

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: December 31, 2003

Date of Report: February 24, 2004

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

February 24, 2004

"Lance Tracey"

Lance Tracey

February 24, 2004

Peer 1 Network Enterprises, Inc.
(FORMERLY Tall Tree Resources, Ltd.)
Quarterly Report – Form 51-901F
December 31, 2003

Schedule A: Financial Information

See attached financial statements (unaudited) and notes of the Company for the quarter ended December 31, 2003.

Peer 1 Network Enterprises, Inc.
(FORMERLY Tall Tree Resources, Ltd.)
Quarterly Report – Form 51-901F
December 31, 2003

Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At December 31, 2003
(unaudited - prepared by management)

	December 2003	June 2003
	\$	\$
Assets		
Current:		
Cash and cash equivalents	208,271	650,907
Accounts receivable	2,291,267	1,619,071
Prepaid expenses	516,165	228,401
	<hr/>	<hr/>
	3,015,703	2,498,379
Other assets	465,219	416,174
Property, plant and equipment	4,613,227	3,579,724
	<hr/>	<hr/>
	8,094,149	6,494,277
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	3,055,247	2,562,021
Deferred revenue	377,058	308,759
Current portion of deferred lease inducements	17,700	17,700
Current portion of obligations under capital leases	46,123	127,850
Current portion of notes payable	111,473	111,473
Shareholder notes	1,211,892	486,854
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	4,819,493	3,614,657
Obligations under capital leases		5,351
Deferred lease inducements	150,430	156,329
Notes payable	3,324,263	1,542,551
Advances from affiliated companies		1,687,172
	<hr/>	<hr/>
	8,294,186	7,006,060
Shareholders' Deficiency		
Capital Stock	7,279,922	6,779,922
Warrants	619,999	156,506
Equity component of convertible debt	783,845	682,187
Contributed Surplus	10,129	10,129
Deficit	(8,893,932)	(8,140,527)
	<hr/>	<hr/>
	(200,037)	(511,783)
	<hr/>	<hr/>
	8,094,149	6,494,277

Peer 1 Network Enterprises, Inc.
(FORMERLY Tall Tree Resources, Ltd.)
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Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three Months Ended December 31 and Year To Date
(unaudited - prepared by management)

	Three Months Ended December 2003	Three Months Ended December 2002	Six Months Ended December 2003	Six Months Ended December 2002
Revenue	3,407,164	2,431,152	6,520,374	4,447,313
Cost of Sales	2,036,898	1,823,351	4,087,339	3,703,866
Gross Profit	1,370,266	607,801	2,433,035	743,447
Operating expenses	1,303,681	1,191,607	2,562,913	2,401,508
Operating loss	66,585	(583,806)	(129,878)	(1,658,061)
Interest expense	144,519	118,110	290,460	141,548
Interest accretion on convertible debt	193,014	(10,315)	386,029	-
Foreign exchange loss (gain)	(22,310)	911	(52,962)	43,118
Loss before income taxes	(248,638)	(692,512)	(753,405)	(1,842,727)
(Provision for) recovery of income taxes	-	-	-	-
Loss for the period	(248,638)	(692,512)	(753,405)	(1,842,727)
Deficit, beginning of period	(8,645,294)	(6,009,408)	(8,140,527)	(4,859,193)
Deficit, end of period	(8,893,932)	(6,701,920)	(8,893,932)	(6,701,920)

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

	Three Months Ended December 2003	Three Months Ended December 2002	Six Months Ended December 2003	Six Months Ended December 2002
Cash flows from operating activities				
Loss for the period	(248,638)	(692,512)	(753,405)	(1,842,727)
Amortization	188,282	207,554	398,171	354,051
Decrease in deferred lease inducements	(2,949)	-	(5,899)	-
Increase in accrued interest and accretion of convertible debt	337,533	107,795	676,489	141,548
	<u>274,228</u>	<u>(377,163)</u>	<u>315,356</u>	<u>(1,347,128)</u>
Change in non-cash working capital items				
Increase in accounts receivable	(231,937)	44,027	(672,196)	(381,606)
Increase in prepaid expenses	(270,970)	57,335	(287,764)	(4,221)
Increase in accounts payable and accrued liabilities	80,088	(411,695)	493,226	232,290
Increase in deferred revenue	30,215	79,108	68,299	150,771
	<u>(118,376)</u>	<u>(608,388)</u>	<u>(83,079)</u>	<u>(1,349,894)</u>
Cash flows from investing activities				
Acquisition of property and equipment	(828,552)	(288,066)	(1,431,674)	(851,317)
Investment in other assets	84,807	-	(49,045)	-
	<u>(743,745)</u>	<u>(288,066)</u>	<u>(1,480,719)</u>	<u>(851,317)</u>
Cash flows from financing activities				
Repayment of obligations under capital leases	(12,919)	(201,532)	(87,078)	(355,125)
Proceeds from notes payable and affiliated companies	462,243	(942,112)	571,630	(372,951)
Repayment of notes payable and advances from affiliated companies	(88,428)	-	(88,428)	-
Share capital issued	-	2,134,929	-	2,697,324
Proceeds from shareholder notes	205,589	116,380	725,038	116,380
	<u>566,485</u>	<u>1,107,665</u>	<u>1,121,162</u>	<u>2,085,628</u>
Decrease in cash and cash equivalents	(295,636)	211,211	(442,636)	(115,583)
Cash and cash equivalents - beginning of period	503,907	(188,635)	650,907	138,159
Cash and cash equivalents - end of period	<u>208,271</u>	<u>22,576</u>	<u>208,271</u>	<u>22,576</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 six 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, 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.

Peer 1 Network Enterprises, Inc.
(FORMERLY Tall Tree Resources, Ltd.)
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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	1,315,789	\$ 500,000
Balance at December 31, 2003	38,250,271	\$7,279,922

c) Warrants Outstanding

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

Exercise Price	Outstanding 9/30/03	Issued	Expired/ Exercised	Outstanding 12/31/03	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	5,941,096	-	-	5,941,096	Oct 22, 2005
0.32	1,834,215	-	-	1,834,215	Oct 23, 2005
\$0.28	-	500,000	-	500,000	Nov 6, 2005
	<u>21,938,976</u>	<u>500,000</u>		<u>22,438,976</u>	

d) Shares held in escrow:

As of December 31, 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 9/30/03	Issued	Expired/ Exercised	Outstanding 12/31/03	Expiry Date
\$0.45	100,000	-	100,000	-	Nov 7, 2003
\$0.45	2,311,250	-	125,000	2,186,250	July 24, 2007
\$0.45	100,000	-	-	100,000	Nov 7, 2007
\$0.39	110,000	-	-	110,000	Nov 7, 2007
\$0.32	348,000	-	-	348,000	Sept 9, 2008
	<u>2,969,250</u>		<u>225,000</u>	<u>2,744,250</u>	

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

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(FORMERLY Tall Tree Resources, Ltd.)
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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 December 31, 2003 amounts due to and from related parties were as follows:

	2003	2002
Included in accounts receivable	155,557	99,249

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

Revenues earned	296,282	113,219
Interest expensed	187,650	61,908
Consulting fees paid	-	50,556

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 Note 4 to unaudited financial statements in Schedule A for detail.

3. Securities Issued and options granted during the period:

- a) Securities Issued:

See Note 3 to unaudited financial statements in Schedule A for detail.

- b) Options Issued:

See Note 3 to unaudited financial statements in Schedule A for detail.

4. Securities at end of reporting period:

- a) Authorized and issued share capital:

See Note 3 to unaudited financial statements in Schedule A for detail.

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

See Note 3 to unaudited financial statements in Schedule A for detail.

- c) Shares in escrow of subject:

See Note 3 to 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
Scott Shaw	Rick Hingson, VP Operations
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 \$296,000 during the second quarter, as contributions by shareholders and affiliated companies were offset by an investment in network equipment and colocation facilities.

The accounts receivable balance is \$232,000 higher than it was at September 30, 2003. The increase is attributable to slower collections activity during the Christmas and New Year holidays. The average days sales outstanding at December 31 amounted to 64 days (up from 55 days at September 30, 2003, but better than the 68 days at December 31, 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 \$377,000 in security deposits paid on long term property leases, \$10,000 in deferred network installation fees and \$78,000 in legal and other fees paid as part of the debt restructuring. The deferred loan origination fees are being amortized over the term of the related note, while network installation fees are amortized over the term of the related contract.

\$847,000 was invested in fixed asset additions during the second quarter, with the six month total amounting to \$1,432,000. Of this, approximately \$908,000 was spent to expand the colocation space in Vancouver and Toronto, and to add to colocation equipment at other locations. An additional \$497,000 in network equipment was added, with the balance spent on miscellaneous small acquisitions.

During the quarter, \$500,000 in notes payable was converted to equity at a rate of \$0.38 per share. As a result of the conversion facility being exercised, the balance of the debt became non-interest bearing (with the resultant reduction in interest expense in December) and quarterly payments of \$75,000 are now required to pay off the remaining principal and accumulated interest. The first installment was funded by advances from shareholders. As this is a non-cash transaction, it has not been reflected in the statement of cash flows.

Peer 1 Network Enterprises, Inc.
(formerly Talltree Resources Ltd.)
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Operations

Revenues for the second quarter of fiscal 2004 were 40% higher than for the same three month period in fiscal 2003. On a year to date basis, the revenue increase amounts to 47%. This growth was evident in both of the company's major revenue sources – bandwidth revenue which increased from \$3.3 million to \$4.2 million (27% growth YTD) and co-location revenue which increased from \$1.0 million to \$1.9 million (90% growth YTD). The number of colocation customers continued to grow in all colocation facilities during the second quarter. Internet traffic growth was also strong during the quarter, as volumes increased by 25% from the first quarter. However, downward pressure on bandwidth pricing has reduced the impact of the traffic growth.

The majority of revenues continue to be earned from the three Canadian locations, though revenue growth is evident at all locations. Peer 1's presence in the New York, Seattle and San Jose markets is still relatively new, and enhanced growth is expected at these locations as name recognition increases. With the expansion of the Vancouver colocation facility, and the opening of a bandwidth neutral facility in Toronto, 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 second quarter was more than double that for the same three month period in 2003 and almost four times higher on a year to date basis (an increase of 125% for the second quarter, and 381% YTD). From a profit margin of 25% in the second quarter of 2003, the company has been able to achieve a margin of 40% in the corresponding three month period in 2004. 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.

Operating expenses as a percentage of revenues dropped from 49% in the second quarter of 2003 to 38% in the second quarter of 2004. On a year to date basis the reduction is even more dramatic – from 54% in 2003 to 39% in 2004. The largest component of operating expenses is salaries and wages which comprises approximately 50% of the total (48% in 2003). Rent and administration costs make up the next most significant component at 19% of total operating costs (25% in 2003). The decrease is primarily in administration costs due to cost control initiatives. Travel costs are 13% of total operating expenses, up from 11% in 2003. This is a result of travel required to investigate potential business acquisitions. Professional fees are unchanged at 9% of total 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.

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Subsequent Events

None.

Liquidity

The company had a working capital deficit of \$1,804,000 at December 31, 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 \$592,000 at December 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.