

BC FORM 51-901F

QUARTERLY AND YEAR END REPORT

Incorporated as part of: Schedule A

Schedule B & C

ISSUER DETAILS:

Name of Issuer: Peer 1 Network Enterprises, Inc.

Issuer's Address: Suite 1600 – 555 West Hastings Street, Vancouver, B.C., V6B 4N5

Issuer Telephone No: 604-683-7747

Contact Person: Geoffrey Hampson

Contact's Position: Director

Contact Telephone No: 604-683-7747

Contact eMail Address: investor@peer1.net

Website Address: www.peer1.net

For Quarter Ended: September 30, 2003

Date of Report: November 26, 2003

CERTIFICATE

THE SCHEDULE(S) REQUIRED TO COMPLETE THIS QUARTERLY REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS QUARTERLY REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B & C.

"Geoffrey Hampson" Geoffrey Hampson November 26, 2003

"Lance Tracey" Lance Tracey November 26, 2003

Peer 1 Network Enterprises, Inc.
(formerly Talltree Resources Ltd.)
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Schedule A: Financial Information

See attached financial statements (unaudited) and notes of the Company for the quarter ended September 30, 2003.

Peer 1 Network Enterprises, Inc.
(formerly Talltree Resources Ltd.)
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Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At September 30, 2003
(unaudited - prepared by management)

	September 2003	June 2003
	\$	\$
Assets		
Current:		
Cash and cash equivalents	503,907	650,907
Accounts receivable	2,059,330	1,619,071
Prepaid expenses	245,195	228,401
	<u>2,808,432</u>	<u>2,498,379</u>
Other assets	550,026	416,174
Property, plant and equipment	3,972,957	3,579,724
	<u>7,331,415</u>	<u>6,494,277</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	2,975,159	2,562,021
Deferred revenue	346,843	308,759
Current portion of deferred lease inducements	17,700	17,700
Current portion of obligations under capital leases	59,042	127,850
Current portion of notes payable	111,473	111,473
Shareholder notes	1,006,303	486,854
	<u>4,516,520</u>	<u>3,614,657</u>
Obligations under capital leases		5,351
Deferred lease inducements	153,379	156,329
Notes payable	1,668,334	1,542,551
Advances from affiliated companies	1,444,581	1,687,172
	<u>7,782,814</u>	<u>7,006,060</u>
Shareholders' Deficiency		
Capital Stock	6,779,922	6,779,922
Warrants	619,999	156,506
Equity component of convertible debt	783,845	682,187
Contributed Surplus	10,129	10,129
Deficit	(8,645,294)	(8,140,527)
	<u>(451,399)</u>	<u>(511,783)</u>
	<u>7,331,415</u>	<u>6,494,277</u>

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

	Three Months Ended September 2003	Three Months Ended September 2002
Revenue	3,113,210	2,016,161
Cost of Sales	2,050,441	1,880,515
Gross Profit	1,062,769	135,646
Operating expenses	1,259,232	1,209,901
Operating loss	(196,463)	(1,074,255)
Interest expense	145,941	23,438
Interest accretion on convertible debt	193,015	10,315
Foreign exchange loss (gain)	(30,652)	42,207
Loss before income taxes	(504,767)	(1,150,215)
(Provision for) recovery of income taxes	-	-
Loss for the period	(504,767)	(1,150,215)
Deficit, beginning of period	(8,140,527)	(4,859,193)
Deficit, end of period	(8,645,294)	(6,009,408)

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

	Three Months Ended September 2003	Three Months Ended September 2002
Cash flows from operating activities		
Loss for the period	(504,767)	(1,150,215)
Amortization	209,889	146,497
Decrease in deferred lease inducements	(2,950)	
Increase in accrued interest and accretion of convertible debt	338,956	33,753
	<u>41,128</u>	<u>(969,965)</u>
Change in non-cash working capital items		
Increase in accounts receivable	(440,259)	(425,633)
Increase in prepaid expenses	(16,794)	(61,556)
Increase in accounts payable and accrued liabilities	413,138	643,985
Increase in deferred revenue	38,084	71,663
	<u>35,297</u>	<u>(741,506)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(603,122)	(563,251)
Investment in other assets	(133,852)	-
	<u>(736,974)</u>	<u>(563,251)</u>
Cash flows from financing activities		
Repayment of obligations under capital leases	(74,159)	(153,593)
Proceeds from notes payable and affiliated companies	109,387	569,161
Share capital issued	-	562,395
Proceeds from shareholder notes	519,449	
	<u>554,677</u>	<u>977,963</u>
Decrease in cash and cash equivalents	(147,000)	(326,794)
Cash and cash equivalents - beginning of period	650,907	138,159
Cash and cash equivalents - end of period	<u>503,907</u>	<u>(188,635)</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 and San Jose and also has points of presence in Ashburn, VA 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 three months 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, 2003. The annual financial statements should be referenced in conjunction with this interim report.

2. Business Combination:

On July 23, 2002, shareholders’ approval was received for a name change from Tall Tree Resources to Peer 1 Network Enterprises, Inc. On July 24, 2002, Peer 1 Network Enterprises, Inc., a public company listed on the TSX Venture Exchange, purchased all of the issued and outstanding shares of Peer 1 Network, Inc. in consideration for the issuance of 20,000,000 shares to the shareholders of Peer 1 Network, Inc. As the former shareholders of Peer 1 Network Inc acquired control of the company and the company did not constitute a business, the transaction has been accounted for as a reverse acquisition and recapitalization of the public company.

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	36,934,482	\$6,779,922
Changes in share capital	nil	nil
Balance at September 30, 2003	36,934,482	\$6,779,922

c) Warrants Outstanding

The company has the following non-transferable share purchase warrants outstanding:

Exercise Price	Outstanding 6/30/03	Issued	Expired/ Exercised	Outstanding 9/30/03	Expiry Date
\$0.72	4,305,416	-	-	4,305,416	July 24, 2004
\$0.45	400,000	-	-	400,000	July 24, 2004
\$0.39	5,312,343	-	-	5,312,343	Feb 18, 2005
\$0.32	4,145,906	-	-	4,145,906	April 4, 2005
\$0.32	<u>14,163,665</u>	<u>7,775,311</u>	-	<u>7,775,311</u>	Oct 22, 2005
		<u>7,775,311</u>		<u>21,938,976</u>	

d) Shares held in escrow:

As of September 30, 2003, 17,345,100 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 having jurisdiction thereon.

e) Stock Options

The company has the following stock options outstanding:

Exercise Price	Outstanding 6/30/03	Issued	Expired/ Exercised	Outstanding 9/30/03	Expiry Date
\$0.45	100,000	-	-	100,000	Nov 7, 2003
\$0.45	200,000	-	-	200,000	Nov 7, 2007
\$0.45	2,229,250	-	18,000	2,211,250	April 4, 2005
\$0.39	115,000	-	5,000	110,000	Oct 22, 2005
\$0.32	<u>2,644,250</u>	<u>348,000</u>	<u>23,000</u>	<u>348,000</u>	Sept 9, 2008
		<u>348,000</u>		<u>2,969,250</u>	

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

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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 September 30, 2003 amounts due to and from related parties were as follows:

	2003	2002
Included in accounts receivable	106,393	13,734
Included in accounts payable and accrued liabilities	-	3,210

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

Revenues earned	143,268	12,366
Interest expensed	96,151	20,149
Consulting fees paid	-	20,062

These transactions are in the normal course of operations and are at measured at their exchange amounts.

Schedule B: Supplementary Information

1. Analysis of expenses and deferred costs

See the Management Discussion and Analysis below.

2. Related Parties Transactions

See unaudited financial statements in Schedule A for detail.

3. Securities Issued and options granted during the period:

- a) Securities Issued:

See unaudited financial statements in Schedule A for detail.

- b) Options Issued:

See unaudited financial statements in Schedule A for detail.

4. Securities at end of reporting period:

- a) Authorized and issued share capital:

See unaudited financial statements in Schedule A for detail.

- b) Options, warrants, and convertible securities outstanding:

See unaudited financial statements in Schedule A for detail.

- c) Shares in escrow of subject:

See unaudited financial statements in Schedule A for detail.

5. List of Officer and Directors

List of Directors:	List of Officers
Michael Cytrnbaum	Geoffrey Hampson, President & CEO
Geoffrey Hampson	James Taylor, CFO & Secretary
Werner Paulus	Mark Teolis, CTO
David Rand	Rick Hingson, VP Operations
Scott Shaw	
Lance Tracey	

Schedule C: Management Discussion & Analysis

Description of Business

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 and San Jose and also has points of presence in Ashburn, VA and Chicago. The headquarters are in Vancouver.

Discussion of Operation and Financial Condition

Financial Condition

Cash balances decreased by \$147,000 during the first quarter, as contributions by shareholders and affiliated companies were offset by an investment in network equipment and colocation facilities.

The accounts receivable balance is \$440,000 higher than it was at June 30, 2003. The increase is attributable to the growth in monthly revenues billed and to the timing of certain payments. The average days sales outstanding at September 30th amounted to 55 days (up from 50 days at June 30, 2003, but better than the 76 days at September 30, 2002). Since the company bills its customers at month end, the reported accounts receivable balance is always going to include at least one month’s sales.

Other assets are made up of \$475,412 in security deposits paid on long term property leases, \$12,145 in deferred network installation fees and \$62,469 in legal and other fees paid as part of the debt issues. The deferred loan initiation fees are being amortized over the term of the related note, while network installation fees are amortized over the term of the related contract.

\$603,000 was invested in fixed asset additions during the period. Of this, approximately \$286,000 was spent to outfit the new colocation facility in Seattle and to expand the colocation space in Vancouver and Toronto. An additional \$289,000 in network equipment was added, with the balance spent on miscellaneous small acquisitions.

Operations

Revenues for the first quarter of fiscal 2004 were 54% higher than for the same three month period in fiscal 2003. This growth was evident in both of the company’s major revenue sources – bandwidth revenue which increase from \$1.54 million to \$2.06 million (34% growth) and co-location revenue which increased from \$0.41 million to \$ 0.91 million (121% growth). The number of colocation customers continued to grow during the first quarter. Internet traffic growth was also strong during the quarter, as volumes increased by 36%.

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The majority of revenues continue to be earned from the three Canadian locations. With the opening of the Seattle and San Jose locations in addition to the facility in New York, there continues to be available capacity in the USA and Canada that can service the demand for additional colocation and internet traffic services with minimal incremental cost.

The gross profit for the first quarter was almost eight times higher than that for the same three month period in 2002. From a profit margin of 7% in the first quarter of 2002, the company has been able to achieve a margin of 35% in the same three month period in 2003. The improvement is due primarily to the high proportion of fixed costs inherent in the colocation and bandwidth business. For colocation in particular, costs of sales are largely fixed – therefore every dollar of incremental revenue earned significantly improves the gross profit margin. The same is true for bandwidth margins, with the additional benefit that the company expects to further improve margins as a result of recently negotiated contracts with lower pricing (taking advantage of the higher volumes), as well as through increased peering.

Given that all colocation facilities, but the US ones in particular, have available capacity, gross profit margins are expected to increase further in 2004 as new customers are added.

Previous management commentaries have referred to expected reductions in operating costs, given that the administrative infrastructure was largely put in place in the prior fiscal year. This is borne out by the results – operating expenses as a percentage of revenues dropped from 60% in the first quarter of 2003 to 40% in the first quarter of 2004. The largest component of operating expenses is salaries and wages which comprises approximately 52% of the total (51% in 2003). Rent and administration costs make up the next most significant component at 21% of total operating costs (29% in 2003). The decrease is primarily in administration costs due to cost control initiatives.

Travel costs are 12% of total operating expenses, up from 10% in 2003. This is primarily a timing issue, with total travel costs at the end of 2004 not expected to be significantly different than for 2003. Professional fees have decreased from 10% of total costs in the first quarter of 2003 to 8% in 2004 primarily as a result of reduced consulting costs.

Also included in the determination of the loss for the period is accretion of interest on long term debt. This is a non-cash accounting entry that amortizes the value of the conversion provisions and warrants issued with convertible debt over the term of the debt issue.

Subsequent Events

The following material events occurred after September 30, 2003:

The company has increased the number of customers since June 30, 2003 from approximately 500 to approximately 650 at October 31, 2003. Monthly billings have

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increased over the same time period from approximately \$1,025,000 to approximately \$1,125,000.

The company has completed a debt restructuring program which dramatically changes the company's balance sheet and converts demand loans into defined term loans. The impact of this program allows the company to properly align cash flows to a time when it will be generating sufficient cash to meet repayment terms. For additional details, please refer to the subsequent events note (note 18) of the June 30, 2003 audited financial statements.

Liquidity

The company had a working capital deficit of \$1,708,000 at September 30, 2003 compared to a working capital deficit of \$1,116,000 for the period ended June 30, 2003. However, a significant portion of the deficit pertains to shareholder notes. If these were excluded from the determination of working capital (shareholders are unlikely to impact liquidity in a negative manner), the working capital deficit is largely unchanged (\$629,000 at June 30 compared to \$702,000 at September 30). The company has projected that it will have a positive working capital position in the third quarter of the year ending June 30, 2004.