



PING & PEOPLE

**ANNUAL INFORMATION FORM**  
**For the fiscal year ended June 30, 2010**

**TABLE OF CONTENTS**

<b>Forward Looking Statements.....</b>	<b>1</b>
<b>Company and Corporate Information.....</b>	<b>1</b>
<b>General Development of the Business.....</b>	<b>2</b>
<b>Strengths.....</b>	<b>7</b>
<b>Growth Strategy .....</b>	<b>8</b>
<b>Sales and Marketing.....</b>	<b>9</b>
<b>Network Operations Center and Customer Support.....</b>	<b>9</b>
<b>Employees .....</b>	<b>10</b>
<b>Intellectual Property .....</b>	<b>10</b>
<b>Contracts.....</b>	<b>10</b>
<b>Facilities .....</b>	<b>11</b>
<b>Competition .....</b>	<b>11</b>
<b>Risk Factors.....</b>	<b>11</b>
<b>Dividends .....</b>	<b>17</b>
<b>Description of Capital Structure .....</b>	<b>17</b>
<b>Market for Securities .....</b>	<b>18</b>
<b>Directors and Officers.....</b>	<b>19</b>
<b>Audit Committee.....</b>	<b>22</b>
<b>Cease Trade Orders, Bankruptcies, Penalties or Sanctions .....</b>	<b>23</b>
<b>Legal Proceedings .....</b>	<b>24</b>
<b>Transfer Agent and Registrar .....</b>	<b>24</b>
<b>Other Material Agreements .....</b>	<b>24</b>
<b>Interests of Experts .....</b>	<b>25</b>
<b>Additional Information.....</b>	<b>25</b>
<b>APPENDIX 1.0 - CHARTER OF THE AUDIT COMMITTEE .....</b>	<b>26</b>

This *Annual Information Form* (“AIF”) is dated September 23, 2010 and, unless specifically stated otherwise, all information disclosed in this form is provided as at June 30, 2010, 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, dedicated, colocation and network services through 17 data centers located in 13 cities across North America and the United Kingdom, all connected together by our own Internet Protocol (“IP”) 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 carry on business directly and through PEER 1 Network (USA), Inc. and PEER 1 (UK), Ltd., which are our principal operating subsidiaries. We own, directly and indirectly, all of the outstanding shares of those subsidiaries. We were created under the corporate laws of British

Columbia. Our corporate headquarters are located 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.

### **General Development of the Business**

The most salient events for us during the three financial years ended June 30, 2010 are as follows:

- We significantly expanded and upgraded our facilities and IP backbone network as follows:
  - On February 2, 2007 we completed the expansion of our Vancouver data center, and on October 3, 2008 we completed the expansion of our Toronto data center. Each expansion occurred by taking contiguous space in existing data center facilities.
  - On December 31, 2008 we completed the expansion of our Herndon, Virginia data center that houses 8,500 square feet of contiguous data center space.
  - On January 27, 2010 we announced the opening of our new 40,000 square foot data center facility in the greater Toronto area.
  - On June 25, 2008 we completed an upgrade to our IP backbone network.
- On March 18, 2009 we announced the opening of our first European office in Southampton, United Kingdom, followed by the opening of our first European data center in Fleet, approximately 67 km southwest of London, England.
- On May 29, 2009, we entered into a credit agreement with National Bank Financial Group for a term and revolving credit facility of US\$40 million in aggregate. The particulars are described under “Other Material Agreements.”

### **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, MySpace or Twitter 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 principally 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.

The trend to outsource Internet infrastructure and related managed services to third-party providers should remain healthy for the foreseeable future given the significant costs associated with delivering high quality Internet infrastructure solutions through an in-house approach. 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. Outsourcing these functions allows 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, dedicated hosting, colocation 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 data centers.
- 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.
- We provide advanced database administration and clustering services to enable our customers to design and maintain highly available database architectures.

Managed hosting services represented 46.2% and 47.1% of our gross revenue during the 12 months ended June 30, 2010 and 2009 respectively.

### ***Dedicated Hosting***

Dedicated 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 dedicated 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 backup technology to enable customers to back-up their critical data on a separate device.
- 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 private network technology that allows customers to communicate between their web, database and other servers internally without going over the public Internet.

Dedicated hosting services represented 25.4% and 25.8% of our gross revenue during the 12 months ended June 30, 2010 and 2009, respectively.

### ***Colocation and Related Services***

Colocation arrangements are substantially similar to dedicated hosting except that colocation 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 colocation 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 second 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 colocation 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 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 data centers.
- 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.

Colocation services represented 19.5% and 18.1% of our gross revenue during the 12 months ended June 30, 2010 and 2009 respectively.

## IP Backbone Network Services

We have engineered one of the fastest and most reliable IP backbone networks in North America. We have established 21 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 data centers using multiple high speed connections and best-in-class network hardware. It is fully redundant, without any single 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 8.9% and 9.0% of our gross revenue during the 12 months ended June 30, 2010 and 2009, 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 5% of our revenue in the year ended June 30, 2010. 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 five financial years ended June 30, 2010.

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

We have a successful track record of scaling our customers' 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 17 data centers located in 13 cities across North America and the United Kingdom. This enables us to offer greater choice in data center 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 disaster recovery 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 five years ended June 30, 2010.

## **Sales and Marketing**

Our sales force is organized into two groups. The first group consists of new client acquisition 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 business development consultants who are focused on generating revenue from our existing base of customers. 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 channel partner and 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 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 24/7 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, 2010, we had approximately 388 employees in Canada, the United States, and the United Kingdom representing such diverse disciplines as product engineering, network operations, solutions engineers, data center operations, sales, marketing, legal, finance, human resources, information technology and business development. 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:

The Colocation and Bandwidth Service Agreement is an agreement pursuant to which a customer subscribes for one of our three service offerings. It generally provides for an initial one-year term with automatic renewals, and a limitation on our liability to the customer to a maximum of the total fees paid by the customer during the preceding one month. Subject to certain exceptions, a customer will receive a refund of one day's internet connection fees for each cumulative period of one hour during which internet access is not available in a calendar month, up to 50% of the monthly fee payable by the customer. The agreement also defines prohibited customer activities, which include copyright and trademark infringement, inappropriate and questionable content hosting, spamming and illegal activity.

We also have another form of agreement we use for our managed hosting services. The initial term of this agreement is set by the customer, and following expiration it is automatically renewable on a monthly basis. Our liability to a customer is limited to the amount actually paid by the customer to us during the preceding three months. This agreement also defines prohibited customer activities, which include copyright and trademark infringement, inappropriate and questionable content hosting, spamming and illegal activity.

We also commit to all customers to provide a refund equal to 5% of the Net MRC for each hour of downtime or fraction thereof. "Net MRC" means the monthly recurring charge for hosting service for the server experiencing the problem excluding any add-on or optional services which are not included as part of the standard hosting plan but are included as part of the customer's monthly recurring charge. A customer may not receive more than one credit per incident and in

no event will a customer receive greater than one month's NET MRC per incident. This commitment does not cover outages caused by (i) the customer, (ii) the failure of power, facilities, equipment, systems or connections not provided by us, (iii) the failure of third party service to our network, (iv) application, software, or operating system failure, (v) the result of network maintenance activity, (vi) denial of service attack, hacker activity or other malicious events or code targeted against us of the customer, or (vii) failure of any network or internet infrastructure not owned or managed by us. It also does not cover downtime resulting from scheduled maintenance of which the customer has 24-hour advance notice and emergency maintenance of up to two hours per event.

### **Facilities**

PEER 1 operates 17 data centers in leased premises located in the following cities: Vancouver, Toronto, Montreal, New York, Herndon, Miami, Atlanta, San Antonio, Los Angeles, Fremont, San Jose, Seattle and Fleet, England. These data centers are connected together by PEER 1's IP backbone network and have the capacity to hold approximately 31,000 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 dedicated service providers such as Rackspace, The Planet, Verio, Softlayer, and LayeredTech as well as a number of smaller local and regional providers. To a much lesser extent we compete with regional, national and international colocation and related managed services providers such as Equinix Inc., Savvis Communications Corporation, Terremark Worldwide, Inc., Q-9 Networks Inc.; 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 History of Profitability***

Although we commenced operations in 1999, fiscal 2010 marks only our fourth year of profitable operations. There can be no assurance that we will continue to be profitable.

### ***Dependence on Personnel***

Our continued success is largely dependent on the personal efforts and abilities of our 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***

In the past year, we completed our largest datacenter expansion, located in the greater Toronto area. During this period we also expanded our operations in Europe by establishing an office and datacenter presence in the United Kingdom. Additional 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, the U.S. Northeast in 2003, and in downtown Vancouver in 2008, natural disasters such as the tornados on the U.S. East Coast in 2004 and limitations on availability of adequate power resources. Power outages can harm, and in the past, have harmed 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 cannot 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.

### ***Economic Profile of Customer Base***

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.

### ***Adverse Economic Conditions***

A deterioration in economic conditions, such as occurred in the past two years, makes it especially difficult for us to accurately forecast and plan future business activities. Such deterioration causes businesses to reduce spending on our services, lengthens our new customer sales cycle and causes existing customers to do one or more of the following:

- cancel or reduce planned expenditures for our services;
- seek to lower their costs by renegotiating their contracts with us;

- move their hosting services in-house; or
- switch to lower-priced solutions provided by us or our competitors.

We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery. If the economy or markets in which we operate do not improve, we may record additional charges related to the impairment of goodwill and other long-lived assets, and our business, financial condition and results of operations could be materially and adversely affected.

#### ***Leased Data Center 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. As at June 30, 2010, revenue generated from our largest leased data center represented approximately 20% of our consolidated revenues.

#### ***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. 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 in certain geographies where we face capacity constraints. 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, global economic changes and illiquidity.

### ***Controlling Shareholders***

We understand, based on the content of early warning reports (the "Early Warning Reports"), as amended, that are available for viewing under our profile at [www.sedar.com](http://www.sedar.com), that Clairvest Equity Partners III Limited Partnership and CEP III Co-Investment Limited Partnership (together "Clairvest") have entered into a shareholders agreement (the "Shareholders Agreement") with Messrs. Lance Tracey, Scott Shaw, Tom Paulus and Werner Paulus, each a director of PEER 1, and certain of their respective associates and affiliates (each group referred to as a "Major Shareholder" and collectively, together with Clairvest, referred to as the "Major Shareholder Group"). Pursuant to the Shareholders Agreement, each Major Shareholder has agreed to cause the election to our Board of two directors designated by Clairvest, two designated by the Paulus Group, the Penfield Group and the Padilla Group, and two designated by the Sutton Group, as those terms are defined in the referenced Early Warning Reports. See the Early Warning Reports at [www.sedar.com](http://www.sedar.com) for more information on the terms of the Shareholders Agreement.

As of August 31, 2010, to the best of the knowledge of PEER 1, the Major Shareholder Group exercises control or direction, directly or indirectly, over approximately 77,431,606 of our common shares, representing approximately 64.7% of our outstanding common shares. As such, the Major Shareholder Group has 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 any member of the Major Shareholder Group sells our common shares, the market price of the common shares may fall. This could result from the pressure on the market caused by such sales, or from concern that the sales signify problems in our operations, or from some combination of the two. Mitigating this risk to some extent, though in no way eliminating it, is the fact that the Early Warning Reports say that the Shareholders Agreement restricts members of the Major Shareholder Group from selling shares, subject to certain exceptions; and it provides that a Major Shareholder wishing to sell common shares must first offer to sell to the other Major Shareholders. See the Early Warning Report at [www.sedar.com](http://www.sedar.com).

#### **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. Further, our Credit Agreement with National Bank of Canada described under "Other Material Agreements" prohibits us from paying dividends.

#### **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. There were no preferred shares outstanding as at June 30, 2010, nor are there any preferred shares outstanding as of the date of this AIF.

## Market for Securities

### *Trading Price and Volume*

Our common shares have traded on the Toronto Stock Exchange 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 Toronto Stock Exchange during the fiscal year ended June 30, 2010:

	Price Range (\$CDN)	Close (\$CDN)	Average Daily Volume Traded (#)
July 2009	1.04 – 1.14	1.05	13,859
August 2009	1.05 – 1.11	1.11	7,640
September 2009	1.04 – 1.22	1.09	42,076
October 2009	1.01 – 1.17	1.12	31,248
November 2009	1.10 – 1.25	1.12	22,043
December 2009	1.01 – 1.09	1.03	30,333
January 2010	1.03 – 1.10	1.05	22,260
February 2010	1.05 – 1.12	1.06	17,547
March 2010	1.04 - 1.14	1.07	23,178
April 2010	1.04 – 1.15	1.15	20,919
May 2010	1.03 – 1.16	1.09	105,855
June 2010	1.09 – 1.17	1.17	26,355

### ***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.

### **Directors and Officers**

As at August 31, 2010, 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 44,387,327 representing 37.1% of our then outstanding common shares. See also "Risk Factors – Controlling Shareholders".

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 August 31, 2010:

<b>Name, position and residency</b>	<b>Director or officer since</b>	<b>Principal occupation for the preceding five years</b>
<b>FABIO BANDUCCI</b> <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.

Name, position and residency	Director or officer since	Principal occupation for the preceding five years
<p><b>GARY SHERLOCK</b> <i>Executive Vice President and Chief Financial Officer</i> British Columbia, Canada</p>	April 2006	<p>Our Chief Financial Officer (since April 2006), Executive Vice President (since September 2007); Consultant with Sherlock &amp; 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).</p>
<p><b>LANCE TRACEY</b><sup>(4)</sup> <i>Chair and Director</i> British Columbia, Canada</p>	January 2001	<p>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.</p>
<p><b>ROBERT MIGGINS</b> <i>Senior Vice President, Business Development</i> Texas, USA</p>	October 2004	<p>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);</p>
<p><b>TED SMITH JR</b> <i>Senior Vice President, Operations</i> Georgia, USA</p>	September 2005	<p>Our Senior Vice President, Operations (since July 2008), prior to which he was Vice President, Operations having been employed with us in various capacities since September 2005); Director, Network Engineering and Vice President, Operations of Interland Inc. (June 2003 – September 2005</p>
<p><b>TRICIA HOLLYER</b> <i>Vice President, Human Resources</i> British Columbia, Canada</p>	October 2005	<p>Our Vice President, Human Resources (October 2005 – present); Manager, Human Resources of Davis &amp; Co LLP (August 2004 – September 2005),</p>

Name, position and residency	Director or officer since	Principal occupation for the preceding five years
<b>RAJAN SODHI</b> <i>Vice President, Marketing and Communications</i> British Columbia, Canada	November 2004	Our Vice President, Marketing and Communications (November 2004 – present).
<b>JAD JEBARA</b> <i>Vice President, Finance and IT</i> British Columbia, Canada	July 2008	Our Vice President, Finance and IT (July 2008 – present); Director of Finance (February 2007 to July 2008); Consultant with Jebara Consulting Services, a private consulting firm (January 2005 – January 2007).
<b>RYAN MURPHEY</b> <i>Vice President, Data Center Operations</i> Texas, USA	July 2008	Our Vice President, Data Center Operations (July 2008 – present); Director of Operations, ServerBeach (a PEER 1 Company) (March 2007 – July 2008); Technical Operations Manager, ServerBeach Ltd. (September 2004 – February 2007).
<b>DOMINIC MONKHOUSE</b> <i>Managing Director, United Kingdom</i> United Kingdom	January 2009	Our Managing Director, United Kingdom (January 2009 – Present); Managing Director, IT Lab (July 2007 – November 2008); Director, Pipex Plc (August 2006 – June 2007); Managing Director, Rackspace EMEA (September 2001 – June 2006).
<b>TIM VARMA</b> <i>Vice President, Product Development</i> Georgia, USA	February 2010	Our Vice President, Product Development (May 2010 – present); Director of Product Development (September 2005 – April 2010).
<b>JAY NEWMAN</b> <i>Vice President, Sales</i> Texas, USA	May 2010	Our Vice President, Sales (May 2010 – present), Vice President, Sales, Digital Recognition Network (February 2009 – May 2010); Vice President, Enterprise Field Sales Rackspace Hosting Inc. (February 2008 – February 2009), District Manager, EMC Corporation July 2003 – February 2008).
<b>MICHAEL CYTRYNBAUM<sup>(3)(4)</sup></b> <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 of Callinan Mines Limited (since December 1999), a Canadian base metals exploration company.[pending update by Michael]
<b>DONALD DETAMPEL JR<sup>(2)(3)</sup></b> <i>Director</i> Colorado, USA	December 2006	Self-employed consultant since April 2006; Executive Chairman of New Global Telecom (May 2008 to August 2010), a provider of wholesale Voice over Internet Protocol (“VoIP”) services; President and Chief Executive Officer (February 2004 to April 2006) of Raindance Communications, Inc., a multi-media conferencing and web collaboration company.
<b>MITCH GREEN<sup>(1)(2)</sup></b> <i>Director</i>	August 2009	Principal of Clairvest Group Inc. since July 2007; Vice President (July 2005 – June 2007); Associate (January

<u>Name, position and residency</u>	<u>Director or officer since</u>	<u>Principal occupation for the preceding five years</u>
<i>Ontario, Canada</i>		2002 – June 2005).
<b>DAVID HARRISON</b> <sup>(1)</sup> <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.
<b>TOM PAULUS</b> <i>Director</i> Washington, USA	December 2009	Self-employed businessman; Co-Manager of Padilla Bay LLC (since 2005).
<b>WERNER PAULUS</b> <sup>(2)(4)</sup> <i>Director</i> Washington, USA	April 2003	Self employed businessman; Manager of Polygon Financial 05, LLC (since 2005); Chair and President of Polygon Financial Investments, Inc. (since 1980).
<b>KEN ROTMAN</b> <i>Director</i> <i>Ontario, Canada</i>	August 2009	Co-Chief Executive Officer and Managing Director (since 1993) of Clairvest Group Inc.
<b>SCOTT SHAW</b> <sup>(1)(2)</sup> <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.
<b>CHRISTOS THEODOROPoulos</b> <sup>(1)(3)</sup> <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 Toronto Stock Exchange.

(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), Mitch Green, 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. Mitch Green received his M.B.A. with Distinction from the University of Michigan Business School and a Bachelor of Science with Honors from Cornell University. 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 Meyers Norris Penney LLP (the entity resulting from the merger of the firm by that name with Cinnamon Jang Willoughby LLP effective January 1, 2010), our external auditor, for the fiscal years ended June 30, 2008 and June 30, 2010 are as follows:

	<b>Fiscal year ended June 30, 2009 (\$CDN)</b>	<b>Fiscal year ended June 30, 2010 (\$CDN)</b>
Audit fees <sup>(1)</sup> .....	\$182,582	\$190,000 (estimated)
Audit related fees <sup>(2)</sup> .....	\$42,909	\$59,524 (estimated)
Tax fees <sup>(3)</sup> .....	\$54,914	\$60,000 (estimated)

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

<sup>(2)</sup> These fees relate to reviews of interim financial statements.

<sup>(3)</sup> These fees relate to tax compliance, tax advice and tax planning.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Michael Cytrynbaum was the Chair and a director of Look Communications Inc. (“Look”) from May 1996 to July 2010. 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 was a director and President of Central Minera Corp. since from July 2002 to October 2009, 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.

Michael Cytrynbaum was a director of Ignition Point Technologies Corp. (“Ignition Point”) from July 1994 to January 2009, during which period he served at various times as Chairman, President and Chief Executive Officer or Acting Chief Executive Officer. In January 2009, when Mr. Cytrynbaum’s only role with Ignition Point was as a director, Ignition Point received notice of commencement of foreclosure action by the holders of its outstanding secured convertible

debentures in the principal amount of \$2.8 million. The foreclosure action resulted in the seizure of Ignition Point's shareholdings in TeraSpan Networks Inc., Ignition Point's sole material asset, and the extinguishment of the debt owed under the debentures.

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.

Ken Rotman served as a director of NRI Industries Inc. when, on September 6, 2006, it and two of its subsidiaries (collectively, "NRI") filed for protection under CCAA. On April 26, 2007, NRI exited from CCAA protection and had a receiver appointed to hold and distribute its assets. On April 27, 2007, NRI filed assignments into bankruptcy.

Mr. Rotman served as a director of Integral Orthopedics Inc. ("IOI") until July 18, 2008, when a receiver was appointed under the *Bankruptcy and Insolvency Act* to sell the assets of IOI.

Mr. Rotman served as a director of Nexient Learning Inc. until June 5, 2009. On June 26, 2009, Nexient Learning Inc. applied for creditor protection under the CCAA.

### **Legal Proceedings**

On April 12, 2010 we settled, by means of a confidential mediation, an action that had been pursued in the Supreme Court of British Columbia by WindyPoint Capital Inc. ("WindyPoint") and others for compensation alleged to be due and owing to WindyPoint in connection with financial advisory and investment banking services that it claimed to have provided to the Company in 2005. In accordance with the terms of the settlement, the Company paid to the plaintiffs the total sum of CDN\$450,000 in full and final settlement of all claims.

### **Transfer Agent and Registrar**

Our transfer agent and registrar for our common shares is Computershare Trust Company of Canada, 510 Burrard Street, 2<sup>nd</sup> Floor, Vancouver, British Columbia, V6C 3B9.

### **Other Material Agreements**

On May 29, 2009, we entered into a credit agreement (the "CA") with National Bank of Canada ("National") under which National agreed to provide us with two credit facilities (the "Facilities"). Facility A is a revolving facility for a term of three years, for up to US\$25,000,000 (or the Canadian dollar equivalent). Facility B is a three year term facility in an initial amount of US\$15,000,000 (or the Canadian equivalent). Loans ("Loans") made under either Facility may be, at our option, made in Canadian dollars pursuant to Prime Rate Loans or Banker's Acceptances or in US dollars pursuant to US Base Rate Loans or LIBO Rate Loans, all as defined in the CA. In addition, Letters of Credit in either Canadian or US dollars are available under Facility A. At our option, we can convert Loans from one type to another.

Both Facilities mature on May 29, 2012. We may request that the maturity date of either Facility be extended for a further 364 days by giving notice to National at least 365 days before the

maturity date. National may then offer to extend on terms set out in its offer. If we decline the offer, the maturity date will not be extended. The Facilities may not be extended for more than two 364 day periods.

Interest is payable on each Loan at the rate for that type of Loan plus a margin of 1.75% to 3.5% depending on the type of Loan and our financial performance. Standby fees are payable on the portions of the Facilities that are not advanced of 0.50% to 0.65% depending on our performance. In addition, there is an annual fee payable in Canadian dollars of 25 basis points calculated on the maximum available amount of each Facility at such time (including all outstanding Loans). When we entered into the CA we paid National a structuring fee of US\$200,000.

Facility B will be permanently reduced by 10 quarterly reductions of US\$750,000, the first reduction was made on December 31, 2009 with subsequent reductions made each quarter following. We may permanently reduce the amount available under each Facility without penalty by an amount of not less than \$1,000,000 (US or Canadian dollars, as applicable). We may also cancel the Facilities and repay the Loans without penalty if the repayment is made from operating cash flow or from the proceeds of an issuance of shares. If payment is made from another source a penalty will be payable on the repayment of the Loans made under Facility B of 0.75% if payment is made in the first year, 0.50% if payment is made in the second year and 0.25% if payment is made in the third year.

During the term of the Facilities 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, National may declare all outstanding Loans to be due and payable.

The Facilities are secured by first ranking charges on all of our presently held and after acquired property and on all of the presently held and after acquired property of our subsidiaries. In addition, all of the shares of our subsidiaries are pledged to National as security for the Facilities.

The amounts advanced to us under the Loans are to be used for working capital, financing Capital Expenditures and Investments, as defined in the CA.

### **Interests of Experts**

Our audit report, included in our audited consolidated financial statements for the year ended June 30, 2010, was prepared by our external auditor, Meyers, Norris Penney 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](http://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 6, 2009. Additional financial information is provided in our financial statements and MD&A for the fiscal year ended June 30, 2010.

**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.*