



**PEER 1 NETWORK**

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**SEPTEMBER 30, 2004  
QUARTERLY REPORT**



**Cinnamon Jang Willoughby & Company**

Chartered Accountants  
*A Partnership of Incorporated Professionals*

November 23, 2004

Audit Committee  
Peer 1 Network Enterprises Inc.  
555 West Hastings Street, #1600  
Vancouver, BC  
V6B 4N5

Dear Sirs:

In accordance with our engagement letter dated November 23, 2004, we have reviewed the balance sheet of Peer 1 Network Enterprises Inc. as at September 30, 2004, the statements of income, deficit, and cash flows for the three months then ended. These financial statements are the responsibility of the company's management.

We performed our review in accordance with Canadian generally accepted standards for a review of interim financial statements by an entity's auditor. Such an interim review consists principally of applying analytical procedures to financial data, and making enquiries of, and having discussions with, persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit, whose objective is the expression of an opinion regarding the financial statements; and accordingly, we do not express such an opinion. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit.

Based on our review, we are not aware of any material modification that needs to be made for these interim financial statements to be in accordance with Canadian generally accepted accounting principles.

This report is solely for the use of the audit committee of Peer 1 Network Enterprises Inc. to assist it in discharging its regulatory 6(19) obligation to review these financial statements, and should not be used for any other purpose. Any use that a third party makes of this report, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this report.

*"Cinnamon Jang Willoughby & Company"*

Chartered Accountants

**Peer 1 Network Enterprises, Inc.**  
**Consolidated Balance Sheet**  
**As At September 30, 2004**  
(unaudited - prepared by management)

	<b>September 2004 \$</b>	<b>June 2004 \$</b>
<b>Assets</b>		
<b>Current:</b>		
Cash and cash equivalents	93,812	976,848
Accounts receivable	2,183,221	2,139,565
Prepaid expenses	472,854	305,724
	<u>2,749,887</u>	<u>3,422,137</u>
<b>Other assets</b>	1,208,230	794,804
<b>Property, plant and equipment</b>	<u>5,657,601</u>	<u>5,300,519</u>
	<u>9,615,718</u>	<u>9,517,460</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	2,590,955	2,201,583
Deferred revenue	564,152	571,156
Current portion of deferred lease inducements	11,800	11,799
Current portion of notes payable	510,289	510,289
Shareholder notes	1,351,447	1,315,341
	<u>5,028,643</u>	<u>4,610,168</u>
<b>Deferred lease inducements</b>	147,481	150,432
<b>Notes payable</b>	<u>3,312,155</u>	<u>3,319,312</u>
	<u>8,488,279</u>	<u>8,079,912</u>
<b>Shareholders' Equity (Deficiency)</b>		
<b>Capital Stock</b>	9,915,992	9,914,432
<b>Warrants</b>	-	-
<b>Equity component of convertible debt</b>	435,638	435,638
<b>Contributed Surplus</b>	220,355	220,355
<b>Deficit</b>	<u>(9,444,546)</u>	<u>(9,132,877)</u>
	<u>1,127,439</u>	<u>1,437,548</u>
	<u>9,615,718</u>	<u>9,517,460</u>

**Peer 1 Network Enterprises, Inc.**  
**Consolidated Income Statement**  
**Three Months Ended September 30**  
**(unaudited - prepared by management)**

	<b>Three Months Ended September 2004</b>	<b>Three Months Ended September 2003</b>
<b>Revenue</b>	3,780,131	3,113,210
<b>Cost of Sales</b>	2,355,617	2,050,441
<b>Gross Profit</b>	1,424,514	1,062,769
<b>Operating expenses</b>	1,482,480	1,259,232
<b>Operating loss</b>	(57,966)	(196,463)
<b>Interest expense</b>	160,757	145,941
<b>Interest accretion on convertible debt</b>	92,618	193,015
<b>Foreign exchange loss (gain)</b>	(7,028)	(30,652)
<b>Loss before income taxes</b>	(304,313)	(504,767)
<b>(Provision for) recovery of income taxes</b>	7,356	-
<b>Loss for the period</b>	(311,669)	(504,767)
<b>Deficit, beginning of period</b>	(9,132,877)	(8,140,527)
<b>Deficit, end of period</b>	(9,444,546)	(8,645,294)

**Peer 1 Network Enterprises, Inc.**  
**Consolidated Statement of Cash Flows**  
**Three Months Ended September 30**  
**(unaudited - prepared by management)**

	<b>Three Months Ended September 2004</b>	<b>Three Months Ended September 2003</b>
<b>Cash flows from operating activities</b>		
Loss for the period	(311,669)	(504,767)
Amortization	264,223	209,889
Decrease in deferred lease inducements	(2,951)	(2,950)
Increase in accrued interest and accretion of convertible debt	253,375	338,956
	<u>202,978</u>	<u>41,128</u>
Change in non-cash working capital items		
Increase in accounts receivable	(43,656)	(440,259)
Increase in prepaid expenses	(167,130)	(16,794)
Increase in accounts payable and accrued liabilities	389,372	413,138
Increase (decrease) in deferred revenue	(7,004)	38,084
	<u>374,561</u>	<u>35,297</u>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(621,305)	(603,122)
Investment in other assets	(413,426)	(133,852)
	<u>(1,034,731)</u>	<u>(736,974)</u>
<b>Cash flows from financing activities</b>		
Repayment of obligations under capital leases	-	(74,159)
Proceeds from notes payable and affiliated companies	(224,426)	109,387
Share capital issued	1,560	-
Proceeds from shareholder notes	-	519,449
	<u>(222,866)</u>	<u>554,677</u>
Decrease in cash and cash equivalents	(883,037)	(147,000)
Cash and cash equivalents - beginning of period	976,848	650,907
Cash and cash equivalents - end of period	<u>93,812</u>	<u>503,907</u>

## **Notes to Unaudited Consolidated Financial Statements**

### **1. Nature of Operations and Basis of Presentation:**

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly do not include all information and note disclosures required for the annual financial statements under Canadian generally accepted accounting principles. It is management's opinion that all adjustments considered necessary for fair presentation of the financial position, results of operations and cash flow for the nine month period have been made. These financial statements have been prepared in accordance with the same accounting principles applied in the preparation of the annual audited consolidated financial statements filed with the British Columbia Securities Commission for the fiscal year ended June 30, 2004. The annual financial statements should be referenced in conjunction with this interim report.

### **2. Basis of Consolidation:**

These consolidated financial statements include the accounts of the company and its wholly owned subsidiaries, Peer 1 Network Inc., Peer 1 Network (USA) Inc., Peer 1 Network (Seattle) Inc., Peer 1 Network (San Jose) Inc., Peer 1 Network (New York) Inc., Colobrokers.com Inc., and 585065 B.C. Ltd.

The consolidated financial statements also include the company's share (50%) of the accounts of the incorporated joint venture, Symmetric Broadband Inc. on the proportionate consolidation method.

### 3. Share Capital

a) Authorized :  
100,000,000 Common shares without par value

b) Issued and Fully Paid:

	<b>Number</b>	<b>Amount</b>
Balance at beginning of year	44,365,367	\$ 9,914,432
Changes in share capital	<u>4,000</u>	<u>\$ 1,560</u>
Balance at September 30, 2004	<u>44,369,367</u>	<u>\$ 9,915,992</u>

c) Warrants Outstanding

The following non-transferable share purchase warrants are outstanding:

<b>Exercise Price</b>	<b>Outstanding 6/30/04</b>	<b>Issued</b>	<b>Expired/ Exercised</b>	<b>Outstanding 9/30/04</b>	<b>Expiry Date</b>
\$0.72	4,305,416	-	-	4,305,416	July 24, 2004
\$0.45	400,000	-	-	400,000	July 24, 2004
\$0.39	5,138,343	-	4,000	5,134,343	Feb 18, 2005
\$0.32	4,145,906	-	-	4,145,906	April 4, 2005
\$0.32	1,834,215	-	-	1,834,215	Oct 23, 2005
\$0.28	<u>500,000</u>	-	-	<u>500,000</u>	Nov 6, 2005
	<u>16,323,880</u>		<u>4,000</u>	<u>16,319,880</u>	

d) Shares held in escrow:

As of September 30, 2004, 15,117,450 shares of the company are subject to an escrow agreement and may not be transferred, assigned, or otherwise dealt with without the consent of the regulatory body that has jurisdiction.

e) Stock Options

The company has the following stock options outstanding:

<b>Exercise Price</b>	<b>Outstanding 6/30/04</b>	<b>Issued</b>	<b>Expired/ Exercised</b>	<b>Outstanding 9/30/04</b>	<b>Expiry Date</b>
\$0.47	40,000	-	-	40,000	May 31, 2009
\$0.46	25,000	-	-	25,000	May 30, 2009
\$0.45	2,176,250	-	-	2,176,250	July 24, 2007
\$0.45	300,000	-	-	300,000	Nov 7, 2007
\$0.45	15,000	-	-	15,000	June 30, 2009
\$0.44	300,000	-	-	300,000	March 9, 2009
\$0.42	25,000	-	5,000	20,000	Jan 29, 2009
\$0.39	110,000	-	-	110,000	Nov 7, 2007
\$0.35	100,000	-	-	100,000	April 18, 2009
\$0.32	337,000	-	-	337,000	Sept 9, 2008
\$0.31	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	Sept 30, 2009
	<u>3,428,250</u>	<u>10,000</u>	<u>5,000</u>	<u>3,433,250</u>	

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

#### 4. Related Party Transactions

The company entered into a number of related party transactions with companies either owned or subject to significant influence by the company's management, directors and principal shareholders.

At September 30, 2004 amounts due to and from related parties were as follows:

	<b>2005</b>	<b>2004</b>
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.