



NETWORK | CO-LOCATION | MANAGED HOSTING

Annual Information Form
September 19, 2008

For The Fiscal Year Ended June 30, 2008



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This *Annual Information Form* (“AIF”) is dated September 19, 2008 and, unless specifically stated otherwise, all information disclosed in this form is provided as at June 30, 2008, the end of our most recently completed fiscal year.

All dollar amounts herein are in US dollars, unless otherwise stated.

Forward Looking Statements

This AIF may include or incorporate by reference certain statements that are “forward-looking statements”. All statements, other than statements of historical fact, included or incorporated by reference in this AIF that address activities, events or developments that we or our management expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amounts and nature thereof), business strategies and measures to implement strategies, goals, expansion and growth of our business and operations, plans and references to our future success, and other such matters, are forward-looking statements. These forward-looking statements are based on certain assumptions and analyses made by our management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors our management believes is appropriate in the circumstances. However, whether actual results and developments will conform to our management’s expectations and predictions is subject to a number of risks and uncertainties, including those risk factors discussed under “Risk Factors” and elsewhere in this AIF and the documents incorporated by reference. Consequently, all of the forward-looking statements made in this AIF and the documents incorporated herein by reference are qualified by these cautionary statements and other cautionary statements or factors contained herein or in documents incorporated by reference herein, and there can be no assurance that the actual results or developments anticipated by us and our management will be realized or, even if substantially realized, that they will have the expected consequences for, or effects on, us.

The forward-looking statements set forth herein reflect our expectations as at the date of this AIF and are subject to change after that date. Unless otherwise required by applicable securities laws, Peer 1 and its management expressly disclaim any intention, and assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Company and Corporate Information

(All references to us in this Annual Information Form include all of our subsidiaries, unless the context indicates otherwise.)

We are a premier Internet infrastructure provider, delivering managed, self-managed, co-location and network services through 15 datacenters located in 12 cities across North America, all connected together by our own IP (“Internet Protocol”) backbone network. We are a full solution provider and our services are designed to enable our customers to focus on their businesses rather than the complexities of maintaining or expanding their Internet infrastructure. Our principal target market is those small and medium-sized businesses whose activities are increasingly dependent upon the Internet.

We were incorporated under the laws of British Columbia on May 3, 1996 under the name 519228 B.C. Ltd. We changed our name on July 15, 1996 and on July 23, 2002 to TallTree Resources Ltd. and Peer 1 Network Enterprises, Inc., respectively. On December 31, 2006 we

amalgamated with our wholly-owned subsidiary, Peer 1 Network Inc., under the corporate laws of British Columbia.

From our inception in 1996 until 1999 we were inactive. In 1999 we entered the mineral exploration business, and on August 12, 1999 we completed our initial public offering and listed our common shares on the TSX Venture Exchange. On July 24, 2002 we changed our business focus when we acquired by way of reverse takeover all of the outstanding shares of Peer 1 Network Inc. On May 20, 2008, our common shares commenced trading on the Toronto Stock Exchange (the "TSX") and ceased trading on the TSX Venture Exchange. We carry on business directly and through Peer 1 Network (USA), Inc., Peer 1 Dedicated Hosting Inc. and ServerBeach, Ltd., which are our principal operating subsidiaries. We own, directly and indirectly, all of the outstanding shares of those subsidiaries.

Our corporate headquarters is at Suite 1000 – 555 West Hastings Street, Vancouver, British Columbia, and our registered office is at Suite 1810 - 1111 West Georgia Street, Vancouver, British Columbia.

Four Year History

Until 2004, we grew organically by focusing on expanding our IP backbone network and location services in select Canadian cities. In 2004 and 2005, we made two acquisitions in the United States that had the effect of more than quadrupling our revenue base and substantially broadening the range of core services we could offer our customers. The acquisitions also had the effect of expanding our geographic presence to include multiple locations in the United States. As a result of these acquisitions and subsequent organic growth, approximately 77.5% of our revenues are now derived from the United States.

The most salient events for us during the four years ended June 30, 2008 are as follows:

- On October 4, 2004, we acquired all the operating assets of ServerBeach Ltd., a company in the self-managed hosting business and based in San Antonio, Texas. The purchase price was US\$7.5 million, and the assets acquired included datacenters in San Antonio and Herndon, Virginia.
- On September 2, 2005, we purchased the managed hosting assets of Interland, Inc. for a purchase price of US\$14 million. The assets acquired included data centers in Atlanta, Georgia; Fremont, California; and Miami, Florida.
- Concurrently with the acquisition of assets from Interland, Inc., we entered into the following transactions:
 - We entered into a Loan and Security Agreement, which was subsequently amended and restated, the particulars of which are described under "Other Material Agreements".
 - Our subsidiary, Peer 1 Network (USA) Inc. issued Series A Preferred shares for gross proceeds of US\$7 million, which shares were exchangeable for common shares in our capital. See "Prior Sales".

- Holders of approximately CDN\$7 million of our outstanding debt, of which approximately CDN\$6,265,000 was held by our insiders, converted that debt into 25,274,588 of our common shares.
- On May 25, 2007, all of the outstanding Series A Preferred shares in Peer 1 Network (USA) Inc. were exchanged for common shares in our capital, resulting in the issuance of 34,869,628 of our common shares. As the Series A Preferred shares obligated us to purchase them in certain circumstances, their exchange for our common shares resulted in the reclassification to equity of US\$9.4 million in debt (representing the purchase price of the Series A Preferred shares and accrued dividends) associated with our purchase obligation.

Industry

An increasing number of business critical applications are now delivered over the Internet. As a result, businesses of all sizes are evolving to depend on 24 hours a day, seven days a week, or 24-7 connectivity, availability and security of their IT systems. In addition, community and social based web applications, such as YouTube, Facebook or MySpace are revolutionizing the ways that users interact over the Internet. These dynamics are spurring the demand for increased Internet infrastructure availability.

Modern data centers must be designed and operated at a level approaching 100% of system availability. To achieve this, multiple redundant layers of power, bandwidth, network connectivity and cooling systems are now mandatory. The economic resources and technical expertise required to build and operate facilities of this kind are well beyond the capabilities of a typical small and medium-sized business.

The increasing capabilities and sophistication of web applications is driving small and medium-sized businesses to develop and deploy system architectures that are increasingly complex, creating a sense of urgency and demand for specialized Internet infrastructure solutions and services.

We have chosen to focus on small and medium-sized businesses worldwide. To effectively compete, this target market has become reliant on sophisticated Internet infrastructure that, in the past, has been typically deployed at larger enterprises. However, managing, monitoring, administering, and maintaining a sophisticated Internet infrastructure can rapidly deplete the limited resources of small and medium-sized businesses which need to be directed at core business activities. These complex and growing demands necessitate a closer relationship with a value-added, solutions oriented Internet infrastructure service provider such as us.

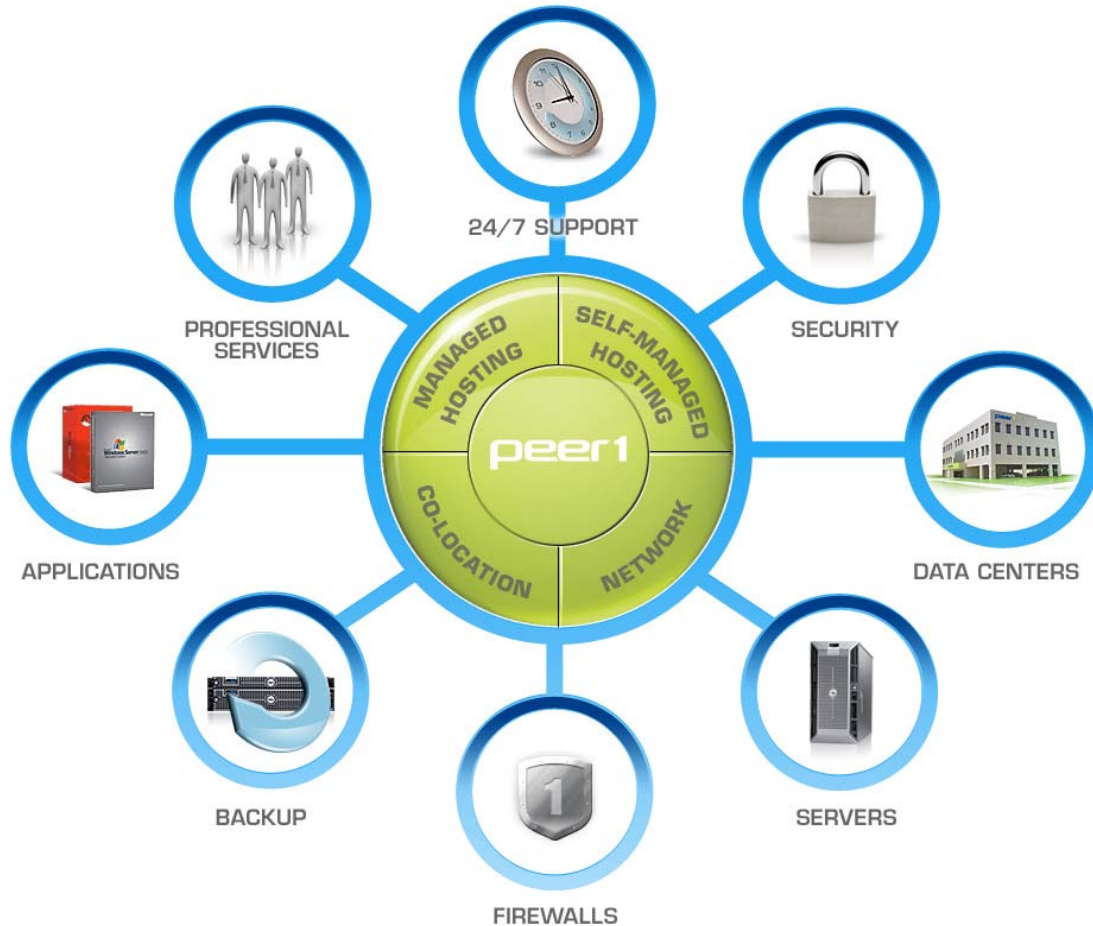
We view the North American market for Internet infrastructure as highly fragmented, with no single dominant player focused on the small and medium-sized business marketplace. Specifically, we believe the industry includes many small, regional providers that are limited in their ability to scale their service offerings or data center infrastructure.

We believe that there is a growing trend to outsource Internet infrastructure and related managed services to third-party providers. We expect this trend to remain healthy for the foreseeable future given the significant costs associated with attempting to deliver high quality Internet infrastructure solutions through an in-house approach. In particular, we believe that small and medium-sized businesses face significant challenges in trying to deliver these services on their own because of constraints related to technical expertise and cost. We believe

that outsourcing these functions will allow organizations to focus capital and personnel resources on their core business operations, as opposed to Internet infrastructure.

Services and Solutions

We are a full solution provider and our services are designed to enable our customers to focus on their businesses rather than the complexities of maintaining or expanding their Internet infrastructure. Our four core services are: managed hosting, self-managed hosting, co-location and network services.



Managed Hosting

Managed hosting is an arrangement with a customer in which we provide them with the use of server and related technology and a collection of services designed to ensure the proper management of that technology in the light of the customer's objectives. These services and technology include the following:

- We provide data backup and recovery solutions designed to make backups and restorations faster and more flexible with minimal customer impact.
- We provide firewall technology to protect servers against online exploitation. We customize firewall rule sets in accordance with customer objectives with a view to

balancing the need for protection from illegitimate access against the need to allow unimpeded legitimate access.

- We provide dedicated switches and devices that provide a private communication link between servers and assist our customers in managing their bandwidth consumption.
- We provide vulnerability scanning services to satisfy customer demands for periodic server security audits.
- We provide advance system monitoring services to enable our customers to address potential problems before they become actual problems.
- We provide load balancing services that enable customers to better handle high traffic loads by, among other things, adding more servers to server farms as they are needed and removing them when they are no longer needed. Load balancing services are ideal for customers that have clusters of servers in multiple locations, as it enables them to direct internet traffic between server nodes in our different datacenters.
- We provide a caching system that directs the customers' clients to the nearest caching server or node, allowing for faster delivery of web content than is possible without caching. This system is also made available as part of all of our other services offerings.

Managed hosting services represented 45.1% and 48.1% of our gross revenue during the 12 months ended June 30, 2008 and 2007, respectively.

Self-Managed Hosting

Self-managed hosting arrangements are substantially similar to managed hosting arrangements except that in the former case the customer manages and administers the server, not us. The services made available to self-managed hosting customers take the form of automated tools to facilitate the provisioning of server solutions. They include the following:

- We provide RapidReboot™ to enable customers to remotely restart their servers, eliminating the need for an on-site technician to manually re-start them.
- We provide RapidRescue™ to enable servers running the Linux operating system to be rescued by our customers from potentially fatal errors. Customers can recover and repair corrupted file systems, gain immediate access to the server, and boot the server into rescue mode without the help of an on-site technician.
- We provide remote backup technology to enable customers to back-up their critical data on a separate device. Storage amounts can be increased and decreased by the customer via our web portal, and any changes occur automatically.
- We provide control panel technology designed to simplify and automate, and thereby reduce the costs associated with the management and administration of web sites.
- We provide a variety of options for port speed and bandwidth allotment that can be tailored to meet the requirements of each customer.

- We provide technology that allows customers to communicate between their web, database and other servers internally without going over the public Internet.

Self-managed hosting services represented 24.2% and 23.1% of our gross revenue during the 12 months ended June 30, 2008 and 2007, respectively.

Co-Location and Related Services

Co-location arrangements are substantially similar to self-managed hosting except that co-location customers own the server hardware and technology which they house on our premises in order to access our high quality Internet infrastructure, large bandwidth capacity, redundant power supply, security and technical support. This type of arrangement also enables customers to easily increase the Internet-related aspects of their business with minimal disruption. Our co-location services include the following:

- We host customer domain names on a fully redundant distributed environment providing the customer with fast performance and reliable uptime over the Internet.
- Our port monitoring service enables our customers to define their minimum and maximum thresholds for bandwidth and packets per seconds usage, and alerts them by email once the threshold has been reached. This service also enables our customers to better manage network costs and alerts customers of reductions in traffic to their sites due to server crash, hardware failure or web site configuration issues.
- We provide co-location customers with convenient, secure, browser-based access to servers located on our premises, allowing customers to remotely repair server problems. This device allows the remote installation of operating systems and server troubleshooting.
- We provide load balancing services that enables customers to better handle high traffic loads by, among other things, adding more servers to server farms as they are needed and removing them when they are no longer needed. Load balancing services are ideal for customers that have clusters of servers in multiple locations, as it enables them to direct internet traffic between server nodes in our different datacenters.
- We offer a service that protects our customers' online presence by distributing an incoming Distributed Denial of Service Attack, minimizing the impact on their normal functioning.

Co-location services represented 19.5% and 17.4% of our gross revenue during the 12 months ended June 30, 2008 and 2007, respectively.

IP Backbone Network Services

We have engineered one of the fastest and most reliable IP backbone networks in North America. We have established 20 network points-of-presence, in some cases with multiple points-of-presence in a single city, and the map of our network set out below highlights the reach of our network.



We bundle network connectivity with all of our core service offerings and also attract select customers wishing to have access to the benefits and security of our network without subscribing to our other services. Our network operations are managed and serviced on a continuous basis.

The network is based on a series of dedicated links between our datacenters using multiple high speed connections and best-in-class network hardware. It is fully redundant, without any singly point of failure, and makes use of strategic peering relationships with over 500 other network providers. These relationships improve performance by reducing network latency, and they reduce our telecommunications carrier costs.

Network services represented 11.1% and 11.4% of our gross revenue during the 12 months ended June 30, 2008 and 2007, respectively.

Strengths

Full Solution Provider focused on Internet Infrastructure Outsourcing

We distinguish ourselves from our competitors by offering a full suite of solutions for the Internet infrastructure needs of our customers. We capitalize on the growing trends to outsource increasingly sophisticated Internet infrastructure needs to providers such as us.

Significant Customer Base with Limited Concentration

We have over 10,000 customers worldwide. No single customer represents more than 2% of our revenue in the year ended June 30, 2008. Our customers represent a broad range of industry segments.

Recurring Revenues from Our Service Offerings

Approximately 90% of our revenue recurs on a monthly basis, providing a stable base on which to grow our business.

Experienced Management Team

Our experienced and dedicated management team has evidenced a proven ability to drive revenue growth and margin expansion as well as expand and upgrade facility and network infrastructure to meet customer demand and competitive requirements. In addition, our management team has successfully integrated two major acquisitions in the four financial years ended June 30, 2008. See "Four Year History".

Successful track record of scaling our customer's Internet Infrastructure requirements

We have a successful track record of scaling our customer's Internet infrastructure requirements, which we have achieved by virtue of the significant technical expertise of our development, engineering, support and operations personnel.

Broad Geographical Presence

We have a broad geographical presence with 15 datacenters located in 12 cities across North America. This enables us to offer greater choice in datacenter location to those customers for whom geographic presence is important. Customers of this type include those seeking to replicate aspects of their own server environment in another environment in order to achieve the redundancies required by standard disaster plans.

World class IP backbone network

We have engineered our own IP backbone network rather than relying exclusively upon the public networks because this enables us to deliver high performance and reliable Internet connectivity to our customers. This in turn enables us to ensure the quality of our suite of leading Internet infrastructure solutions. We are committed to continuing to invest in ensuring the quality of our IP backbone network. We believe that investments of this kind position us to meet the increasingly sophisticated demands of the Internet infrastructure marketplace.

Growth Strategy

We are pursuing a growth strategy that is focused on (1) organic growth, (2) leveraging our automation capabilities and (3) pursuing additional growth opportunities through strategic acquisitions.

Organic Growth

We seek to increase our customer base and revenue by a continued focus on service excellence, the introduction of new service solutions, the cross selling of our service solutions to existing customers, the expansion of our geographical presence in North America and Europe, and the continuation and improvement of our sales and marketing activities. We will also continue using our relative financial strength and size to secure strategic arrangements with other service providers and vendors that might not be available to our smaller competitors due to their size.

Leveraging Automation

We pursue an operational strategy aimed at increasing the use of automation in respect of the manner in which we provision and deliver our service solutions. This benefits our customers

through more effective and faster deployment of our service solutions and reduces our costs and commensurately increases our margins in comparison with an operational strategy that does not accommodate automation.

Strategic Acquisitions

We will seek to exploit the opportunities presented by our fragmented industry to accelerate our growth through strategic acquisitions. Our senior management team and Board of Directors have considerable acquisition experience and have completed and integrated two major acquisitions during the four years ended June 30, 2008. See "Four Year History".

Sales and Marketing

Our sales force is organized into two groups. The first group consists of in-bound account managers who predominantly respond to leads generated from online advertising, on-line chat requests originating from our website, and in-bound phone leads. The second sales group consists of out-bound account managers organized by region and focused on direct sales activities in their region. Both have been trained to sell to existing and new customers our entire range of services and solutions. Our sales force draws upon extensive experience in the Internet infrastructure services industry and is supported by solutions engineers, as required, during the pre-sales stages to ensure the technical requirements of our customers are clearly understood and that our solutions represent the best fit for our customers' requirements.

We also rely on affiliate programs to generate sales. These programs provide for the payment of referral fees to customers, industry partners, web developers, systems integrators and application service providers, among others, to refer business to us.

Our marketing group is focused on building brand recognition and increasing market awareness within our industry and key online communities. This group is responsible for advertising (mostly online), marketing communications, public relations, product and service promotions, product and service literature, trade show/event marketing, and enhancing and expanding our online presence.

Network Operations Center and Customer Support

We operate a fully staffed and redundant network operations center located at Vancouver, British Columbia, from which our network and all the devices attached to our network are monitored at all times. Our team of network engineers responds to any issue that arises that may cause disruption or degradation of network performance.

Post-sales customer support is provided by our technical support and customer relations teams. Customers have 24x7 telephone and e-mail access to technical support specialists for assistance with troubleshooting their environment. In most instances, customers also have access to a web-based ticketing system for requesting and tracking support requests.

Employees

As of June 30, 2008, we had 290 employees, including 38 employees in sales, solution engineers and marketing, 40 employees in finance, human resources and corporate administration, 17 employees in network operations, 22 employees in product engineering, 95

employees in customer service and support and 78 employees in datacenter operations. All of our employees are full-time employees and no union represents any of them.

Intellectual Property

We use a wide range of proprietary information, data, software, trademarks and know-how in our business. We rely upon trade secrets, proprietary know-how, and continuing technological innovation to develop new data center and IT infrastructure services and solutions and to remain competitive. While this intellectual property is as a whole important to us, we are not substantially dependent upon any one item of it. See "Risk Factors".

Contracts

We generally provide our services to our customers using the following contractual arrangements:

Service Agreement

The service agreement, wherein a customer subscribes for one of our four service offerings, is our most common form of agreement. The form of agreement we use is generally consistent with industry practices. Specifically it generally provides for an initial one-year term with automatic renewals, payment to be due one month after the billing date, and a limitation on our liability to the customer to a maximum of the revenue we received from the customer during the preceding two months. It also defines the customer activities in relation to the use of our services and facilities that are prohibited, including copyright and trademark infringement, inappropriate and questionable content hosting, spamming and illegal activity.

Service Level Agreement

Part of our service agreement includes a service level agreement describing our 100% uptime guarantee, the consequences of a breach of that guarantee and the exceptions to the guarantee. If the Internet is unavailable for up to one hour in any one calendar month, the customer is entitled to receive a refund equivalent to one day of the customer's pro-rated recurring monthly fees for that month. The customer is entitled to receive an additional refund of one day of the pro-rated internet connectivity recurring monthly fees for each additional hour, or portion thereof, of unavailability. All refund calculations are based on unavailability in one-hour increments. The Internet availability guarantee does not cover outages caused by equipment, events not under our direct control or by individuals not directly employed by us, nor due to scheduled or emergency network maintenance that does not exceed 20 minutes per month.

Facilities

Peer 1 operates 15 datacenters in leased premises located in the following cities: Vancouver, Toronto, Montreal, New York, Herndon, Miami, Atlanta, San Antonio, Los Angeles, Fremont, San Jose and Seattle. These datacenters are connected together by Peer 1's IP backbone network and have the capacity to hold approximately 27,000 servers and 1,600 normalized cabinet equivalents.

Competition

The market in which we compete is highly competitive, constantly changing and fragmented. It includes a large number of small regional providers and several national and multi-national providers. The principal competitive differentiators include: network and facilities scalability; reliability and security; quality of technical and customer service; breadth and depth of services offered; geographical locations; price; management experience; and financial resources.

We compete directly with managed and self-managed service providers such as Rackspace, The Planet, Verio, Softlayer, LayeredTech as well as a number of smaller local and regional providers. To a much lesser extent we compete with regional, national and international co-location and related managed services providers such as Equinix Inc., Savvis Communications Corporation, Switch & Data Facilities Company, Inc., Terremark Worldwide, Inc., Q-9 Networks Inc. and Fusepoint; and with full-service outsourcing providers such as Electronic Data Systems Corporation and CGI Group Inc. These providers generally target large enterprise customers, which we target only secondarily and only to the extent that they do not require highly customized solutions. Traditional telecommunications carriers such as Bell Canada, Telus Corporation, and MCI, among others, provide competition in relation to network services, as they operate their own IP backbone network. We attempt to differentiate ourselves from them by our quality of service and support.

Risk Factors

We and our shareholders are subject to the following risks, in addition to the risks mentioned elsewhere in this Annual Information Form:

Future Capital Needs

We may require additional working capital in the future to finance the ongoing operation, development and expansion of our business. If additional funds are raised from the issuance of equity or equity linked debt securities, the percentage ownership of our shareholders will be reduced, and the newly issued securities may have rights, preferences or privileges senior to those of the holders of our common shares. No assurance can be given that additional funding will be available or that, if available, it will be available on terms favourable to us or our shareholders. Failure to secure adequate funds on reasonable terms may have a material adverse effect on our business, results of operations and financial condition.

Competition

We operate in an intensely competitive market. Some of our competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater brand recognition and, we believe, a larger base of customers. In addition, competitors may operate more successfully than us or form alliances to acquire significant market share from us. These competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote more resources to the promotion, sale and development of their services and solutions than us and there can be no assurance that our competitors will not be able to develop services comparable or superior to those offered by us at more competitive prices. As a result, in the future we may suffer from an inability to offer competitive services or be subject to negative pricing pressure that would adversely affect our ability to generate revenue and adversely affect our operating results.

Price Sensitive Market

The competitive market in which we conduct our business could require us to reduce our prices. If our competitors offer discounts on certain products or services in an effort to recapture or gain market share or to sell other products, we may be required to lower our prices or offer other favorable terms to compete successfully. Any of these changes would likely reduce our margins and could adversely affect our operating results. In addition, many of the services and solutions that we provide and market are not unique to us and our customers and target customers may not distinguish our services and solutions from those of our competitors. All of these factors could, over time, limit or reduce the prices that we can charge for our services and solutions. If we cannot offset price reductions with a corresponding increase in the number of sales or with lower spending, then the reduced revenue resulting from lower prices would adversely affect our margins and operating results.

Limited Operating History

We have a limited operating history upon which to evaluate our business and prospects, having commenced operations in 1999. Fiscal 2008 is our second year of profitable operations. There can be no assurance that we will continue to be profitable. In view of the rapidly evolving nature of our business, our limited operating history and the risks discussed elsewhere in these risk factors, period-to-period comparisons of operating results are not meaningful and should not be relied upon as an indication of future performance.

Dependence on Personnel

Our continued success is largely dependant on the personal efforts and abilities of our executive officers and senior management. Our success also depends on our continued ability to attract, retain, and motivate our employees. In particular, we are dependent on our skilled technical employees and our sales and customer service employees, the competition for which is intense. There can be no assurance that we will be able to continue to attract, integrate or retain additional highly qualified personnel in the future. Any failure in this regard will adversely affect our business.

Management of Growth

We have recently completed expansions at our data centers in Toronto and Vancouver. Additional significant expansion is required in order to maintain and extend our position in the market. Expansions place pressure on our management, operational and financial resources and there can be no assurance that management will be able to manage them effectively. If management does not manage them effectively, our growth objectives will be prejudiced and our business, financial condition and results of operations will be adversely impacted.

Risk of Damage to our Data Centers

Hurricanes, fire, floods, power loss, telecommunications failures, earthquakes, break-ins, acts of war or terrorism, computer sabotage and similar events could damage or destroy our data centers as well as the systems and information housed in those facilities. These problems could temporarily or permanently prevent us from fulfilling existing service obligations and from securing new customers. These events could also cause loss of service and data to customers. Our business could be seriously harmed even if these disruptions are temporary, our revenue could decline and our existing and prospective customers may lose confidence in our systems.

We could also be required to make significant expenditures if our systems were damaged or destroyed, or pay damages if the delivery of our services to our customers were delayed or stopped by any of these occurrences. Disruptions in our business caused by these events could have a material adverse effect on our business, operating results and financial position.

Risk of Security Breach

Our business involves the storage, management, and transmission of the proprietary information of customers. Although we employ control procedures to protect the security of this information, we cannot guarantee that these measures will be sufficient for this purpose. Breaches of our security could result in misappropriation of personal information, suspension of hosting operations or interruptions in our services. If our security measures are breached as a result of a third-party action, employee error or otherwise, and as a result customers' information becomes available to unauthorized parties, we could incur liability and our reputation would be damaged. This could lead to the loss of current and potential customers. If we experience any breaches of our network security due to unauthorized access, sabotage, or human error, we may be required to expend significant capital and other resources to remedy, protect against or alleviate these and related problems. We also may not be able to remedy these problems in a timely manner, or at all. Our systems are also exposed to computer viruses, denial of service attacks and bulk unsolicited commercial email, or spam. Being subject to these events and items could cause a loss of service and data to customers, even if the resulting disruption is temporary. We could be required to make significant expenditures to repair our systems in the event that they are damaged or destroyed, or if the delivery of our services to our customers is delayed and our business could be harmed.

Electrical Power Outages

Our data centers are susceptible to regional variations in the cost of power, electrical power outages, planned or unplanned power outages such as those that occurred in California during 2001 and the U.S. Northeast in 2003, natural disasters such as the tornados on the U.S. East Coast in 2004 and limitations on availability of adequate power resources. Power outages could harm our customers and our business including the loss of our customers' data and extended service interruptions. While we attempt to limit exposure to system downtime by using backup generators and power supplies, we may not be able to limit our exposure entirely even with these protections in place. With respect to any increase in energy costs, we may not be able to pass these increased costs on to our customers which could have a material adverse effect on our business, results of operations and financial condition.

Potential Service Level Credits and Litigation

Our revenue and profit depend on the reliability and performance of our services and solutions. We have contractual obligations to provide service level credits to almost all of our customers against future invoices if certain service disruptions occur. Although our service agreements limit our liability for damages arising in those instances, there can be no assurance that they will function as we anticipate. Furthermore, litigation could result in substantial cost to us, divert management's attention and resources from our operations and result in negative publicity that may impair our ongoing marketing efforts. There is no assurance that our insurance will cover the claims or that the claims will not exceed the insurance limit under our current policies. There can be no assurance that the result of the litigation described under "Legal Proceedings" will not be materially adverse to us.

Economic Conditions

Many of our existing and target customers include small and medium-sized businesses. These businesses are more likely to be significantly affected by economic downturns than larger, more established businesses. Additionally, these businesses often have limited funds, which they may choose to spend on items other than our services and solutions. If a material portion of the small and medium-sized businesses that we service, or are looking to service, experience economic hardship, these small and medium-sized businesses may be unwilling or unable to expend resources on the services and solutions we provide, which would negatively affect the overall demand for our services and could cause our revenue to decline.

Leased Data Centre Facilities

Our data centers are located in leased premises, and there can be no assurance that we will remain in compliance with our leases and that they will not be terminated. Termination of a lease could have a material adverse effect on our business, results of operations and financial condition.

Reliance on Third Parties

We purchase bandwidth from, or enter into interconnection arrangements with, several Internet service providers. We cannot provide any assurance that these Internet service providers will continue to provide service to us on competitive terms, if at all, or that we will be able to acquire additional network capacity to adequately meet future customer demand. If we are not able to maintain direct connections to multiple IP backbone networks, then our operating results may have a material adverse effect.

Regulatory Developments

We operate in a largely unregulated environment, though various laws and governmental regulations govern other Internet related services. The adoption of new laws or extension of existing laws to any aspect of our business could have a material adverse effect on our business, operating results and financial condition.

Adequate Intellectual Property Protection

We rely upon trade secrets, proprietary know-how, and continuing technological innovation to develop new data center and IT infrastructure services and solutions and to remain competitive. If our competitors learn of our proprietary technology or processes, they may use this information to produce data center and IT infrastructure services and solutions that are equivalent or superior to our services and solutions, and this could materially adversely affect our business, operations and financial position. Our employees and consultants may breach their obligations not to reveal our confidential information, and any remedies available to us may be insufficient to compensate us. Even in the absence of such breaches, our trade secrets and proprietary know-how may otherwise become known to our competitors, or be independently discovered by our competitors, which could adversely affect our competitive position.

Technological Change

The markets in which we operate are characterized by rapidly changing technology and evolving industry standards. Failure or delays by us to develop products and services to

respond to industry or user trends could have a material adverse effect on our business, results of operations and financial condition. Our ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in our success in expanding into new markets.

Excess Capacity

We have excess capacity in some of our data centers and we are in the process of adding additional capacity. There can be no assurance that we will be able to fill this capacity. Any failure in this regard may have a material adverse effect on our business, results of operation and financial condition.

Acquisitions

One part of our growth strategy involves the acquisition of suitable businesses and technologies. A multitude of risks are inherent in all acquisitions, including risks relating to integration, financing and the impact of such financing on our financial condition. There can be no assurance we will be able to manage these risks adequately. Any failure in this regard could have a material adverse effect on our business, results of operation and financial condition.

Share Price Volatility

The market price of our common shares has been, and may continue to be, volatile and could be subject to wide fluctuations due to a number of factors, such as actual or anticipated fluctuations in our results of operations or analysts' estimates, introduction of new products and economic changes in North America.

Controlling Shareholders

As at June 30, 2008, four of our directors, Lance Tracey, Scott Shaw, Werner Paulus and Mark Benham, exercise control or direction, directly or indirectly, over approximately 75,736,943 of our common shares, representing approximately 63.9% of the outstanding common shares as at that date. As such, if they elect to act in concert they will have the ability to determine the outcome of matters submitted to shareholders for approval, including the election and removal of directors, amendments to our corporate governing documents and business combinations. Our interests and those of our controlling shareholders may at times conflict, and this conflict might be resolved against our interests. The concentration of control in the hands of a small number of individuals may practically preclude an unsolicited bid for our shares, and this may adversely impact the value and trading price of our shares.

Future Sales by Significant Shareholders

If at any time our significant shareholders sell substantial amounts of our common shares in the public market, the market price of the common shares may fall. The perception among investors that these sales will occur could also produce this effect, and the perception that such sales may occur could result in our shares trading at a lower price than they would absent this perception.

Dividends

We have never declared any cash dividends or other distributions and we have no plans to declare any dividends or other distributions. Our current dividend and other distribution policy is to retain earnings to finance expansion. The LSA, which is described under "Other Material Agreements", prohibits us paying dividends unless certain conditions are met, including the conditions relating to the maintenance of financial ratios and the condition that, in any event, such dividends not exceed \$750,000 in any fiscal year. We do not anticipate declaring dividends or other distributions in the foreseeable future.

Description of Capital Structure

Our authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

Common Shares

Our common shares entitle holders to vote at all of our meetings of shareholders, to receive dividends when declared by our Board of Directors and, subject to the rights of any shareholders ranking in priority to or on a parity with our common shares, to participate rateably in any distribution of our property or assets upon our liquidation, dissolution or wind up.

Preferred Shares

Our preferred shares are issuable from time to time in one or more series, each series comprising the number of shares, designation, privileges, restrictions and conditions which our Board of Directors determines by resolution. On our liquidation or dissolution or on any other distribution of our assets for the purposes of winding up our affairs, our preferred shares rank prior to our common shares in respect of repayment of capital, and, if applicable, dividends.

Market for Securities

Trading Price and Volume

Our common shares have traded on the TSX under the symbol "PIX" since May 20, 2008. Prior to that date they traded on the TSX Venture Exchange. The following table sets out the details of the trading prices and volume of our common shares on the TSX and the TSX Venture Exchange, as applicable, during the fiscal year ended June 30, 2008:

| | Price Range (\$CDN) | Close (\$CDN) | Average Volume Traded (#) |
|----------------|------------------------|---------------|---------------------------|
| July 2007 | 1.08 - 1.27 | 1.12 | 1,181,504 |
| August 2007 | 0.87 - 1.29 | 1.09 | 720,172 |
| September 2007 | 0.99 - 1.45 | 1.33 | 1,644,150 |
| October 2007 | 1.12 - 1.55 | 1.42 | 3,375,545 |
| November 2007 | 1.17 - 1.55 | 1.45 | 2,200,313 |
| December 2007 | 1.31 - 1.52 | 1.34 | 1,202,390 |
| January 2008 | 1.18 - 1.44 | 1.28 | 2,122,950 |

| | Price Range (\$CDN) | Close (\$CDN) | Average Volume Traded (#) |
|---------------|------------------------|---------------|---------------------------|
| February 2008 | 1.17 - 1.49 | 1.47 | 3,032,755 |
| March 2008 | 1.15 - 1.45 | 1.25 | 492,877 |
| April 2008 | 1.15 - 1.34 | 1.28 | 2,572,010 |
| May 2008 | 1.26 - 1.62 | 1.40 | 2,154,720 |
| June 2008 | 1.31 - 1.53 | 1.39 | 1,329,591 |

Outstanding Rights to Acquire Shares

For a summary of outstanding incentive stock options and warrants to purchase our common shares, please refer to the notes to our annual consolidated financial statements.

Escrowed Securities

The following table sets out the number of our common shares held in escrow as at June 30, 2008:

| Designation of securities | Number of securities held in escrow | Percentage of class |
|----------------------------------|--|----------------------------|
| Common shares | 1,841,401 ⁽¹⁾ | 1.6% |

(1) These shares were released from escrow on August 11, 2008.

Directors and Officers

As at June 30, 2008, the number of our common shares beneficially owned, or over which control or direction is exercised, directly or indirectly, by all of our executive officers and directors as a group is 77,150,313, representing 65.1% of our then outstanding common shares. Our Board of Directors is elected at each annual meeting of shareholders for a term of one year, serving until the close of the next annual meeting, unless a director resigns or otherwise vacates office before that time.

The following table provides information relating to each of our executive officers and Board of Directors as June 30, 2008:

| Name, position and residency | Director or officer since | Principal occupation for the preceding five years |
|--|----------------------------------|--|
| FABIO BANDUCCI <i>President, Chief Executive Officer and Secretary</i> British Columbia, Canada | October 2005 | Our President (since September 2006), Chief Executive Officer (since September 2007) and Secretary (since April 2006) (having served as Executive Vice-President from October 2005 to September 2006); President of Faban Ventures Ltd. (October 2003 – October 2005), a private consulting company; Vice President, Corporate Finance of Haywood Securities Inc. (September 1991 – September 2003), a Vancouver-based brokerage firm. |

| Name, position and residency | Director or officer since | Principal occupation for the preceding five years |
|---|---------------------------|--|
| GARY SHERLOCK <i>Chief Financial Officer</i> British Columbia, Canada | April 2006 | Our Chief Financial Officer (since April 2006), Executive Vice President (since September 2007); Consultant with Sherlock & Associates, a private consulting firm (September 2005 – March 2006); various executive positions, including Vice President of Business Development, Controller and Executive Vice President of Powerex with BC Hydro (February 1991-April 2005). |
| LANCE TRACEY⁽⁴⁾ <i>Chair and Director</i> British Columbia, Canada | January 2001 | Our Chairman (since January 2001), Chief Executive Officer (January 2006 – September 2007) and President (January 2006 – September 2006); Director and Secretary of Sutton Group Realty Services Ltd. (formerly Sutton Group Financial Services Ltd.), a privately held real estate and consulting company that was previously listed on the then Vancouver Stock Exchange and later on the Toronto Stock Exchange from January 1992 to February 2004. |
| ROBERT MIGGINS <i>Senior Vice President, Business Development</i> Texas, USA | October 2004 | Our Senior Vice President, Business Development (since July 2008), prior to which he was Vice President, Business Development (since September 2006), having been employed with us in various capacities since October 2004); Vice President, Product Management of Rackspace Managed Hosting (September 2000 – October 2004), a dedicated server hosting business. |
| TED SMITH JR <i>Senior Vice President, Operations and Dedicated Hosting</i> Georgia, USA | September 2005 | Our Senior Vice President, Operations (since July 2008), prior to which he was Vice President, Operations and Dedicated Hosting, having been employed with us in various capacities since September 2005); Director, Network Engineering and Vice President, Operations of Interland (June 2003 – September 2005); Director and Vice President, Network Engineering of Hostcentric (March 1999 – June 2003), a provider of web hosting solutions and application management services to small and medium-sized businesses. |
| TRICIA HOLLYER <i>Vice President, Human Resources</i> British Columbia, Canada | October 2005 | Our Vice President, Human Resources (October 2005 – present); Manager, Human Resources of Davis & Co LLP (August 2004 – September 2005), a law firm; Principal of Hollyer Communications (October 2003 – August 2004), a private consulting company; Director, Corporate Services of Information Balance (September 2001 – September 2003), an information technology company providing custom application development, systems integration, project |

| Name, position and residency | Director or officer since | Principal occupation for the preceding five years |
|---|---------------------------|---|
| RAJAN SODHI <i>Vice President, Marketing and Communications</i> British Columbia, Canada | November 2004 | outsourcing, IT consulting and technical training services. Our Vice President, Marketing and Communications (November 2004 – present); Director, Marketing of The Portables (October 1997 – November 2004), a Canadian exhibit marketing firm. |
| MARK BENHAM <i>Director</i> California, USA | September 2005 | Managing Partner of Celerity Partners (September 1995 – present), a private equity fund. |
| MICHAEL CYTRYNBAUM ⁽³⁾⁽⁴⁾ <i>Director</i> British Columbia, Canada | September 2002 | President (August 1983 to present) of First Fiscal Management Ltd., a private consulting firm controlled by Mr. Cytrynbaum; Director and Chair of the Board (May 1996 – present) of Look Communications Inc., a communications services provider that trades publicly on the TSX-V; Director (July 1994 – present) and Chair (August 1994 to present) of Ignition Point Technologies Corp., a broadband technology company that trades publicly on the TSX-V; Director and President (since July 2002) of Central Minera Corp., a junior mining exploration company; Director (since August 2003) and Chair (since June 2007) of Hostopia.com Inc., a provider of private label wholesale hosting, e-mail and application services that trades publicly on the TSX. |
| DONALD DETAMPEL JR ⁽²⁾⁽³⁾ <i>Director</i> Colorado, USA | December 2006 | Self-employed consultant since April 2006; President and Chief Executive Officer (February 2004 to April 2006) of Raindance Communications, Inc., a multi-media conferencing and web collaboration company; Chair (February 2002 to September 2002) and Chair and Chief Executive Officer (April 2000 to February 2002) of OneSecure, Inc., a network security products company. |
| DAVID HARRISON ⁽¹⁾ <i>Director</i> British Columbia | January 2006 | Self-employed consultant since April 2005; Vice-Chair (April 2003 to April 2005) of Accenture Business Services, a division of Accenture Inc., a global management consulting, technology services and outsourcing company. |
| WERNER PAULUS ⁽²⁾⁽⁴⁾ <i>Director</i> Washington, USA | April 2003 | Self employed businessman; Director (since 1980) of Polygon Financial Investments, Inc., Polygon Management, Inc., and Polygon Financial 05, LLP, all private investment firms. |

| <u>Name, position and residency</u> | <u>Director or officer since</u> | <u>Principal occupation for the preceding five years</u> |
|---|----------------------------------|---|
| SCOTT SHAW ⁽¹⁾⁽²⁾ <i>Director</i> British Columbia, Canada | January 2001 | Co-founder and a principal shareholder, Director and President (since June 1987) and Chief Executive Officer (June 1978 to February 2004) of Sutton Group Realty Services Ltd. (formerly Sutton Group Financial Services Ltd.), a privately held real estate and consulting company that was previously listed on the then Vancouver Stock Exchange and later on the Toronto Stock Exchange from January 1992 to February 2004. |
| CHRISTOS THEODOROPOULOS ⁽¹⁾⁽³⁾ <i>Director</i> British Columbia, Canada | December 2005 | Director and Chair of Africo Resources Ltd. (since June 2005), an exploration and mining company that trades publicly on the TSX; Director (since July 2004) and Chair and Secretary (since June 2005) of Western Canadian Mining Corp., a private mineral exploration company; Director and President (since 2001) of Dominion Goldfields Corporation, a private investment and royalty firm; self-employed lawyer (since 1996). |

(1) Member of our Audit Committee.

(2) Member of our Compensation Committee.

(3) Member of our Corporate Governance Committee.

(4) Member of our Executive Committee.

Audit Committee

The charter for our Audit Committee of the Board of Directors is attached to this AIF as Appendix 1.0.

Scott Shaw (Chair), David Harrison, and Christos Theodoropoulos are members of our Audit Committee, each of whom is “independent” as that term is defined in applicable securities legislation. All three members have the ability to read and understand financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by our financial statements.

Scott Shaw has been President of Sutton Group Financial Services Ltd. since June 1993, and director since June 1987. Sutton Group Financial Services Ltd. was listed on the Toronto Stock Exchange for approximately three years before going private in February 2004. David Harrison received a Bachelor of Commerce from the University of British Columbia in 1967 and is a Chartered Accountant. Christos Theodoropoulos received a Bachelor of Civil Law and Bachelor of Common Law from McGill University in 1982. He has been a director of various publicly traded companies.

Our Audit Committee reviews and pre-approves all non-audit services performed by our auditor.

Aggregate audit and audit related fees billed by Cinnamon Jang Willoughby LLP, our external

auditor, for the fiscal years ended June 30, 2007 and June 30, 2008 are as follows:

| | Fiscal year ended June 30, 2007 (\$CDN) | Fiscal year ended June 30, 2008 (\$CDN) |
|---|--|--|
| Audit fees ⁽¹⁾ | \$177,589 | \$180,000 (estimated) |
| Audit related fees ⁽²⁾ | \$68,539 | \$45,479 (estimated) |
| Tax fees ⁽³⁾ | \$59,528 | \$68,282 (estimated) |

(1) These fees relate to annual audits and services provided in connection with our filings to Canadian securities regulatory authorities.

(2) These fees relate to reviews of interim financial statements.

(3) These fees relate to tax compliance, tax advice and tax planning.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Michael Cytrynbaum has been Chair and a director of Look Communications Inc. ("Look") since May 1996. Look filed for, and received protection under the Companies' Creditors Arrangement Act ("CCAA") on September 4, 2001. Protection was first granted until October 2, 2001 and was subsequently extended at various times until February 15, 2002. Look exited the protection of CCAA on February 11, 2002. Mr. Cytrynbaum was also a director of Microcell Telecommunications Inc. ("Microcell") from December 1993 to May 2003. Microcell filed for, and received protection under the CCAA on January 3, 2003. Microcell exited the protection of CCAA on May 1, 2003.

Mr. Cytrynbaum has been a director and President of Central Minera Corp. since July 2002, a reporting issuer in British Columbia. The British Columbia Securities Commission (the "BCSC") issued a cease trade order against this company on November 6, 2007, for failure to file a comparative financial statement for its financial year ended June 30, 2007 as required under Part 4 of National Instrument 51-102 ("NI 51-102"), and a Form 51-102F1 *Management's Discussion and Analysis* for June 30, 2007 as required under Part 5 of NI 51-102. This cease trade order was revoked by the BCSC on December 27, 2007 following filing by the company of the required reports.

Werner Paulus is, and was at the relevant times, a shareholder and the President of Polygon Communities, Inc. ("Polygon"). In 1997, a former employee of Polygon brought an action against Polygon Communities, Inc. and others, including Werner Paulus, alleging that the defendants submitted false statements to the Resolution Trust Corporation in connection with the purchase of a real estate project in California. The U.S. Attorney's Office intervened in the matter for the purpose of stipulating the dismissal of the action pursuant to a settlement agreement entered into between the parties in December 1997.

Legal Proceedings

In March 2007, we were served with a Writ of Summons and Statement of Claim (subsequently amended) 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, each warrant entitling them to acquire one of our common shares at a price of \$0.40 for a period of two years, and they seek a declaration that we be obliged to issue those warrants. The plaintiffs also seek any losses suffered due to any delay in issuing the warrants, and costs. We have responded to claim and

intend to defend ourselves against it. There can, however, be no assurance that we will be successful in our efforts.

Transfer Agent and Registrar

Our transfer agent and registrar for our common shares is Pacific Corporate Trust Company, 510 Burrard Street, 2nd Floor, Vancouver, British Columbia, V6C 3B9.

Material Contracts

Loan Agreement

On May 29, 2007, we and our subsidiaries entered into an amended and restated loan and security agreement (the "LSA") with Fortress Credit Opportunities 1 LP ("Fortress") under which Fortress agreed to provide us with two senior secured term loan facilities. A term loan (the "Effective Date Term Loan") in the amount of \$20,000,000 was fully advanced to us on May 29, 2007. The LSA also provides for additional term loans (the "Acquisition Term Loans") of up to \$20,000,000 to be made available if certain conditions are met. There is a monthly standby fee payable on the unadvanced portion of the commitment for the Acquisition Term Loans of one-half of one percent of the unadvanced portion. The commitment to advance the Acquisition Term Loans may be terminated at our option on May 29, 2008 if no Acquisition Term Loans have been advanced, and the commitment to advance the Acquisition Term Loans will terminate on May 29, 2009 if no Acquisition Term Loans have been advanced by such time. The proceeds of the Acquisition Term Loans may be used only for Permitted Acquisitions and Permitted Growth Capital Expenditures (as those terms are defined in the LSA). As at June 30, 2008, no amount has been advanced under the Acquisition Term Loan facility.

Loans made under the LSA will accrue interest at the rate equal to (i) the greater of (a) the LIBOR Rate (as defined in the LSA) and (b) 3%, plus (ii) an additional amount of between 3% and 4.25% per annum, the actual amount to be determined based on our financial performance. In the event of default, the interest rate will increase by 2% per annum.

The Effective Date Term Loan principal is to be repaid by monthly payments of \$266,667. The Acquisition Term Loans are to be repaid by monthly payments during the first year of the LSA of 1.25% of the outstanding balance and thereafter by monthly payments of 2% of the outstanding balance. In addition, if the proceeds of sale of any of our assets are in excess of \$250,000 in a fiscal year, the amount in excess of \$250,000, and a portion (determined in accordance with the LSA) of the net proceeds of any equity financing we complete, must be applied in repayment of the debt outstanding under the LSA.

The maturity date for all of the Loans is May 29, 2010 provided that it may be extended for an additional period of two years by us if we give notice to Fortress at least 90 days before the maturity date. The Loans may be prepaid if a prepayment premium (determined in accordance with the LSA) is also paid.

During the term of the Loans, we must meet certain financial conditions. The failure to meet such financial conditions will result in an event of default for which, among other things, the Lenders may declare the indebtedness outstanding to be due and payable.

Our U.S. subsidiaries are the borrowers under the LSA, and we and our Canadian subsidiaries are guarantors of their indebtedness. Our obligations and those of our respective subsidiaries are secured by first priority liens on all of the assets of us and our subsidiaries.

Shareholder Agreement

We are a party to a Shareholder Agreement dated as of September 2, 2005 with the investors who purchased Series A Preferred shares of our wholly owned subsidiary, Peer 1 Network (USA), Inc. and certain of our shareholders. Pursuant to the Shareholder Agreement, we agreed that so long as Celerity Partners SBIC, L.P. ("Celerity"), one of the investors who purchased Series A Preferred shares, holds not less than 50% of the number of Series A Preferred shares purchased by it, or common shares of us issued in exchange for such Series A Preferred shares, we will cause our management to take the necessary actions available to them so that Celerity has a nominee on our Board of Directors; and our shareholders who are party to the Shareholder Agreement agreed to vote their shares to elect Celerity's nominee. On May 25, 2007, Celerity exchanged all of its Series A Preferred shares for 20,358,267 common shares of us. In the result, for so long as Celerity holds at least 10,179,134 of those shares it will be entitled to a nominee on our Board of Directors.

Investors' Rights Agreement

We entered into an Investors' Rights Agreement made as of September 2, 2005 with the investors who purchased Series A Preferred shares of our wholly owned subsidiary, Peer 1 Network (USA), Inc. ("Peer 1 USA"). Pursuant to the Investors' Rights Agreement, the investors have certain rights to register in the United States our common shares that were issued in exchange for the Series A Preferred shares of Peer 1 USA (the "Registrable Securities") in the following circumstances (see "Prior Sales"):

1. if we consummate a registered underwritten initial public offering pursuant to the U.S. Securities Act of 1933 as amended (the "Securities Act"), in which our common shares are sold for at least US\$1 per share and are admitted for quotation on the New York Stock Exchange, the American Stock Exchange, The NASDAQ National Market or The NASDAQ Small Cap Market, and holders of at least a majority of the Registrable Securities then outstanding request registration of at least 25% of the Registrable Securities then outstanding;
2. if we propose to register any of our shares under the Securities Act in connection with the public offering of such securities solely for cash;
3. if the holder or holders of not less than 25% of the then outstanding Registrable Securities request registration on Form S-3 or Form F-3 and such registration is available to the holders and the holders propose to sell Registrable Securities at an aggregate price to the public of less than \$1,000,000; and
4. if the holders of a majority of the Registrable Securities then outstanding request registration pursuant to item 3 above of at least 50% of the Registrable Securities then outstanding and not less than 40% of the Registrable Securities issued on the exchange of Series A Preferred shares, and if requested by such holders, the registration will be accomplished by means of a "shelf" registration statement covering the resale of all such Registrable Securities by an offering to be made on a continuous basis pursuant to Rule 415 of the U.S. Security and Exchange Commission under the Securities Act.

The registration rights described above terminate after the earlier of (i) five years following the consummation of the sale of securities pursuant to a registration statement filed by us under the Securities Act in connection with the initial firm commitment underwritten offering our securities to the general public or (ii) such time as Rule 144 or another similar exemption under the Securities Act is available for the sale of all of such holder's shares without registration within a three month period without regard to the manner of sale restrictions therein.

In addition, the Investors' Rights Agreement provides that the investor, Celerity, is entitled to receive from us copies of documents provided to our senior lenders, of filings and correspondence with securities regulators and other information relating to us.

All of the above noted contracts have been filed on and are available for viewing electronically at the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.

Interests of experts

Our audit report, included in our audited consolidated financial statements for the year ended June 30, 2008, was prepared by our external auditor, Cinnamon Jang Willoughby & Company LLP, Chartered Accountants, which is independent in accordance with the Institute of Chartered Accountants of British Columbia's Rules of Professional Conduct.

Additional Information

Additional information about us is available on SEDAR at www.sedar.com. Information about our directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans is contained in our Management Information Circular dated November 7, 2007. Additional financial information is provided in our financial statements and MD&A for the fiscal year ended June 30, 2008.

APPENDIX 1.0 - CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS OF
Peer 1 Network Enterprises, Inc.

PEER 1 NETWORK ENTERPRISES, INC.

CHARTER FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

1. Purpose

- 1.1 The Audit Committee is ultimately responsible for the policies and practices relating to integrity of financial and regulatory reporting, as well as internal controls to achieve the objectives of safeguarding of corporate assets; reliability of information; and compliance with policies and laws. Within this mandate, the Audit Committee's role is to:
- (a) support the Board of Directors in meeting its responsibilities to shareholders;
 - (b) enhance the independence of the external auditor;
 - (c) facilitate effective communications between management and the external auditor and provide a link between the external auditor and the Board of Directors;
 - (d) increase the credibility and objectivity of the Company's financial reports and public disclosure.
- 1.2 The Audit Committee will make recommendations to the Board of Directors regarding items relating to financial and regulatory reporting and the system of internal controls following the execution of the Committee's responsibilities as described herein.
- 1.3 The Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board of Directors may from time to time prescribe.

2. Membership

- 2.1 Each member of the Audit Committee must be a director of the Company.
- 2.2 The Audit Committee will consist of at least three members, the majority of whom are neither officers nor employees of the Company or any of its affiliates.
- 2.3 The members of the Audit Committee will be appointed annually by and will serve at the discretion of the Board of Directors.

3. Authority

- 3.1 The Audit Committee shall have the authority necessary to carry out the duties and responsibilities of this Charter and shall have and exercise the powers and

shall carry out the obligations imposed by applicable securities legislation, the *Business Corporations Act* (British Columbia) and the Articles of the Company, including:

- (a) conforming to any rules that may from time to time be imposed on it by the directors; and
 - (b) reporting every act or thing done in exercise of those powers at such times as the directors may require.
- 3.2 In addition to all authority required to carry out the duties and responsibilities included in this charter, the Audit Committee has specific authority to:
- (a) engage, and set and pay the compensation for, independent counsel and other advisors as it determines necessary to carry out its duties and responsibilities; and
 - (b) communicate directly with management and any internal auditor, and with the external auditor without management involvement.
 - (c) approve interim financial statements, interim MD&A and press releases announcing interim financial results on behalf of the Board of Directors.

4. Duties and Responsibilities

4.1 The duties and responsibilities of the Audit Committee include:

- (a) recommending to the Board of Directors the external auditor to be nominated by the Board of Directors;
- (b) recommending to the Board of Directors the compensation of the external auditor;
- (c) reviewing the external auditor's audit plan, fee schedule and any related services proposals;
- (d) overseeing the work of the external auditor;
- (e) ensuring that the external auditor is in good standing with the Canadian Public Accountability Board and will enquire if there are any sanctions imposed by the CPAB on the external auditor;
- (f) ensuring that the external auditor meets the rotation requirements for partners and staff on the Company's audits;
- (g) reviewing and discussing with management and the external auditor the annual audited financial statements, including discussion of material transactions with related parties, accounting policies, as well as the

external auditor's written communications to the Committee and to management;

- (h) reviewing the external auditor's report, audit results and financial statements prior to approval by the Board of Directors;
- (i) reporting on and recommending to the Board of Directors the annual financial statements and the external auditor's report on those financial statements, prior to Board approval and dissemination of financial statements to shareholders and the public;
- (j) reviewing financial statements, MD&A and annual and interim earnings press releases prior to public disclosure of this information;
- (k) ensuring adequate procedures are in place for review of all public disclosure of financial information by the Company, prior to its dissemination to the public;
- (l) overseeing the adequacy of the Company's system of internal accounting controls and internal audit process and obtaining from the external auditor summaries and recommendations for improvement of such internal controls and processes;
- (m) ensuring the integrity of disclosure controls and internal controls over financial reporting;
- (n) resolving disputes between management and the external auditor regarding financial reporting;
- (o) establishing procedures for:
 - (i) the receipt, retention and treatment of complaints received by the Company from employees and others regarding accounting, internal accounting controls or auditing matters and questionable practices relating thereto; and
 - (ii) the confidential, anonymous submission by employees of the Company or concerns regarding questionable accounting or auditing matters;
- (p) reviewing and approving the Company's hiring policies with respect to partners or employees (or former partners or employees) of either a former or the present external auditor;
- (q) pre-approving all non-audit services to be provided to the Company or any subsidiaries by the Company's external auditor; and

(r) overseeing compliance with regulatory authority requirements for disclosure of external auditor services and Audit Committee activities.

4.2 The Audit Committee will report, at least annually, to the Board regarding the Committee's examinations and recommendations.

5. Meetings

5.1 The quorum for a meeting of the Audit Committee is a majority of the members of the Committee who are not officers or employees of the Company or of an affiliate of the Company.

5.2 The members of the Audit Committee must elect a chair from among their number and may determine their own procedures at any meeting of the Audit Committee.

5.3 The Audit Committee may establish its own schedule of meeting dates that it will provide to the Board of Directors in advance, and will meet and adjourn as they think proper.

5.4 The Audit Committee will meet separately with the President and separately with the Chief Financial Officer of the Company at least annually to review the financial affairs of the Company.

5.5 The Audit Committee will meet with the external auditor of the Company at least once each year, at such time(s) as it deems appropriate, to review the external auditor's examination and report.

5.6 The external auditor must be given reasonable notice of, and has the right to appear before and to be heard at, each meeting of the Audit Committee.

5.7 The chair of the Audit Committee must convene a meeting of the Audit Committee at the request of the external auditor, to consider any matter that the auditor believes should be brought to the attention of the Board of Directors or the shareholders.

5.8 Unless waived, reasonable notice of each meeting of the Audit Committee, specifying the place, day and time of that meeting must be given to each of the members of the Audit Committee by any method set out in Article 24.1 of the Company's Articles (as attached hereto), or orally or by telephone.

5.9 Questions arising at any meeting of the Audit Committee are determined by a majority of votes of the members present and, in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

6. Reports

6.1 The Audit Committee will record its recommendations to the Board on its activities, which will be incorporated as a part of the minutes of the Board of Directors' meeting at which those recommendations are presented.

7. Minutes

7.1 The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.

Approved/adopted by the Board of Directors on May 30, 2006.