



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008**

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Balance Sheet
December 31, 2009
(in thousands of United States dollars)

	December 31, 2009	June 30, 2009
Assets		
Current:		
Cash and cash equivalents	\$ 7,622	\$ 15,744
Accounts receivable	4,260	3,449
Future income tax asset	96	237
Prepaid expenses	1,706	1,130
	13,684	20,560
Other assets	2,828	2,692
Future income tax asset	1,680	1,042
Property and equipment	48,039	36,856
Equipment under capital lease	912	1,013
Goodwill	1,715	1,715
Intangible assets	3,000	2,552
	\$ 71,858	\$ 66,430
Liabilities		
Current:		
Accounts payable and accrued liabilities	\$ 12,637	\$ 7,936
Deferred revenue	3,000	2,886
Current portion of deferred gain	79	79
Current portion of deferred lease inducements	130	138
Current portion of derivative liabilities (Note 3)	121	89
Current portion of notes payable (Note 4)	3,000	2,250
Current portion of obligations under capital lease	241	211
Income taxes payable	23	2,200
	19,231	15,789
Deferred gain	453	493
Deferred lease inducements	599	664
Derivative liabilities (Note 3)	182	179
Notes payable (Note 4)	10,830	12,303
Obligation under capital lease	279	363
	31,574	29,791
Shareholders' equity	40,284	36,639
	\$ 71,858	\$ 66,430
Commitments and contingencies (Note 11)		

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statements of Shareholders' Equity
For the Three and Six Months Ended December 31, 2009
(in thousands of United States dollars except number of shares)

	Three months ended				Six months ended			
	December 31, 2009		December 31, 2008		December 31, 2009		December 31, 2008	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
SHARE CAPITAL								
Common shares (Note 5)								
Balance at beginning of period	121,055,984	\$ 27,790	119,252,657	\$ 26,911	119,314,323	\$ 26,950	118,504,368	\$ 26,539
Stock options exercised	204,757	152	41,666	29	318,132	211	111,670	60
Warrants exercised	-	-	-	-	1,628,286	781	678,285	341
Balance at end of period	121,260,741	27,942	119,294,323	26,940	121,260,741	27,942	119,294,323	26,940
Warrants (Note 5)								
Balance at beginning of period	833,333	86	2,461,619	493	2,461,619	493	3,139,904	678
Warrants exercised	-	-	-	-	(1,628,286)	(407)	(678,285)	(185)
Balance at end of period	833,333	86	2,461,619	493	833,333	86	2,461,619	493
Total – share capital	122,094,074	28,028	121,755,942	27,433	122,094,074	28,028	121,755,942	27,433
CONTRIBUTED SURPLUS								
Balance at beginning of period		5,307		3,303		4,766		2,509
Stock-based compensation		502		587		1,065		1,392
Stock options exercised		(100)		(11)		(122)		(22)
Balance at end of period		5,709		3,879		5,709		3,879
RETAINED EARNINGS								
Balance at beginning of period		5,976		713		4,709		(1,013)
Net income		886		2,005		2,153		3,731
Balance at end of period		6,862		2,718		6,862		2,718
ACCUMULATED OTHER COMPREHENSIVE INCOME								
Balance at beginning of period		(361)		(11)		(279)		(11)
Other comprehensive income (loss)		46		-		(36)		-
Balance at end of period		(315)		(11)		(315)		(11)
Total - shareholders' equity		\$ 40,284		\$ 34,019		\$ 40,284		\$ 34,019

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statement of Operations
For the Three and Six Months Ended December 31, 2009
(in thousands of United States dollars, except per share amounts)

	Three months ended		Six months ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Revenue				
Colocation Services	\$6,845	\$ 6,124	\$13,473	\$ 12,839
Hosting Services	17,051	17,515	33,797	34,305
	23,896	23,639	47,270	47,144
Cost of revenue	14,107	12,866	27,818	25,902
Gross profit	9,789	10,773	19,452	21,242
Operating expenses	7,530	7,069	14,715	14,035
Operating income before other items	2,259	3,704	4,737	7,207
Other items:				
Interest income	(1)	(17)	(6)	(54)
Gain on insurance recovery	-	-	(93)	-
Gain on disposal of property and equipment	(30)	(18)	(42)	(20)
Foreign exchange loss	109	(91)	189	(84)
Interest expense – long term	336	437	648	861
	414	311	696	703
Income before income taxes	1,845	3,393	4,041	6,504
Future income tax expense (recovery)	(204)	(52)	(500)	237
Current income tax expense	1,163	1,440	2,388	2,536
Income tax expense	959	1,388	1,888	2,773
Net income	\$ 886	\$ 2,005	\$ 2,153	\$ 3,731
Other comprehensive income:				
Change in unrealized fair value of derivatives designated as cash flow hedges	46	-	(36)	-
Comprehensive income	\$ 932	\$ 2,005	\$ 2,117	\$ 3,731
Net income attributable to:				
Common shares	\$ 886	\$ 2,005	\$ 2,153	\$ 3,731
Comprehensive income attributable to:				
Common shares	\$ 932	2,005	\$ 2,117	3,731
Basic and diluted earnings per share	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.03
Weighted average number of shares				
Basic	121,197,002	119,268,381	120,350,957	118,983,859
Diluted	124,518,581	124,016,730	124,332,317	124,205,739

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statement of Cash Flows
For the Three and Six Months Ended December 31, 2009
(in thousands of United States dollars)

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Operating Activities:				
Net income	\$ 886	\$ 2,005	\$ 2,153	\$ 3,731
Adjustments for non-cash items:				
Amortization of property and equipment	3,344	2,990	6,495	5,644
Amortization of intangible assets	164	338	487	728
Increase in accrued interest and accretion of convertible debt	-	37	-	55
Bad debt expense	56	261	214	397
Gain on disposal of property and equipment	(30)	(18)	(42)	(20)
Amortization of deferred gain	(20)	(20)	(39)	(39)
Gain on insurance	-	-	(93)	-
Amortization of deferred loan origination fees	68	117	117	240
Future income tax expense	(204)	(52)	(500)	237
Stock-based compensation included in income for the period	502	587	1,065	1,392
(Decrease) Increase in deferred lease inducements	(37)	37	(73)	1
Changes in non-cash working capital:				
Decrease (Increase) accounts receivable	(354)	236	(863)	(1,285)
Increase in prepaid expenses	(489)	(114)	(576)	(213)
Increase (Decrease) in accounts payable and accrued liabilities	814	334	657	(1,176)
Increase (Decrease) in income taxes payable	247	1,121	(2,177)	299
Increase in deferred revenue	30	41	114	60
Cash flows from operating activities	4,977	7,900	6,939	10,051
Investing Activities:				
Investment in other assets	(135)	10	(226)	31
Acquisition of property and equipment	(7,645)	(5,034)	(13,603)	(9,030)
Acquisition of intangible assets	(612)	(496)	(936)	(895)
Proceeds on disposition of equipment	30	18	42	20
Cash flows used in investing activities	(8,362)	(5,502)	(14,723)	(9,874)
Financing Activities:				
Repayments of notes payable	(750)	(800)	(750)	(1,600)
Payment of capital lease obligations	(58)	(47)	(112)	(101)
Issuance of capital stock	52	18	462	194
Cash flows used in financing activities	(756)	(829)	(400)	(1,507)
Foreign exchange gain (loss) on cash and cash equivalents	9	(160)	62	(120)
(Decrease) Increase in cash and cash equivalents	(4,132)	1,409	(8,122)	(1,450)
Cash and cash equivalents, beginning	11,754	8,167	15,744	11,026
Cash and cash equivalents, ending	\$ 7,622	\$ 9,576	\$ 7,622	\$ 9,576
Supplemental Disclosure of Cash Flow Information (Note 6)				

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
December 31, 2009
(dollar amounts are presented in thousands of
United States dollars, except per share amounts)

1. Significant Accounting Policies:

a) Nature of Operations:

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 colocation facilities with high performance Internet bandwidth and hosting servers to web-centric and enterprise customers across North America. The Company has established local offices and data centres in Canada, the USA, and the UK 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, 2009, except as described in note 1(b). 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:

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", effective for interim and annual periods on or after Oct 1, 2008. Section 3064, which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Financial Reporting Standards ("IFRS") IAS 38, "Intangible Assets". This new standard is effective for the Company's interim and annual financial statements commencing July 1, 2009. The Company has adopted this new standard in the preparation of its financial statements.

c) Recent Accounting Pronouncements:

i) In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its financial statements.

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Notes to Consolidated Financial Statements
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1. Significant Accounting Policies: (continued)

c) Recent Accounting Pronouncements: (continued)

ii) In January 2009, the CICA issued Handbook Section 1601, “Consolidated Financial Statements”, which replaces the existing standard. This Section carries forward existing Canadian guidance for preparing consolidated financial statements other than non-controlling interests. The Section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

iii) In January 2009, the CICA issued Section 1602, “Non-controlling Interests”, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier adoption permitted. As of December 31, 2009 the Company has no non-controlling interests, and accordingly there is no currently expected impact as a result of the standard.

iv) In June 2009, the CICA amended Handbook Section 3855, "Financial Instruments - Recognition and Measurement", to clarify the application of the effective interest method after a debt instrument has been impaired. The Section has also been amended to clarify when and embedded prepayment option is separated from its host instrument for accounting purposes. The amendments apply to interim and annual financial statements relating to fiscal years beginning on or after May 1, 2009 for the amendments relating to the effective interest method and January 1, 2011 for the amendment relating to embedded prepayment options. The Company is currently evaluating the impact of the amendments relating to embedded prepayment options.

2. Basis of Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 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, Peer 1 Network (LA), Inc. and Peer 1 (UK) Ltd.

3. Derivative Liabilities:

The carrying amount of the derivative financial instrument in a hedge relationship was as follows:

	December 31, 2009	June 30, 2009
Derivative financial instruments designated as cash flow hedges		
Interest – rate swap agreement	\$ 303	\$ 268

The interest rate swap matures at the same time as the notes payable described below in Note 4.

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4. Notes Payable:

Notes payable as of December 31, 2009 include amounts payable to National Bank of Canada. Pursuant to the adoption of CICA Handbook Section 3855, amounts are shown net of related transaction and financing costs. Details are as follows:

	December 31, 2009	June 30, 2009
Notes payable	\$ 14,250	\$ 15,000
Unamortized deferred loan origination fees	420	447
Notes payable, net of related transaction and financing	13,830	14,553
Less: Current portion	3,000	2,250
	\$ 10,830	\$ 12,303

5. Shareholders' Equity:

Capital Stock:

The Company is authorized to issue unlimited common shares without par value and unlimited preferred shares without par value.

Warrants:

The following non-transferable share purchase warrants are outstanding:

Exercise Price	Outstanding at June 30, 2009	Issued	Exercised	Outstanding at Dec. 31, 2009	Expiry Date
USD\$0.23	1,628,286	-	1,628,286	-	-
CDN\$0.40	833,333	-	-	833,333	January 31, 2011
	2,461,619	-	1,628,286	833,333	

Stock options:

As at December 31, 2009, the Company had 15,465,850 stock options outstanding.

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6. Supplemental Disclosure of Cash Flow Information:

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Interest paid	\$ 382	\$ 283	\$ 472	\$ 565
Income taxes paid	909	375	4,556	2,193
Interest received	1	17	6	54
Effect of acquisition of property and equipment in accounts payable	2,348	(1,156)	4,044	37

7. Related Party Balances and 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:

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Transaction during the period -				
Revenue earned from companies owned or subject to significant influence by directors and principal	\$ 31	\$ 27	\$ 58	\$ 58
Other expenses from companies owned or subject to significant influence by directors and principal	\$ 1	\$ 25	\$ 1	\$ 53

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.

	December 31, 2009	December 31, 2008
Balances at the end of the period -		
Accounts receivable from companies owned or subject to significant influence by directors and principal shareholders	\$ 177	\$ 17
Accounts payable to companies owned or subject to significant influence by directors and principal shareholders	\$ -	\$ -

The balances are payable on demand and have arisen from the sale of products, provision of services and invoice payments.

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8. Capital Risk Management:

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, notes payable and equity comprising of issued capital, contributed surplus and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its board of directors, will balance its overall capital structure through new share issues, share repurchases, the payment of dividends, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is subject to externally imposed capital requirements as required under the terms of its loan agreement. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2009.

9. Financial Risk Management:

a) Overview:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Management has overall responsibility for the oversight of the Company's risk management within parameters established by the board of directors.

b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The carrying amount of financial assets represents the maximum credit exposure. The Company has adopted a credit policy which includes a requirement for payment at commencement of service for dedicated hosting customers. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are primarily located in the United States, Canada and the UK and represent various industries. At December 31, 2009, no single customer represented more than 5% of accounts receivable. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance is a specific loss component that relates to individually significant exposures, and an overall loss component established based on historical trends and other information. Trade accounts receivable are written off against the allowance account after management has determined that the loss is probable. As at December 31, 2009, the Company had an allowance for doubtful accounts of \$1,120. At December 31, 2009, the Company had no individually material past due trade accounts receivables.

PEER 1 NETWORK ENTERPRISES, INC.
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9. Financial Risk Management: (continued)

b) Credit risk: (continued):

	As of December 31, 2009
Total Accounts receivable	\$ 5,380
Less: Allowance for doubtful accounts	(1,120)
Accounts receivable, net	\$ 4,260
Of which:	
Not overdue	\$ 98
1-30 days	2,477
31-60 days	644
61-90 days	85
91 days and over	771
Less: Allowance for doubtful accounts	(1,120)
Accounts receivable – other	1,305
Accounts receivable, net	\$ 4,260

The Company invests its excess cash in overnight bank commercial paper with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations and future planned capital expenditures and with the secondary objective of adding to the overall yield generated by excess cash balances. Excess cash balances are transferred to U.S. Bank commercial Paper sweep accounts which mature overnight. The U.S. Bank commercial paper is a short term promissory note issued by U.S. Bank N.A. and is rated at least investment grade by the recognized rating agencies. Given the high credit ratings and overnight duration, the Company does not expect the counterparties to these bank promissory notes to fail to meet their obligations.

c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As at December 31, 2009, the Company had financial assets held for trading of \$7,622, loans and receivables of \$4,260 and other financial liabilities of \$26,987. As at December 31, 2008, the Company had financial assets held for trading of \$9,576, loans and receivables of \$4,938 and other financial liabilities of \$22,210. All of the Company's financial liabilities have contracted maturities of less than 3 years. The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The Company provides its services in the United States and Canada substantially all of the Company's financial assets and liabilities originate in United States and Canadian dollars. The Company is exposed to currency risk for sales and purchases that are denominated in Canadian dollars. The Company is subject to interest rate risk on its cash and cash equivalents. The Company believes that interest rate risk is low as excess cash is invested overnight only. A change of 1% in interest rates for the three months ended December 31, 2009 would have changed net income by \$38; and a change of 1% in interest rates for the six months ended December 31, 2009 would have changed net income by \$75.

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Notes to Consolidated Financial Statements
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9. Financial Risk Management: (continued)

e) Fair value of financial instruments:

The fair values of financial assets and financial liabilities are determined as follows:

- (i) For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities carrying amounts approximate fair value due to their short-term maturity;
- (ii) The fair value of notes payable and obligations under capital lease approximate their carrying value as their effective interest rates approximate current market rates.
- (iii) The fair value of derivative financial instruments is determined based on fair market valuation methods.

10. Contingencies:

Legal contingencies -

In March 2007, the Company was served with a Writ of Summons and Statement of Claim (subsequently amended) issued in the Supreme Court of British Columbia. The plaintiffs, Aidan Stretch and James Walsh, claim that they are the assignees of an alleged right to receive 745,000 warrants, each warrant entitling them to acquire one of our common shares at a price of CDN \$0.40 for a period of two years, and they seek a declaration that the Company be obliged to issue those warrants or, alternatively, damages. The plaintiffs also seek any losses suffered due to any delay in issuing the warrants, and costs. The Company filed a Statement of Defence on June 28, 2007 which led to the plaintiffs amending the claim by, among other things, adding WindyPoint Capital Inc. and WindyPoint Capital Holdings Inc. as plaintiffs in the action, being the parties from whom Stretch and Walsh allege they received the assignment of right. The Company responded with an amended Statement of Defence as well as with a Counterclaim seeking judgment against WindyPoint Capital Inc. for US\$668,750. On August 29, 2008, the plaintiffs filed a Reply to the amended Statement of Defence, and a Statement of Defence to the Counterclaim. The trial of the proceedings was originally scheduled to commence on December 7, 2009. However, on November 26, 2009, the court adjourned the commencement of the trial to a date to be fixed. The plaintiffs have unilaterally set the trial down for commencement on May 3, 2010, but the Company is contesting that action and seeking an adjournment of the trial to a later date. In the meantime, the parties have agreed to hold a mediation of their dispute on March 18, 2010. While the Company has and continues to defend the claim vigorously on reasonable grounds, there can be no assurance that the Company will be successful in its efforts. A contingent loss has not been recorded with respect to this claim and an estimate of the contingent loss if any cannot be made.

11. Segmented Information:

Management has determined that the Company operates in a single reportable operating segment which involves the provision of outsourced data center infrastructure services. The Company provides its services in the United States, Canada and the UK and substantially all of the Company's identifiable assets as at December 31, 2009 are located in the United States, Canada and the UK. The Company's service offerings include the provision of physical space within its data centres, a complete suite of managed and unmanaged dedicated hosting services and high availability bandwidth connectivity. The Company makes decisions and evaluates financial performance primarily based on these service offerings.

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12. Subsequent Events

In February 2010, the Company was advanced a USD\$2 million loan under the loan Facility A held with National Bank of Canada. This US\$2 million loan advanced under Facility A is a LIBO Rate loan and carries a combined interest rate of 3% determined as the rate of US three month libor plus the applicable margin.