



PEER 1 NETWORK

**MARCH 31, 2005
QUARTERLY REPORT**

Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At March 31, 2005
(unaudited - prepared by management)

	March 2005 \$	June 2004 \$
Assets		
Current:		
Cash and cash equivalents	1,094,623	976,848
Accounts receivable	2,880,543	2,139,565
Inventory	165,707	-
Prepaid expenses	754,801	305,724
	<hr/> 4,895,674	<hr/> 3,422,137
Other assets	1,237,889	794,804
Property, plant and equipment	11,046,686	5,300,519
Goodwill, licences and other intangibles	6,128,682	-
	<hr/> 23,308,931	<hr/> 9,517,460
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	4,324,569	2,201,583
Deferred revenue	1,187,694	571,156
Current portion of deferred lease inducements	11,800	11,800
Current portion of notes payable	10,391,462	510,289
Shareholder notes	2,681,356	1,315,341
	<hr/> 18,596,881	<hr/> 4,610,169
Deferred lease inducements	321,130	150,431
Notes payable	3,201,557	3,319,312
	<hr/> 22,119,568	<hr/> 8,079,912
Shareholders' Deficiency		
Capital Stock	11,245,992	9,914,432
Warrants	-	-
Equity component of convertible debt	435,638	435,638
Contributed Surplus	622,711	220,355
Deficit	(11,114,978)	(9,132,877)
	<hr/> 1,189,363	<hr/> 1,437,548
	<hr/> 23,308,931	<hr/> 9,517,460

Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three Months Ended March 31 and Year To Date
(unaudited - prepared by management)

	Three Months Ended March 2005	Three Months Ended March 2004	Nine Months Ended March 2005	Nine Months Ended March 2004
Revenue	7,169,124	3,400,250	16,642,656	9,920,624
Cost of Sales	4,360,648	2,121,692	10,251,775	6,209,031
Gross Profit	2,808,476	1,278,558	6,390,881	3,711,593
Operating expenses	2,429,400	1,121,904	6,207,131	3,684,817
Operating profit (loss)	379,076	156,654	183,750	26,776
Interest expense	816,184	151,440	1,417,845	441,900
Interest accretion on convertible debt	92,267	16,381	277,505	402,410
Integration costs	346,447	-	346,447	-
Realized foreign exchange loss (gain)	(12,037)	(17,136)	(50,507)	(70,098)
Unrealized foreign exchange loss (gain)	258,694	-	(207,434)	-
Loss from equity accounted investment	22,950	-	22,950	-
Loss before income taxes	(1,145,429)	5,969	(1,623,056)	(747,436)
(Provision for) recovery of corporate taxes	16,571	-	29,322	-
Loss for the period	(1,162,000)	5,969	(1,652,378)	(747,436)
Deficit, beginning of period	(9,623,255)	(8,893,932)	(9,132,877)	(8,140,527)
Adjustment for prior years' stock based compensation	(329,723)	-	(329,723)	-
Deficit, end of period	(11,114,978)	(8,887,963)	(11,114,978)	(8,887,963)
Basic and diluted loss per share	(0.03)	0.00	(0.04)	(0.02)
EBITDA	1,186,059	421,865	2,053,078	743,120
Normalized EBITDA	1,532,506	421,865	2,399,525	743,120

Peer 1 Network Enterprises, Inc.
Consolidated Statement of Cash Flows
Three Months Ended March 31 and Year To Date
(unaudited - prepared by management)

	Three Months Ended March 2005	Three Months Ended March 2004	Nine Months Ended March 2005	Nine Months Ended March 2004
Cash flows from operating activities				
Loss for the period	(1,162,000)	5,969	(1,652,378)	(747,436)
Amortization	1,092,277	248,075	2,105,901	646,246
Stock-based compensation included in loss for period	72,633	-	72,633	-
Increase (decrease) in deferred lease inducements	176,599	(2,950)	170,699	(8,849)
Increase in accrued interest and accretion of convertible debt	969,149	167,821	1,695,350	844,310
	<u>1,148,658</u>	<u>418,915</u>	<u>2,392,205</u>	<u>734,271</u>
Change in non-cash working capital items				
Increase in accounts receivable	(577,514)	113,835	(740,978)	(558,361)
Increase in inventory	(111,597)	-	(165,707)	-
Increase in prepaid expenses	131,005	114,354	(449,077)	(173,410)
Increase in accounts payable and accrued liabilities	(339,915)	(733,695)	2,122,986	(240,469)
Increase in deferred revenue	123,204	53,966	616,538	122,265
	<u>373,841</u>	<u>(32,625)</u>	<u>3,775,967</u>	<u>(115,704)</u>
Cash flows from investing activities				
Acquisition of property and equipment	(2,503,458)	(421,239)	(7,344,865)	(1,852,913)
Investment in goodwill, licences and other intangibles	(148,075)	-	(6,635,885)	-
Investment in other assets	335,542	(181,876)	(443,085)	(230,921)
	<u>(2,315,991)</u>	<u>(603,115)</u>	<u>(14,423,835)</u>	<u>(2,083,834)</u>
Cash flows from financing activities				
Repayment of obligations under capital leases	-	(19,057)	-	(106,135)
Proceeds from notes payable and affiliated companies	-	(229,621)	8,724,254	342,009
Repayment of notes payable and advances from affiliated companies	(52,949)	(214,515)	(504,021)	(302,943)
Share capital issued	1,330,000	2,441,577	1,331,560	2,441,577
Proceeds from shareholder notes	100,000	(14,990)	1,213,850	710,048
	<u>1,377,051</u>	<u>1,963,394</u>	<u>10,765,643</u>	<u>3,084,556</u>
Decrease in cash and cash equivalents	(565,099)	1,327,654	117,775	885,018
Cash and cash equivalents - beginning of period	1,659,722	208,271	976,848	650,907
Cash and cash equivalents - end of period	<u>1,094,623</u>	<u>1,535,925</u>	<u>1,094,623</u>	<u>1,535,925</u>

Notes to Unaudited Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation:

Peer 1 Network Enterprises, Inc. (the "Company") was incorporated under the laws of British Columbia. The company provides high performance internet bandwidth and co-location facilities to web-centric and enterprise customers across North America. Building on a redundant, 100% Cisco powered internal network, the Company guarantees 100% uptime internet access for companies with mission-critical applications. The Company has established local offices and co-location facilities in Vancouver, Toronto, Montreal, New York, Seattle, San Jose, San Antonio and Herndon VA, and also has points of presence in London, Los Angeles and Chicago. The 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 nine 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, 2004, except as noted below. The annual financial statements should be referenced in conjunction with this interim report.

The company has recorded the fair value of stock-based compensation issued in the current year as an operating expense. Compensation related to prior years has been recorded as an adjustment to opening retained earnings, in accordance with the provisions of Section 3870 of the CICA Handbook for retroactive application without restatement of prior years. Previously, the fair value of stock based compensation was disclosed but no compensation expense was recorded.

The company's investment in Symmetric Broadband Inc. is no longer considered to be a joint venture, as joint management is no longer in place. Consequently, the investment is recorded on the equity basis, rather than proportionately consolidated as in previous periods.

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., ServerBeach GP Inc., ServerBeach LP Inc., ServerBeach Ltd., Data Center Technologies IP Inc., Colobrokers.com Inc., and 585065 B.C. Ltd.

3. Share Capital

a) Authorized :
100,000,000 Common shares without par value

b) Issued and Fully Paid:

	Number	Amount
Balance at beginning of year	44,365,367	\$ 9,914,432
Changes in share capital	<u>4,754,000</u>	<u>\$ 1,331,560</u>
Balance at March 31, 2005	<u>49,119,367</u>	<u>\$ 11,245,992</u>

c) Warrants Outstanding

The following non-transferable share purchase warrants are outstanding:

Expiry Date	Exercise Price	Outstanding 12/31/2004	Issued	Expired/ Exercised	Outstanding 3/31/2005
Feb 18, 2005	\$0.39	5,134,343		5,134,343	-
April 4, 2005	\$0.32	4,145,906			4,145,906
Oct 23, 2005	\$0.32	1,834,215			1,834,215
Nov 6, 2005	\$0.28	500,000			500,000
		11,614,464		5,134,343	6,480,121

d) Shares held in escrow:

As of March 31, 2005, 15,117,450 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.

e) Stock Options

The company has the following stock options outstanding:

Expiry Date	Exercise Price	Outstanding 12/31/2004	Issued	Expired/ Exercised	Outstanding 3/31/2005
May 31, 2009	\$0.47	40,000		40,000	-
May 30, 2009	\$0.46	15,000			15,000
July 24, 2007	\$0.45	2,168,250		7,000	2,161,250
Nov 7, 2007	\$0.45	300,000			300,000
June 30, 2009	\$0.45	15,000	45,000		60,000
March 9, 2009	\$0.44	300,000			300,000
Jan 29, 2009	\$0.42	20,000			20,000
Nov 7, 2007	\$0.39	105,000			105,000
Oct 20, 2009	\$0.38	-	195,000		195,000
Sept 9, 2008	\$0.32	337,000			337,000
Sept 30, 2009	\$0.31	10,000			10,000
Nov 30, 2009	\$0.31	62,000			62,000
Mar 1, 2010	\$0.30	-	30,000		30,000
Feb 28, 2010	\$0.30	-	15,000		15,000
Dec 31, 2009	\$0.28	-	10,000		10,000
Jan 31, 2010	\$0.24	-	20,000		20,000
		3,372,250	315,000	47,000	3,640,250

The options and warrants are not included in diluted per share calculations.

4. Related Party Transactions

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

At March 31, 2005 amounts due to and from related parties were as follows:

	FY2005	FY2004
Included in accounts receivable	\$147,380	\$167,286
Included in accounts payable and accrued liabilities	\$4,494	2,996

During the period, transactions with related parties were as follows:

	FY2005	FY2004
Revenues earned	\$127,860	\$328,235
Interest expensed	\$919,423	\$346,707
Other expenses incurred	\$98,165	5,504

These transactions are in the normal course of operations and are measured at their exchange amounts. Included in other expenses incurred is \$84,000 in accounts receivable from two related parties that was written off.

5. Segmented Information

Prior to the second quarter, the Company operated one reporting segment and four geographic segments. Following the acquisition of Server Beach assets on October 20, 2004 and commencement of the provision of dedicated servers, two reporting segments are now in operation.

	<i>Quarter Ended 3/31/05 Colocation & Bandwidth</i>	<i>Quarter Ended 3/31/05 Dedicated Servers</i>	<i>Quarter Ended 3/31/05 Total</i>	<i>Quarter Ended 3/31/04 Total</i>
Revenue	\$4,513,755	\$2,655,369	\$7,169,124	\$3,400,250
Income (loss)	\$(271,886)	\$(890,114)	\$(1,162,000)	\$5,969

	<i>Year To Date 3/31/05 Colocation & Bandwidth</i>	<i>Year To Date 3/31/05 Dedicated Servers</i>	<i>Year To Date 3/31/05 Total</i>	<i>Year To Date 3/31/04 Total</i>
Revenue	\$12,451,527	\$4,191,129	\$16,642,656	\$9,920,624
Income (loss)	\$(888,731)	\$(763,647)	\$(1,652,378)	\$(747,436)
Total Assets	\$12,822,359	\$10,486,572	\$23,308,931	\$9,548,654

Segmented Information (continued)

There has been no change in geographic segments. Server Beach operations are all US based.

Three months ended March 31, 2005

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>Virginia</i>	<i>Texas</i>	<i>Other USA</i>	<i>Total</i>
Revenue	1,711,373	1,160,201	798,736	1,542,789	1,112,580	843,445	7,169,124
Income (loss)	712,523	166,242	78,862	(512,635)	(377,479)	(1,229,513)	(1,162,000)

Three months ended March 31, 2004

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>Virginia</i>	<i>Texas</i>	<i>Other USA</i>	<i>Total</i>
Revenue	1,397,439	782,579	784,917	-	-	435,315	3,400,250
Income (loss)	1,119,832	(340,126)	176,948	-	-	(950,685)	5,969

Year To Date March 31, 2005

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>Virginia</i>	<i>Texas</i>	<i>Other USA</i>	<i>Total</i>
Revenue	\$4,849,477	\$3,060,762	\$2,353,369	\$2,417,959	\$1,773,170	\$2,187,919	\$16,642,656
Income (loss)	\$1,973,663	\$ 463,559	\$ 245,475	\$ (440,566)	\$ (323,081)	\$ (3,571,428)	\$ (1,652,378)
Total Assets	\$7,627,467	\$1,116,234	\$ 652,281	\$6,546,333	\$4,436,627	\$2,929,989	\$23,308,931

Year To Date March 31, 2004

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>Virginia</i>	<i>Texas</i>	<i>Other USA</i>	<i>Total</i>
Revenue	\$4,252,579	\$2,177,582	\$2,413,123	\$ -	\$ -	\$ 1,077,340	\$9,920,624
Income (loss)	\$1,269,124	\$ (130,404)	\$ 456,828	\$ -	\$ -	\$ (2,342,984)	\$ (747,436)
Total Assets	\$6,628,518	\$ 706,966	\$ 712,039	\$ -	\$ -	\$ 1,501,131	\$ 9,548,654