



PEER 1 NETWORK

**DECEMBER 31, 2004
QUARTERLY REPORT**

Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At December 31, 2004
(unaudited - prepared by management)

	December 2004 \$	June 2004 \$
Assets		
Current:		
Cash and cash equivalents	1,659,722	976,848
Accounts receivable	2,303,029	2,139,565
Inventory	54,110	-
Prepaid expenses	885,806	305,724
	<hr/> 4,902,667	<hr/> 3,422,137
Other assets	1,573,431	794,804
Property, plant and equipment	9,329,460	5,300,519
Goodwill, licences and other intangibles	6,286,652	-
	<hr/> 22,092,210	<hr/> 9,517,460
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	4,664,484	2,201,583
Deferred revenue	1,064,490	571,156
Current portion of deferred lease inducements	11,800	11,800
Current portion of notes payable	510,289	510,289
Shareholder notes	2,509,304	1,315,341
	<hr/> 8,760,367	<hr/> 4,610,169
Deferred lease inducements	144,531	150,431
Notes payable	12,238,582	3,319,312
	<hr/> 21,143,480	<hr/> 8,079,912
Shareholders' Deficiency		
Capital Stock	9,915,992	9,914,432
Warrants	-	-
Equity component of convertible debt	435,638	435,638
Contributed Surplus	220,355	220,355
Deficit	(9,623,255)	(9,132,877)
	<hr/> 948,730	<hr/> 1,437,548
	<hr/> 22,092,210	<hr/> 9,517,460

Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three Months Ended December 31 and Year To Date
(unaudited - prepared by management)

	Three Months Ended December 2004	Three Months Ended December 2003	Six Months Ended December 2004	Six Months Ended December 2003
Revenue	5,693,401	3,407,164	9,473,532	6,520,374
Cost of Sales	3,535,510	2,036,898	5,891,127	4,087,339
Gross Profit	2,157,891	1,370,266	3,582,405	2,433,035
Operating expenses	2,295,251	1,303,681	3,777,731	2,562,913
Operating profit (loss)	(137,360)	66,585	(195,326)	(129,878)
Interest expense	440,904	144,519	601,661	290,460
Interest accretion on convertible debt	92,620	193,014	185,238	386,029
Foreign exchange loss (gain)	(497,570)	(22,310)	(504,598)	(52,962)
Loss before income taxes	(173,314)	(248,638)	(477,627)	(753,405)
(Provision for) recovery of income taxes	5,395	-	12,751	-
Loss for the period	(178,709)	(248,638)	(490,378)	(753,405)
Deficit, beginning of period	(9,444,546)	(8,645,294)	(9,132,877)	(8,140,527)
Deficit, end of period	(9,623,255)	(8,893,932)	(9,623,255)	(8,893,932)
Basic and diluted loss per share	(0.00)	(0.01)	(0.01)	(0.02)
EBITDA	1,119,862	277,177	1,333,147	321,255

Peer 1 Network Enterprises, Inc.
Consolidated Statement of Cash Flows
Three Months Ended December 31 and Year To Date
(unaudited - prepared by management)

	Three Months Ended December 2004	Three Months Ended December 2003	Six Months Ended December 2004	Six Months Ended December 2003
Cash flows from operating activities				
Loss for the period	(178,709)	(248,638)	(490,378)	(753,405)
Amortization	749,401	188,282	1,013,624	398,171
Decrease in deferred lease inducements	(2,949)	(2,949)	(5,900)	(5,899)
Increase in accrued interest and accretion of convertible debt	472,826	337,533	726,201	676,489
	<u>1,040,569</u>	<u>274,228</u>	<u>1,243,547</u>	<u>315,356</u>
Change in non-cash working capital items				
Increase in accounts receivable	(119,808)	(231,937)	(163,464)	(672,196)
Increase in inventory	(54,110)		(54,110)	
Increase in prepaid expenses	(412,953)	(270,970)	(580,082)	(287,764)
Increase in accounts payable and accrued liabilities	2,073,529	80,088	2,462,901	493,226
Increase in deferred revenue	500,338	30,215	493,334	68,299
	<u>3,027,566</u>	<u>(118,376)</u>	<u>3,402,126</u>	<u>(83,079)</u>
Cash flows from investing activities				
Acquisition of property and equipment	(4,220,102)	(828,552)	(4,841,407)	(1,431,674)
Investment in goodwill, licences and other intangibles	(6,487,810)		(6,487,810)	-
Investment in other assets	(365,201)	84,807	(778,627)	(49,045)
	<u>(11,073,113)</u>	<u>(743,745)</u>	<u>(12,107,844)</u>	<u>(1,480,719)</u>
Cash flows from financing activities				
Repayment of obligations under capital leases	-	(12,919)	-	(87,078)
Proceeds from notes payable and affiliated companies	8,724,254	462,243	8,724,254	571,630
Repayment of notes payable and advances from affiliated companies	(226,646)	(88,428)	(451,072)	(88,428)
Share capital issued	-	-	1,560	-
Proceeds from shareholder notes	1,113,850	205,589	1,113,850	725,038
	<u>9,611,458</u>	<u>566,485</u>	<u>9,388,592</u>	<u>1,121,162</u>
Decrease in cash and cash equivalents	1,565,911	(295,636)	682,874	(442,636)
Cash and cash equivalents - beginning of period	93,812	503,907	976,848	650,907
Cash and cash equivalents - end of period	<u>1,659,722</u>	<u>208,271</u>	<u>1,659,722</u>	<u>208,271</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 Company also provides dedicated servers from locations in Texas and Virginia. 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 six 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., ServerBeach GP Inc., ServerBeach LP Inc., ServerBeach Ltd., Data Center Technologies IP 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:

	Number	Amount
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 December 31, 2004	<u>44,369,367</u>	<u>\$ 9,915,992</u>

c) Warrants Outstanding

The following non-transferable share purchase warrants are outstanding:

Expiry Date	Exercise Price	Outstanding 9/30/2004	Issued	Expired/ Exercised	Outstanding 12/31/2004
Feb 18, 2005	\$0.39	5,134,343			5,134,343
April 4, 2005	\$0.32	4,145,906			4,145,906
Oct 23, 2005	\$0.32	1,834,215			1,834,215
Nov 6, 2005	\$0.28	500,000			500,000
		11,614,464			11,614,464

d) Shares held in escrow:

As of December 31, 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:

Expiry Date	Exercise Price	Outstanding 9/30/04	Issued	Expired/ Exercised	Outstanding 12/31/2004
May 31, 2009	\$0.47	40,000			40,000
May 30, 2009	\$0.46	25,000		10,000	15,000
July 24, 2007	\$0.45	2,176,250		8,000	2,168,250
Nov 7, 2007	\$0.45	300,000			300,000
June 30, 2009	\$0.45	15,000			15,000
March 9, 2009	\$0.44	300,000			300,000
Jan 29, 2009	\$0.42	20,000			20,000
Nov 7, 2007	\$0.39	110,000		5,000	105,000
April 18, 2009	\$0.35	100,000		100,000	-
Sept 9, 2008	\$0.32	337,000			337,000
Sept 30, 2009	\$0.31	10,000			10,000
Nov 30, 2009	\$0.31		62,000		62,000
		3,433,250	62,000	123,000	3,372,250

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 December 31, 2004 amounts due to and from related parties were as follows:

	FY2005	FY2004
Included in accounts receivable	\$134,121	\$155,557
Included in accounts payable and accrued liabilities	\$2,996	-

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

Revenues earned	\$91,090	\$296,282
Interest expensed	\$299,176	\$187,650
Other expenses incurred	\$93,232	-

These transactions are in the normal course of operations and are at measured at their exchange amounts. Included in other expenses incurred are \$84,000 in accounts receivable from two related parties that was written off.

5. Segmented Information

Prior to the current quarter, the Company operated one reporting segment and four geographic segments. Following the acquisition of Server Beach assets on October 20, 2004 and commencement of the provision of dedicated servers, two reporting segments are now in operation.

	<i>Quarter Ended 12/31/04 Colocation & Bandwidth</i>	<i>Quarter Ended 12/31/04 Dedicated Servers</i>	<i>Quarter Ended 12/31/04 Total</i>	<i>Quarter Ended 12/31/03 Total</i>
Revenue	\$5,157,641	\$1,535,760	\$5,693,401	\$3,407,164
Income (loss)	\$(305,176)	\$126,467	\$(178,109)	\$(248,638)

	<i>Year To Date 12/31/04 Colocation & Bandwidth</i>	<i>Year To Date 12/31/04 Dedicated Servers</i>	<i>Year To Date 12/31/04 Total</i>	<i>Year To Date 12/31/03 Total</i>
Revenue	\$7,937,772	\$1,535,760	\$9,473,532	\$6,520,374
Income (loss)	\$(616,845)	\$126,467	\$(490,378)	\$(753,405)
Total Assets	\$11,249,288	\$10,842,922	\$22,092,210	\$9,517,460

Segmented Information (continued)

There has been no change in geographic segments. Server Beach operations are all US based.

Three months ended December 31, 2004

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>USA</i>	<i>Total</i>
Revenue	\$1,694,074	\$973,240	\$790,928	\$2,235,159	\$5,693,401
Income (loss)	\$691,360	\$147,162	\$108,422	\$(1,125,655)	\$(178,709)

Three months ended December 31, 2003

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>USA</i>	<i>Total</i>
Revenue	\$1,441,309	\$729,412	\$872,965	\$363,478	\$3,407,164
Income (loss)	\$89,047	\$99,847	\$154,767	\$(592,299)	\$(248,638)

Year To Date December 31, 2004

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>USA</i>	<i>Total</i>
Revenue	\$3,138,104	\$1,900,561	\$1,554,633	\$2,880,234	\$9,473,532
Income (loss)	\$1,261,140	\$297,317	\$166,613	\$(2,215,448)	\$(490,378)
Total Assets	\$4,940,370	\$1,620,187	\$1,164,888	\$14,366,765	\$22,092,210

Year To Date December 31, 2003

	<i>British Columbia</i>	<i>Ontario</i>	<i>Quebec</i>	<i>USA</i>	<i>Total</i>
Revenue	\$2,855,140	\$1,395,003	\$1,628,206	\$642,025	\$6,520,374
Income (loss)	\$149,292	\$209,722	\$279,880	\$(1,392,299)	\$(753,405)
Total Assets	\$4,022,952	\$1,318,231	\$1,634,896	\$2,541,381	\$9,517,460