PEER 1 NETWORK ENTERPRISES INC.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

This Management Discussion and Analysis ("MD&A"), dated November 24 2004, should be read in conjunction with Peer1's unaudited first quarter statements, as well as the audited annual financial statements for the fiscal year ended June 30, 2004 and the notes thereto. All figures noted are in Canadian dollars.

FORWARD LOOKING STATEMENTS

This discussion includes certain forward looking statements in respect to various issues including upcoming events. These forward looking statements are based upon current expectations which involve risks and uncertainties associated with the business and the economic environment the business operates. The company disclaims any obligation to revise any forward looking statements as a result of information received after the fact or regarding future events.

PEER 1 NETWORK ENTERPRISES OVERVIEW

Quarterly Highlights

- 21% increase in annual revenues (three months ended September 30, 2003 vs three months ended September 30, 2004) from $3.1 million to $3.8 million.
- Gross profit margins increase from 34% to 38%.
- $0.2 million improvement in the bottom line from loss of $0.5 million to loss of $0.3 million.
- 5% increase in customers this quarter, now at almost 800.

Core Business

Peer 1 Network Enterprises Inc. provides high performance internet bandwidth and co-location facilities to web-centric customers across North America. Building on a redundant, 100% Cisco powered internal network, Peer 1 guarantees 100% uptime internet access for companies with mission-critical applications. The company has established local offices and co-location facilities in Vancouver, Toronto, Montreal, New York, Seattle, and San Jose and also has points of presence (POPs) in the USA in Chicago, Ashburn VA and Los Angeles, and in the UK in London.

Bandwidth

Peer 1's bandwidth service is provided by way of an expansive, redundant network which is connected to multiple Tier 1 Internet providers in Canada and the US and which utilizes multiple major upstream providers and hundreds of peering partners to ensure continuous internet connectivity, greater route diversity, and ultimately, enhanced internet performance. Traffic generated from and received by our customers is charged for on a per unit basis, except for those who have committed to minimum usage levels.

Colocation

The co-location service provided by Peer 1 involves the physical locating of a customer's switching gear or servers in one of the dedicated facilities operated by Peer 1, which is designed to provide the infrastructure necessary for the functioning of that equipment. Included in the required infrastructure would be such resources as a secured cage or cabinet, regulated power, emergency backup power, dedicated Internet connection, regulated air temperature and security.

The major benefits of co-location with Peer 1 are:

- Significantly reduced costs of staff, facilities and hardware
- Reduced configuration and management issues
- Access to a very high bandwidth, high quality IP network
- 24 hours, 7 days a week monitoring
- An environmentally protected facility
- High level of physical security
- Lower costs compared to "in house" solutions

Colo customers are charged for the service provided by way of a monthly rental charge.

STRATEGY

Peer 1 Network Enterprises, Inc. management has developed a well defined growth strategy initiative. The three elements of the strategy initiative are organic growth, leveraged growth, and accelerated growth. The organic growth strategy is predicated on the fact that the current business will continue to add more customers and expand the network's reach into key peering points worldwide. The company's leveraged growth strategy builds on the introduction of new products and services that leverage the infrastructure that Peer 1 has already has in place and is paid for. Peer 1's accelerated growth strategy focuses on actively pursuing acquisitions that are accretive to the Peer 1 business based on well defined criteria for a target company's performance and growth potential.

Network

Peer 1 has built a "clear channel" backbone network connecting all of Peer 1's facilities using multiple high-speed OCn connections. Hundreds of peering relationships and traffic exchange agreements have been established with other networks. The peering arrangements are fundamental to the company's strategy. Peering is a relationship between two or more networks of any size in which the networks create a direct link between each other and agree to forward each other's packets directly across this link instead of using the standard Internet backbone. This has two main advantages: first, it reduces latency between the two networks; and secondly, it avoids additional costs associated with a third party network.

Colocation Facilities

Peer 1's strategy is to establish a point of presence in a new market by colocating in facilities owned by other suppliers, in order to gauge market demand, prior to making a decision to open up our own colocation facility. When a market is deemed to be viable, the company identifies suitable space for long term lease. Wherever possible, sites that have previously been operated as data centres are sought, since this reduces the initial capital investment required. All equipment is acquired and installed on a phased basis, again to reduce the capital investment required. As market share grows, additional equipment is acquired.

FIRST QUARTER INFORMATION

Overall Performance

Selected Measures of Financial Position	September 2004	June 2004	June 2003
Cash (including restricted cash)	$93,812	$976,848	$650,907
Total Assets	9,615,718	9,517,460	6,494,277
Working Capital	-2,278,756	-1,188,031	-1,562,265
Long Term Financial Liabilities	3,312,155	3,319,312	3,235,074
Share Capital	9,915,992	9,914,432	6,779,922
Shareholders' Equity	1,127,439	1,437,548	-511,783

Cash balances fell by almost $900,000 this quarter. Operating cash flows were sufficient to meet debt repayment requirements, but continued investment in capital assets resulted in the cash outflow. Approximately half of the $0.6 million invested in equipment this quarter was colocation-related, with the other half for upgrades to network equipment. The colocation-related investment is a result of Peer 1's business model, in that data centres are not fully outfitted to maximum capacity at the time of acquisition, but are added to in stages as demand increases.

The balance of the cash requirement was for deposits on new space taken up in New York, as well as for deferred M&A costs. Both these are recorded in the Other Assets category on the balance sheet.

Selected Measures of Operations	Q1 2005	Q1 2004	Q1 2003
Total Revenue	$3,780,131	$3,113,210	$2,016,161
Gross Margin	37.7%	34.1%	6.7%
Net Loss	311,669	504,767	1,150,215

Peer 1's trend of revenue growth has continued into the first quarter of FY 2005, though the rate of growth is not as rapid as it was last year. Revenues in the first quarter were 21% higher than for the same period last year, which in turn was 54% higher than the first quarter of the preceding year. A more detailed review of revenues can be found in the next section.

The increase in revenue has seen a commensurate increase in gross margins, given the nature of the colocation and bandwidth business, where monthly recurring costs do not vary much with increased sales due to relatively high fixed cost composition. Likewise, there has been a significant improvement in the bottom line, since Peer 1's strategy of keeping costs low has resulted in other operating costs increasing at a rate slower than the increase in revenues.

RESULTS OF OPERATIONS

Revenues

Colocation revenues increased from $0.9 million in the first quarter of FY 2004 to $1.5 million in the first quarter of FY 2005 (68% growth). The increase from the fourth quarter of 2004 was $0.1 million (11%). The increase is directly attributable to growth in the customer base - the number of colocation customers grew from 463 at the end of the first quarter of FY 2004 to 689 by the end of the current quarter, which translated into a 49% increase in the number of units sold each month (the increase from the end of the previous quarter was 5%). The average selling price per customer and per unit remained essentially the same from 2003 to 2004.

Unlike colocation, bandwidth revenues have not increased as a result of higher sales volumes, as growth in customer traffic over the network been offset by falling bandwidth prices resulting from a highly competitive market. As a result, bandwidth now accounts for 53% of total revenues, compared to 66% at the end of the first quarter in FY 2004.

83% of revenues earned during the year were from the company's three Canadian sites, compared to 91% in the first quarter of FY 2004 and 88% in the immediately preceding quarter. Sales at the US locations continue to grow, with Seattle and New York recording the majority of the increase. A new sales team has been added in California, to promote growth in that market. Management expects that the US locations will continue their sales growth, as Peer 1 brand recognition increases.

Despite the increase in the number of customers, there is still capacity available for further growth in most colocation cities. Additional space is being added in New York and Toronto, which will provide further capacity for anticipated growth. Points of presence have been added in Los Angeles and London – while these are not expected to generate significant sales volumes, they expose Peer 1 to new markets at minimal cost.

Gross Profit

The gross profit for the first quarter of FY 2005 was 34% higher than that for the same quarter in FY 2004. From a profit margin of 34% in the first quarter of FY 2004, the company has been able to achieve a margin of 38% in FY 2005 (34% in the immediately preceding quarter). . The improvement is due primarily to the high proportion of fixed costs inherent in the colocation business – therefore every dollar of incremental revenue earned significantly improves the gross profit margin. The decline in bandwidth sales prices that could have had a dramatic impact on margins has been offset by lower rates that the company has been able to negotiate from its suppliers.

Operating Expenses

The largest component of operating expenses is salaries and wages which comprise approximately 56% of the total (52% for the same quarter in FY 2004). The higher proportion is attributable to an increase in the number of sales people on staff (sales staff were added to the new US locations) as well as higher sales commissions that are a result of the increase in revenues. It is expected that this component will continue to increase relative to other operating expenses as sales continue to increase.

Rent and administration costs make up the next most significant component at 21% of total operating costs largely unchanged from FY 2004. No major changes are anticipated for the costs in this category.

Travel costs are 11% of total operating expenses, up slightly from FY 2004. While travel costs are not directly related to sales levels, they do increase with the number of locations that Peer 1 operates at. With the addition of a POP in London, and the investigation of market opportunities in Europe, this component is expected to be of greater significance in the coming year.

Professional fees account for 6% of total costs this quarter, down from 7% in FY 2004. No major changes are anticipated for the costs in this category.

Projects In Start-Up Phase

In the last quarter of FY 2004, the company entered into an incorporated joint venture to provide VOIP (voice services over the internet) services under the name Symmetric Broadband Inc. The voice traffic would be routed over the Peer 1 network, and would be complementary to the products we provide. Symmetric was still in the start-up phase at the end of the current quarter, but will be commencing regular operations as of the beginning of the second quarter.

$225,000 in startup costs have been deferred, and will be amortized over a thirty six month period, commencing October 2004. Costs incurred during the startup period were higher than anticipated, but the joint venture now has the infrastructure in place and has commenced billings.

As is the case with Peer 1, Symmetric will focus its sales effort in locations where they currently have the required equipment, namely Los Angeles, Vancouver and New York before any consideration of expansion. While small losses are expected during the next quarter, Peer 1 is not anticipated to have to contribute a significant amount of additional funding to the joint venture as the business will grow to be self-sustaining.

SUMMARY OF QUARTERLY RESULTS

	Quarter Ended							
	December 31 2002	March 31 2003	June 30 2003	September 30 2003	December 31 2003	March 31 2004	June 30 2004	September 30 2004
Revenue	2,431,152	2,463,147	3,023,564	3,113,210	3,407,164	3,400,250	3,667,290	3,780,131
Operating Profit (Loss)	(583,806)	(781,605)	(452,534)	(196,463)	66,585	156,654	(64,459)	(57,966)
Net Income (Loss)	(692,512)	(773,907)	(664,701)	(504,767)	(248,638)	5,969	(244,914)	(311,669)
Pro forma basic and fully diluted income (loss) per share	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	0.00	(0.01)	(0.01)
EBITDA	(377,163)	(556,320)	(206,386)	44,078	277,177	421,865	124,530	205,929

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2004 the company had a cash and cash equivalents balance of $94,000 which was an decrease of $880,000 from the June 30, 2004 balance.

The company had a working capital deficit at the end of each of the last two quarters ($2.3 million after the first quarter of FY 2005 and $1.2 million at the end of the preceding quarter). Included in this amount are the short term shareholder notes and the accrued interest thereon. If these items are excluded from the calculation, on the assumption that shareholders would be unlikely to impact liquidity in a negative manner, the company had a small working capital balance at the end of the preceding quarter and a $0.9 million deficit at the end of the most recent quarter.

The company has historically been funded by private placements and debt from companies related to shareholders and directors. Additional funding from other sources is being considered at the present time, though no agreements have yet been made.

Operating Activities

Operating activities in the first quarter of FY 2005 generated almost $350,000 more cash than in the same quarter last year. This is primarily because the increase in revenues was greater than the commensurate increase in expenses. Future revenue growth is also expected to follow this trend, with the result that cash flows are anticipated to continue from operations in the coming year.

Investing Activities

The company continues to make a significant investment in property and equipment ($0.6 million in this quarter and the same quarter in FY 2004). The current level of investment is expected to continue for the next several years as the company's growth strategy takes hold.

Financing Activities

No additional funding was received this quarter, while debt repayments of $225,000 have been made. Additional financing by way of share issuance or debt will be required in the next quarter in order to sustain the continued growth plan.

OFF-BALANCE SHEET ARRANGEMENTS

The company has not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the year Peer 1 provided services in the normal course of business to companies either owned or subject to significant influence by the company's directors and principal shareholders.

At the end of the first quarter amounts due to and from related parties were as follows:

	2005	2004
Included in accounts receivable	112,602	106,393
Included in accounts payable and accrued liabilities	2,996	-

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

Revenues earned	54,896	143,268
Interest expensed	140,684	96,151
Other expenses incurred	74,907	-

These transactions are in the normal course of operations and are at measured at their exchange amounts. Included in other expenses incurred is $70,000 in accounts receivable from a related party that was written off. This amounted to half of the balance receivable from that party.

SUBSEQUENT EVENTS AND PROPOSED TRANSACTIONS

On October 20, 2004, the company, through its 100% owned subsidiary, P1 Acquisition, Ltd. ("P1") acquired all of the operating assets of San Antonio, Texas-based ServerBeach, Ltd. Included in the operating assets were existing customer contracts and business, a data center located in San Antonio, Texas and over 4,200 dedicated servers. The staff and management of ServerBeach were offered employment at P1 to operate the business with 85% accepting employment. As part of the purchase of assets, the company obtained rights to the company name and was granted the authority to rename P1 Acquisition, Ltd. to ServerBeach, Ltd. on October 22, 2004 and now operates under that name. The transaction was approved by the TSX Venture Exchange prior to the closing.

The purchase price was comprised of US$7.5 million in cash. Peer 1 arranged bridge financing for the full purchase price from a company related to one of its Directors on commercially reasonable terms and due on December 31, 2005 with certain renewal provisions thereafter. The loan carries an interest rate of 6% per annum through December 31, 2004 and thereafter at 15% per annum. The company plans to refinance the bridge financing in early calendar 2005.

In accordance with regulatory requirements, the company will be filing a Business Acquisition Report which will provide additional detail about ServerBeach's historical results, as well as pro-forma financial statements.

At the date of this MD&A, no other proposed acquisition or disposition of assets or businesses have been considered by the Board of Directors.

CRITICAL ACCOUNTING ESTIMATES

Management makes certain estimates in order to report the company's financial position and results of operations. Such estimates include the collectability of accounts receivable, the useful life of fixed assets, the likelihood of M&A projects being completed (see section below), valuation of the conversion features attached to debt instruments and warrants issued.

In estimating the allowance for doubtful accounts, management reviews the payment history of current customer as well as overall historical collection trends. Our allowance is in the range of 2-2.5% of annual revenues.

Estimates as to the useful life of fixed assets are based upon experience and are in line with other companies in the industry.

The likelihood of M&A projects being completed are based on the facts involved in each particular case.

Valuation of the debt conversion features and issue of warrants is based on estimates of dividend yield (Nil), expected volatility of the Peer 1 stock price (75%), risk-free interest rate (estimate changes over time as actual results change) and option term (varies depending on the warrants or options issued).

In all of the above cases, actual results may be different than the estimates made.

ACCOUNTING POLICIES

The company prepares its financial statements on the basis of accounting principals generally acceptable in Canada. All accounting policies have been applied on a basis consistent with that of the previous year.

In 2004, as part of its growth strategy, the company undertook a process of identifying and pursuing organizations for potential acquisition. As a result, costs directly related to acquisitions were incurred. The company has adopted a policy of deferring such costs for proposed transactions where completion is considered to be more likely than not. These deferred costs will be added to the cost of purchase upon completion. Should the status of a project change to become unlikely to complete, the costs associated with that project are expensed. As of the end of the quarter, $220,000 of costs had been deferred ($163,000 at the end of the preceding quarter). No change to the status of those projects has occurred during the subsequent period.

Non-GAAP Measures

The company reports Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), which is an approximate measure of operating cash flow based on financial data from the company's income statement. EBITDA is not a recognized accounting measure nor is it defined by generally accepted accounting principles. This non-GAAP measure may not be an identical presentation when compared with other company reports, as the nature of amounts included in amortization varies. The disclosure of EBITDA is strictly presented for informational purposes and is not intended to replace financial results presented from operations or cash flow.

OUTLOOK AND RISKS

Outlook

The demand for high-speed, IP-based network services is growing rapidly, as both businesses and individual users place greater reliance on web-based information and applications. As a result, the industry segment that Peer 1 operates in is expected to continue along an upward growth trend as the demand for the outsourcing of secure internet infrastructure also grows.

Revenues are expected to continue their growth trend, though the growth rate is likely to fall to the 15-20% range because of the larger base. Current results have been impacted by rapidly declining internet bandwidth pricing. It is expected that prices will stabilize during 2005, as a result of increased demand.

As there is a high percentage of fixed colocation and bandwidth costs, the increased revenue is expected to result in improved gross profit margins. This, together with Peer 1's strict operating cost control initiatives and completion of the integration of ServerBeach, is expected to result in net income in the third and fourth quarters of FY 2005.

The company is aggressively pursuing a growth strategy that includes the acquisition entities whose operations would be accretive to Peer 1. While the prospects for completion of these projects cannot be determined with certainty, management has set a goal of completing at least one acquisition in FY 2005. Any growth in revenues and profits would be in addition to those identified above.

Risks

The company is subject to a number of business risks inherent in the industry, including competitive pressures, credit risk, foreign exchange risk and technological change.

Peer 1 operates in a competitive market. The company has differentiated itself from the competition by the high level of customer service we provide and the quality of the products we offer. Management intends to keep Peer 1's product offerings focused, so as to continue to deliver the high level of quality at a competitive price that the company has become known for. Our customer retention rate is one of the highest in the industry because of this customer and quality focus.

The company's bad debt rate has been reduced to 2-2.5% in the most recent fiscal year as a result of more sophisticated credit and collections procedures. This, together with the company's high retention rate of customers mitigates credit risk.

The company currently operates in Canada and the USA, and has recently established a POP the UK, and is thereby subject to risks typical of an international business including, but not limited to, differing economic conditions, differing tax structures, other regulations and restrictions and foreign exchange rate volatility. The company has evaluated its exposure to these risks, and has determined that its only significant exposure is to exchange rate risk with respect to the US dollar. At this time, costs denominated in US dollars exceed US denominated revenues. The company does not engage in hedging transactions, but anticipates that revenue growth in Peer 1's US locations will offset the exchange rate risk to a greater extent in FY 2005.

Technology is evolving rapidly, with the result that a major shift in communications technology away from the current IP based system could have a significant impact on all companies in the industry.

OTHER INFORMATION

Additional information relating to the company is available on SEDAR at www.sedar.com.