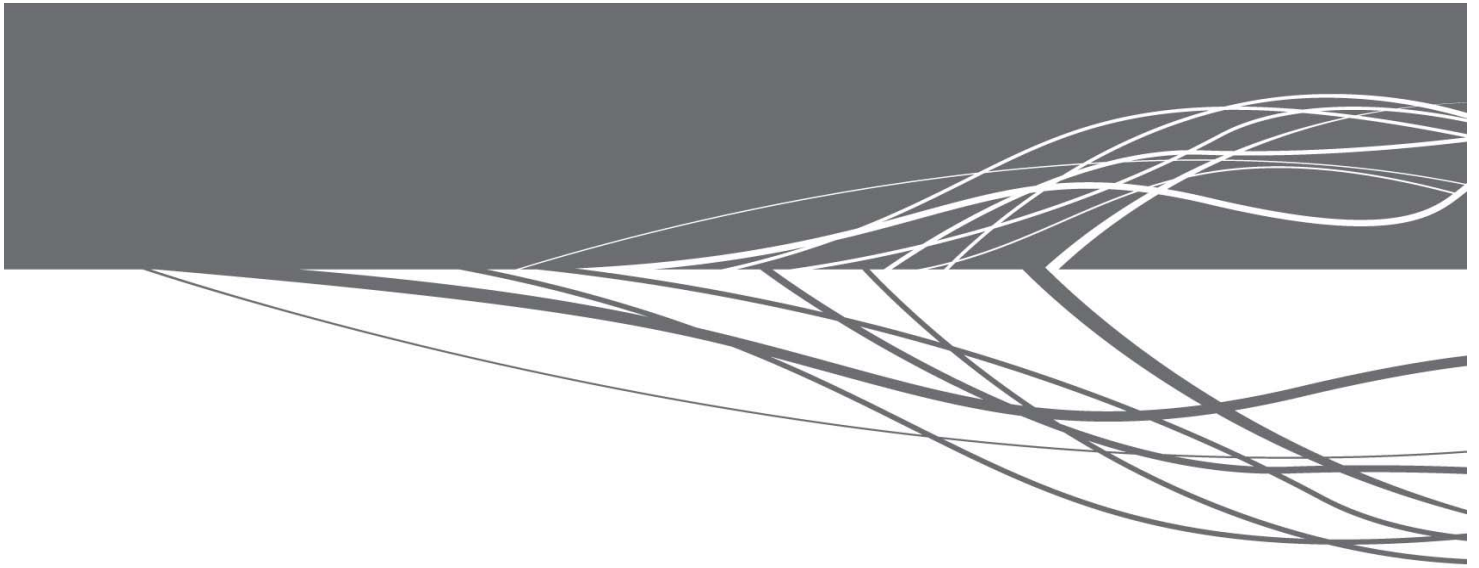


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**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Consolidated Balance Sheet**  
**September 30, 2009**  
(in thousands of United States dollars)

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
<b>Assets</b>		
Current:		
Cash and cash equivalents	\$ 11,754	\$ 15,744
Accounts receivable	3,891	3,449
Future income tax asset	234	237
Prepaid expenses	1,217	1,130
Income taxes receivable	223	-
	<b>17,319</b>	20,560
Other assets	2,782	2,692
Future income tax asset	1,338	1,042
Property and equipment	41,409	36,856
Equipment under capital lease	963	1,013
Goodwill	1,715	1,715
Intangible assets	2,552	2,552
	<b>\$ 68,078</b>	\$ 66,430
<b>Liabilities</b>		
Current:		
Accounts payable and accrued liabilities	\$ 9,474	\$ 7,936
Deferred revenue	2,969	2,886
Current portion of deferred gain	79	79
Current portion of deferred lease inducements	134	138
Current portion of derivative liabilities (Note 3)	127	89
Current portion of notes payable (Note 4)	3,000	2,250
Current portion of obligations under capital lease	233	211
Income taxes payable	-	2,200
	<b>16,016</b>	15,789
Deferred gain	473	493
Deferred lease inducements	632	664
Derivative liabilities (Note 3)	223	179
Notes payable (Note 4)	11,601	12,303
Obligation under capital lease	335	363
	<b>29,280</b>	29,791
<b>Shareholders' equity</b>	<b>38,798</b>	36,639
	<b>\$ 68,078</b>	\$ 66,430
Commitments and contingencies (Note 11)		

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Consolidated Statements of Shareholders' Equity**  
**For the Three Months Ended September 30, 2009**  
(in thousands of United States dollars except number of shares)

	Three Months Ended			
	September 30, 2009		September 30, 2008	
	Number	Amount	Number	Amount
<b>SHARE CAPITAL</b>				
<b>Common shares (Note 5)</b>				
Balance at beginning of period	119,314,323	\$ 26,950	118,504,368	\$ 26,539
Stock options exercised	113,375	59	70,004	31
Warrants exercised	1,628,286	781	678,285	341
<b>Balance at end of period</b>	<b>121,055,984</b>	<b>27,790</b>	119,252,657	26,911
<b>Warrants (Note 5)</b>				
Balance at beginning of period	2,461,619	493	3,139,904	678
Warrants expired/exercised	(1,628,286)	(407)	(678,285)	(185)
<b>Balance at end of period</b>	<b>833,333</b>	<b>86</b>	2,461,619	493
<b>Total – share capital</b>	<b>121,889,317</b>	<b>27,876</b>	121,714,276	27,404
<b>CONTRIBUTED SURPLUS</b>				
Balance at beginning of period		4,766		2,509
Stock-based compensation		563		805
Options exercised and shares distributed under the stock option plan		(22)		(11)
<b>Balance at end of period</b>		<b>5,307</b>		3,303
<b>RETAINED EARNINGS</b>				
Balance at beginning of period		4,709		(1,013)
Net income		1,267		1,726
<b>Balance at end of period</b>		<b>5,976</b>		713
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>				
Balance at beginning of period		(279)		(11)
Other comprehensive income		(82)		-
<b>Balance at end of period</b>		<b>(361)</b>		(11)
<b>Total - shareholders' equity</b>		<b>\$ 38,798</b>		\$ 31,409

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Consolidated Statement of Operations**  
**For the Three Months Ended September 30, 2009**  
(in thousands of United States dollars, except per share amounts)

	<b>Three Months Ended</b>	
	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Revenue		
Colocation Services	\$ 6,628	\$ 6,715
Hosting Services	16,746	16,789
	<u>23,374</u>	<u>23,504</u>
Cost of revenue	<u>13,711</u>	13,036
Gross profit	9,663	10,468
Operating expenses	7,185	6,967
Operating income before other items	2,478	3,501
Other items:		
Interest income	(4)	(38)
Gain on insurance recovery	(93)	-
Gain on disposal of property and equipment	(12)	(3)
Foreign exchange loss	80	7
Interest expense – long term	313	424
	<u>284</u>	<u>390</u>
Income before income taxes	2,194	3,111
Future income tax expense (recovery)	(297)	289
Current income tax expense	1,224	1,096
Income tax expense	927	1,385
<b>Net income</b>	<b>\$ 1,267</b>	<b>\$ 1,726</b>
Other comprehensive income:		
Change in unrealized fair value of derivatives designated as cash flow hedges	(82)	-
<b>Comprehensive income</b>	<b>\$ 1,185</b>	<b>\$ 1,726</b>
Net income attributable to:		
Common shares	\$ 1,267	\$ 1,726
Comprehensive income attributable to:		
Common shares	\$ 1,185	\$ -
Basic and diluted earnings per share	\$ 0.01	\$ 0.01
Weighted average number of shares outstanding:		
Basic	119,508,564	118,703,525
Diluted	123,296,839	123,344,996

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Consolidated Statement of Cash Flows**  
**For the Three Months Ended September 30, 2009**  
(in thousands of United States dollars)

	<b>Three Months Ended</b>	
	<b>September 30, 2009</b>	<b>September 30, 2008</b>
<b>Operating Activities:</b>		
Net income	\$ 1,267	\$ 1,726
Adjustments for non-cash items:		
Amortization of property and equipment	3,151	2,654
Amortization of intangible assets	323	390
Increase in accrued interest and accretion of convertible debt	-	18
Bad debt expense	158	136
Gain on disposal of property and equipment	(12)	(3)
Amortization of deferred gain	(19)	(20)
Gain on insurance	(93)	-
Amortization of deferred loan origination fees	49	123
Future income tax expense	(297)	289
Stock-based compensation included in income for the period	562	805
Decrease in deferred lease inducements	(36)	(36)
Changes in non-cash working capital:		
Increase accounts receivable	(507)	(1,521)
Increase in prepaid expenses	(87)	(100)
Decrease in accounts payable and accrued liabilities	(158)	(1,509)
Decrease in income taxes payable	(2,423)	(821)
Increase in deferred revenue	84	19
<b>Cash flows from operating activities</b>	<b>1,962</b>	<b>2,150</b>
<b>Investing Activities:</b>		
Investment in other assets	(91)	22
Acquisition of property and equipment	(5,958)	(3,997)
Acquisition of intangible assets	(324)	(399)
Proceeds on disposition of equipment	12	3
<b>Cash flows used in investing activities</b>	<b>(6,361)</b>	<b>(4,371)</b>
<b>Financing Activities:</b>		
Repayments of notes payable		(800)
Payment of capital lease obligations	(55)	(54)
Issuance of capital stock	411	176
<b>Cash flows from (used in) financing activities</b>	<b>356</b>	<b>(678)</b>
Foreign exchange gain on cash and cash equivalents	53	40
Increase in cash and cash equivalents	(3,990)	(2,859)
Cash and cash equivalents, beginning	15,744	11,026
<b>Cash and cash equivalents, ending</b>	<b>\$ 11,754</b>	<b>\$ 8,167</b>

Supplemental Disclosure of Cash Flow Information (Note 6)

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2009**  
**(dollar amounts are presented in thousands of**  
**United States dollars, except per share amounts)**

**1. Significant Accounting Policies:**

**a) Nature of Operations:**

Peer 1 Network Enterprises, Inc. (the "Company") was incorporated under the laws of British Columbia. The Company is a provider of Internet infrastructure solutions and related managed services. The Company provides colocation facilities with high performance Internet bandwidth and hosting servers to web-centric and enterprise customers across North America. The Company has established local offices and data centres in Canada, the USA, and the UK and also has established points of presence in London, UK and Amsterdam in the Netherlands. The corporate headquarters are in Vancouver.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly do not include all information and note disclosures required for the annual financial statements under Canadian generally accepted accounting principles. It is management's opinion that all adjustments considered necessary for fair presentation of the financial position, results of operations and cash flow for the interim periods presented have been made. These financial statements have been prepared in accordance with the same accounting principles applied in the preparation of the annual audited consolidated financial statements filed with the British Columbia Securities Commission for the fiscal year ended June 30, 2009, except as described in note 1(b). The annual financial statements should be referenced in conjunction with this interim report. Certain comparative amounts have been reclassified to correspond to the presentation in the current period.

**b) Changes in Accounting Policies:**

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

**c) Recent Accounting Pronouncements:**

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

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2009**  
(dollar amounts are presented in thousands of  
United States dollars, except per share amounts)

**1. Significant Accounting Policies: (continued)**

**c) Recent Accounting Pronouncements: (continued)**

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

iii) In January 2009, the CICA issued Section 1602, "Non-controlling Interests", which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier adoption permitted. As of September 30, 2009 the Company has no non-controlling interests, and accordingly there is no currently expected impact as a result of the standard.

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

**2. Basis of Consolidation:**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Peer 1 Network (USA) Inc., Peer 1 Network (Seattle) Inc., Peer 1 Network (San Jose) Inc., Peer 1 Network (New York) Inc., Peer 1 Network (Nevada) GP, Inc., Peer 1 Network (Nevada) LP, Inc., ServerBeach Ltd., Data Center Technologies IP Inc., Peer 1 Dedicated Hosting Inc., Colobrokers.com Inc., 585065 B.C. Ltd., Peer 1 Network (Texas), LP, Peer 1 Network (LA), Inc. and Peer 1 (UK) Ltd.

**3. Derivative Liabilities:**

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

	<b>September 30, 2009</b>	<b>June 30, 2009</b>
<b>Derivative financial instruments designated as cash flow hedges</b>		
Interest – rate swap agreement	<b>\$ 350</b>	<b>\$ 268</b>

The interest rate swap matures at the same time with the notes payable described below.

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2009**  
(dollar amounts are presented in thousands of  
United States dollars, except per share amounts)

**4. Notes Payable:**

Notes payable as of September 30, 2009 include amounts payable to National Bank of Canada. Pursuant to the adoption of CICA Handbook Section 3855, amounts are shown net of related transaction and financing costs. Details are as follows:

	<b>September 30, 2009</b>	June 30, 2009
Notes payable	\$ 15,000	\$ 15,000
Unamortized deferred loan origination fees	399	447
Notes payable, net of related transaction and financing	<b>14,601</b>	14,553
Less: Current portion	<b>3,000</b>	2,250
	<b>\$ 11,601</b>	\$ 12,303

**5. Shareholders' Equity:**

**Capital Stock:**

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

**Warrants:**

The following non-transferable share purchase warrants are outstanding:

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

**Stock options:**

As at September 30, 2009, the Company had 15,842,100 stock options outstanding.

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2009**  
(dollar amounts are presented in thousands of  
United States dollars, except per share amounts)

**6. Supplemental Disclosure of Cash Flow Information:**

	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Interest paid	\$ 90	\$ 282
Income taxes paid	3,647	1,817
Interest received	4	38
Effect of acquisition of property and equipment in accounts payable	1,696	1,193

**7. Related Party Balances and Transactions:**

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

The significant transactions with related parties are as follows:

	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Transaction during the period -		
Revenue earned from companies owned or subject to significant influence by directors and principal shareholders	\$ 28	\$ 31
Other expenses from companies owned or subject to significant influence by directors and principal shareholders	\$ -	\$ 29

These transactions are in the normal course of operations and are measured at their exchange amounts, which is the amount of consideration established and agreed to by the related parties.

	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Balances at the end of the period -		
Accounts receivable from companies owned or subject to significant influence by directors and principal shareholders	\$ 170	\$ 11
Accounts payable to companies owned or subject to significant influence by directors and principal shareholders	\$ -	\$ -

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

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2009**  
**(dollar amounts are presented in thousands of**  
**United States dollars, except per share amounts)**

**8. Capital Risk Management:**

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

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

**9. Financial Risk Management:**

a) Overview:

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

b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The carrying amount of financial assets represents the maximum credit exposure. The Company has adopted a credit policy which includes a requirement for payment in advance of service for dedicated hosting customers. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are primarily located in the United States and Canada and represent various industries. At September 30, 2009, no single customer represented more than 5% of accounts receivable. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance is a specific loss component that relates to individually significant exposures, and an overall loss component established based on historical trends and other information. Trade accounts receivable are written off against the allowance account after management has determined that the loss is probable. As at September 30, 2009, the Company had an allowance for doubtful accounts of \$1,087. At September 30, 2009, the Company had no individually material past due trade accounts receivables.

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2009**  
**(dollar amounts are presented in thousands of**  
**United States dollars, except per share amounts)**

**9. Financial Risk Management: (continued)**

b) Credit risk: (continued):

	<b>As of September 30, 2009</b>
Total Accounts receivable	\$ 4,978
Less: Allowance for doubtful accounts	(1,087)
Accounts receivable, net	\$ 3,891
Of which:	
Not overdue	\$ 638
1-30 days	1,787
31-60 days	585
61-90 days	255
91 days and over	510
Less: Allowance for doubtful accounts	(1,087)
Accounts receivable – other	1,203
Accounts receivable, net	\$ 3,891

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

c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As at September 30, 2009, the Company had financial assets held for trading of \$11,754, loans and receivables of \$3,891 and other financial liabilities of \$24,643. As at September 30, 2008, the Company had financial assets held for trading of \$8,167, loans and receivables of \$5,435 and other financial liabilities of \$23,892. All of the Company's financial liabilities have contracted maturities of less than 3 years. The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The Company provides its services in the United States and Canada substantially all of the Company's financial assets and liabilities originate in United States and Canadian dollars. The Company is exposed to currency risk for sales and purchases that are denominated in Canadian dollars. The Company believes that changes in exchange rates would not have a significant impact on net income and has not entered into a any currency hedging transactions. The Company is subject to interest rate risk on its cash and cash equivalents. The Company believes that interest rate risk is low as excess cash is invested overnight only. A change of 1% in interest rates for the three months ended September 30, 2009 would have changed net income by \$38.

**PEER 1 NETWORK ENTERPRISES, INC.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2009**  
**(dollar amounts are presented in thousands of**  
**United States dollars, except per share amounts)**

**9. Financial Risk Management: (continued)**

e) Fair value of financial instruments:

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

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

**10. Contingencies:**

Legal contingencies -

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

**11. Segmented Information:**

Management has determined that the Company operates in a single reportable operating segment which involves the provision of outsourced data center infrastructure services. The Company provides its services in the United States, Canada and the UK and substantially all of the Company's identifiable assets as at September 30, 2009 are located in the United States, Canada and the UK. The Company's service offerings include the provision of physical space within its data centres, a complete suite of managed and unmanaged dedicated hosting services and high availability bandwidth connectivity. The Company makes decisions and evaluates financial performance primarily based on these service offerings.