on notes payable	22	54	44	110
Integration costs	-	293	93	518
Foreign exchange loss (gain)	157	(5)	256	(38)
Loss (Gain) on disposal of fixed assets	7	51	(7)	46
Income before income taxes	3,267	680	5,414	1,026
Future income tax expense (recovery)	663	(625)	990	(625)
Current Income tax expense	722	456	1,296	553
Income tax expense (recovery)	1,385	(169)	2,286	(72)
Net income and comprehensive income	1,882	849	3,128	1,098
Deficit, beginning of period	(6,831)	(11,459)	(8,077)	(11,708)
Deficit, end of period	(4,949)	(10,610)	(4,949)	(10,610)
Basic and diluted earnings per share	0.02	0.01	0.03	0.01

See accompanying notes to financial statements

Peer 1 Network Enterprises, Inc.
Consolidated Statement of Cash Flows
For the three and six months ended December 31
(unaudited - prepared by management)
(in thousands of United States Dollars)

	Three Months Ended December 2007 US\$	Three Months Ended December 2006 US\$	Six Months Ended December 2007 US\$	Six Months Ended December 2006 US\$
Cash flows from operating activities				
Income for the period	1,882	849	3,128	1,098
Amortization	2,429	2,671	5,140	5,277
Amortization of preferred share discount	-	374	-	731
Increase (decrease) in accrued interest and accretion on notes payable	(1)	50	19	97
Bad debt expense	171	214	254	424
Loss (Gain) on disposal of property and equipment	9	51	(7)	46
Amortization of deferred gain	(20)	(10)	(39)	(10)
Amortization of deferred loan origination fees	153	247	299	482
Future income tax expense (recovery)	662	(625)	990	(625)
Stock-based compensation included in income for period	429	111	782	166
Increase (decrease) in deferred lease inducements	(64)	(61)	(238)	618
	5,650	3,871	10,328	8,304
Change in non-cash working capital items				
Decrease in accounts receivable	1,429	975	1,081	1,263
Increase in prepaid expenses	(1,122)	(250)	(1,036)	(216)
Decrease in accounts payable and accrued liabilities	(865)	(1,473)	(677)	(3,694)
Increase (decrease) in income taxes payable	(39)	120	549	216
Increase (decrease) in deferred revenue	(1,330)	311	(1,193)	240
	3,723	3,554	9,052	6,113
Cash flows from investing activities				
Decrease in restricted cash	255	-	255	-
Investment in other assets	85	(625)	20	(682)
Acquisition of property and equipment	(6,529)	(2,469)	(9,752)	(5,569)
Investment in goodwill, licences and other intangibles	(297)	(203)	(469)	(817)
Proceeds on disposition of equipment	8	7	26	21
	(6,478)	(3,290)	(9,920)	(7,047)
Cash flows from financing activities				
Repayment of notes payable	(1,134)	(864)	(1,934)	(1,728)
Share capital issued	147	74	1,000	80
Net proceeds on sale leaseback	-	-	-	1,750
	(987)	(790)	(934)	102
Decrease in cash and cash equivalents	(3,742)	(526)	(1,802)	(832)
Cash and cash equivalents - beginning of period	10,694	5,360	8,754	5,666
Cash and cash equivalents - end of period	6,952	4,834	6,952	4,834
Supplemental cash flow information:				
Interest paid	433	606	886	1,236
Income tax paid	760	-	760	-
Interest received	108	81	226	147

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 interim periods presented 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 and six months ended December 31, 2007.

The Company had no "other comprehensive income or loss" transactions during the three and six months ended December 31, 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 December 31, 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	118,150,795	\$ 26,367
Stock Option Exercise	<u>312,500</u>	<u>149</u>
Balance, December 31, 2007	<u>118,463,295</u>	\$ <u>26,516</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, December 31, 2007	<u>3,139,904</u>	\$ <u>678</u>

The following non-transferable share purchase warrants are outstanding:

Expiry Date	Exercise Price	Outstanding 6/30/2007	Issued	Expired/ Exercised	Outstanding 12/31/2007
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	\$ 1,423
Stock options exercised	(2)
Stock based compensation	<u>429</u>
Balance, December 31, 2007	\$ <u>1,850</u>

Notes to Unaudited Consolidated Financial Statements (cont'd)

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

e) Shares held in escrow:

As of December 31, 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.

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 12/31/2007</i>
Dec 12, 2012	Cdn\$1.40	-	125,000		125,000
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	20,000		1,534,700
July 19, 2009	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		5,000	160,000
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		5,000	10,000
		9,547,004	170,000	531,504	9,185,500

Notes to Unaudited Consolidated Financial Statements (cont'd)

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

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 for the six month period ended December 31 are as follows:

	FY 2008	FY 2007
Revenue earned	\$32	\$60
Interest expensed	-	-
Other expenses	\$102	\$265

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.

	FY 2008	FY 2007
Balances at December 31 -		
Accounts receivable from related companies	\$1	\$8
Accounts payable to a related party	-	\$9

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.

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

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 December 31, 2007</i>			<i>Three months ended December 31, 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	\$7,006	\$ 15,218	\$ 22,224	\$5,102	\$12,963	\$18,065
Income (loss)	\$ 775	\$ 1,107	\$ 1,882	\$(235)	\$1,084	\$ 849

	<i>Six months ended December 31, 2007</i>			<i>Six months ended December 31, 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	\$ 13,332	\$ 29,851	\$ 43,183	\$10,099	\$25,416	\$35,515
Income (loss)	\$ 1,067	\$ 2,061	\$ 3,128	\$(866)	\$1,964	\$ 1,098
Total Assets	\$ 22,475	\$ 32,949	\$ 55,424	\$17,155	\$29,360	\$ 46,515

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

	<i>Three months ended December 31, 2007</i>			<i>Three months ended December 31, 2006</i>		
	<i>USA</i>	<i>Canada</i>	<i>Total</i>	<i>USA</i>	<i>Canada</i>	<i>Total</i>
Revenue	\$ 17,069	\$ 5,155	\$ 22,224	\$14,233	\$3,832	\$18,065
Income (loss)	\$ 974	\$ 908	\$ 1,882	\$(117)	\$966	\$ 849

	<i>Six months ended December 31, 2007</i>			<i>Six months ended December 31, 2006</i>		
	<i>USA</i>	<i>Canada</i>	<i>Total</i>	<i>USA</i>	<i>Canada</i>	<i>Total</i>
Revenue	\$ 33,430	\$ 9,753	\$ 43,183	\$27,963	\$7,552	\$35,515
Income (loss)	\$ 1,529	\$ 1,599	\$ 3,128	\$(395)	\$1,493	\$ 1,098
Total Assets	\$ 41,162	\$ 14,262	\$ 55,424	\$35,461	\$11,054	\$ 46,515