



**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**



MEYERS NORRIS PENNY LLP

AUDITORS' REPORT

To the Shareholders of **Peer 1 Network Enterprises, Inc.:**

We have audited the consolidated balance sheets of Peer 1 Network Enterprises, Inc. as at June 30, 2010 and 2009 and the consolidated statements of shareholders' equity, operations, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

MeYers Norris Penny LLP

MEYERS NORRIS PENNY LLP

Vancouver, BC
September 13, 2010



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PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Balance Sheets
As at June 30, 2010 and 2009
(in thousands of United States dollars)

	2010	2009
Assets		
Current:		
Cash and cash equivalents	\$ 2,321	\$ 15,744
Accounts receivable	3,249	3,449
Income tax receivable	623	-
Future income tax asset (Note 14)	97	237
Prepaid expenses	1,655	1,130
	7,945	20,560
Other assets (Note 5)	2,688	2,692
Future income tax asset (Note 14)	1,900	1,042
Property and equipment (Note 6)	53,237	36,856
Equipment under capital lease (Note 7)	986	1,013
Goodwill	2,363	1,715
Intangible assets (Note 9)	3,527	2,552
	\$ 72,646	\$ 66,430
Liabilities		
Current:		
Accounts payable and accrued liabilities	\$ 9,114	\$ 7,936
Deferred revenue	2,216	2,886
Current portion of deferred gain (Note 8)	79	79
Current portion of deferred lease inducements (Note 10)	126	138
Current portion of derivative liabilities (Note 4)	170	89
Current portion of notes payable (Note 11)	3,000	2,250
Current portion of obligations under capital lease (Note 7)	376	211
Income taxes payable	-	2,200
	15,081	15,789
Deferred gain (Note 8)	414	493
Deferred lease inducements (Note 10)	557	664
Derivative liabilities (Note 4)	170	179
Notes payable (Note 11)	16,404	12,303
Obligation under capital lease (Note 7)	232	363
	32,858	29,791
Shareholders' equity (Note 12)	39,788	36,639
	\$ 72,646	\$ 66,430
Commitments and contingencies (Note 19)		

On behalf of the Board of Directors

“Scott Shaw”
Director

“David Harrison”
Director

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statements of Shareholders' Equity
For the Years Ended June 30, 2010 and 2009
(in thousands of United States dollars except number of shares)

	2010		2009	
	Number	Amount	Number	Amount
SHARE CAPITAL (Note 12)				
Common shares				
Balance at beginning of year	119,314,323	\$ 26,950	118,504,368	\$ 26,539
Stock options exercised	422,011	278	131,670	70
Warrants exercised	1,628,286	781	678,285	341
Purchase of shares for cancellation pursuant to normal course issuer bid	(1,642,786)	(378)	-	-
Balance at end of year	119,721,834	27,631	119,314,323	26,950
CONTRIBUTED SURPLUS				
Balance at beginning of year		4,766		2,509
Stock-based compensation		2,183		2,282
Stock options exercised		(145)		(25)
Balance at end of year		6,804		4,766
Warrants				
Balance at beginning of year	2,461,619	493	3,139,904	678
Warrants exercised	(1,628,286)	(407)	(678,285)	(185)
Balance at end of year	833,333	86	2,461,619	493
RETAINED EARNINGS				
Balance at beginning of year		4,709		(1,013)
Net income		2,241		5,722
Purchase of shares for cancellation pursuant to normal course issuer bid		(1,331)		-
Balance at end of year		5,619		4,709
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Balance at beginning of year		(279)		(11)
Other comprehensive loss		(73)		(268)
Balance at end of year		(352)		(279)
Total - shareholders' equity		\$ 39,788		\$ 36,639

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statements of Operations
For the Years Ended June 30, 2010 and 2009
(in thousands of United States dollars, except per share amounts)

	2010	2009
Revenue		
Colocation Services	\$ 27,751	\$ 25,080
Hosting Services	70,172	67,229
	97,923	92,309
Cost of revenue	58,819	52,560
Gross profit	39,104	39,749
Operating expenses	31,663	27,419
Operating income before other items	7,441	12,330
Other items:		
Interest income	(19)	(70)
Settlement of legal claim (Note 13)	440	-
Gain on insurance recovery	(93)	-
Gain on disposal of property and equipment	(74)	(47)
Loss on derivative	111	-
Foreign exchange loss (gain)	304	(130)
Interest expense – long term	1,338	2,194
	2,007	1,947
Income before income taxes	5,434	10,383
Future income tax expense (recovery)	(646)	655
Current income tax expense	3,839	4,006
Income tax expense (Note 14)	3,193	4,661
Net income	\$ 2,241	\$ 5,722
Other comprehensive income:		
Change in unrealized fair value of derivatives designated as cash flow hedges	(73)	(268)
Comprehensive income	\$ 2,168	\$ 5,454
Net income attributable to:		
Common shares	\$ 2,241	\$ 5,722
Comprehensive income attributable to:		
Common shares	2,168	5,454
Basic and diluted earnings per share (Note 12)	\$ 0.02	\$ 0.05

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Statements of Cash Flows
For the Years Ended 30, 2010 and 2009
(in thousands of United States dollars)

	2010	2009
Operating Activities:		
Net income	\$ 2,241	\$ 5,722
Adjustments for non-cash items:		
Amortization of property and equipment	13,857	11,880
Amortization of intangible assets	652	1,363
Increase in accrued interest	-	82
Bad debt expense	583	650
Gain on disposal of property and equipment	(74)	(47)
Insurance recovery	(93)	-
Amortization of deferred gain	(78)	(79)
Amortization of deferred loan origination fees	250	774
Future income tax expense (recovery)	(646)	655
Stock-based compensation included in income	2,183	2,282
Decrease in deferred lease inducements	(119)	(71)
Changes in non-cash working capital:		
Increase in accounts receivable	(30)	(47)
Increase in prepaid expenses	(464)	(329)
Increase (decrease) in accounts payable and accrued liabilities	1,145	(992)
Increase (decrease) in income taxes payable	(2,822)	765
Decrease in deferred revenue	(951)	(667)
Cash flows from operating activities	15,634	21,941
Investing Activities:		
Acquisition of subsidiary, net of cash acquired	(534)	-
Investment in other assets	(133)	(56)
Acquisition of property and equipment	(30,257)	(14,451)
Acquisition of intangible assets	(1,627)	(1,511)
Proceeds on disposition of equipment	74	47
Cash flows used in investing activities	(32,477)	(15,971)
Financing Activities:		
Proceeds from line of credit	7,000	-
Proceeds from notes payable	-	15,000
Repayments of notes payable	(2,250)	(16,158)
Payment of capital lease obligations	(278)	(199)
Issuance of capital stock	506	201
Purchase of shares for cancellation pursuant to normal course issuer bid	(1,710)	-
Cash flows from (used in) financing activities	3,268	(1,156)
Foreign exchange gain (loss) on cash and cash equivalents	152	(96)
Increase (decrease) in cash and cash equivalents	(13,423)	4,814
Cash and cash equivalents, beginning	15,744	11,026
Cash and cash equivalents, ending	\$ 2,321	\$ 15,744
Supplemental Disclosure of Cash Flow Information (Note 15)		

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
(dollar amounts are presented in thousands of
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1. 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 in North America and the UK. The Company has established local offices and data centres in Canada, 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.

2. Significant Accounting Policies:

a) Basis of Consolidated Financial Statements:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Peer 1 Network (USA), Inc., Colobrokers.com Inc., 585065 B.C. Ltd., Inc. Peer 1 (UK) Ltd., and VIA Net.Works USA, Inc. As at June 30, 2010, the following companies were merged into 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., Peer 1 Network (Texas), LP, Peer 1 Network (LA), Inc.

b) Cash and Cash Equivalents:

Cash and cash equivalents consist of cash and highly liquid money market instruments with original maturities of three months or less.

c) Property and Equipment:

The following assets are recorded at cost. Amortization is provided on a declining balance basis at the following annual rates:

Data Centre equipment	20%
Computer equipment	30%
Furniture and fixtures	30%
Network equipment	20%

Dedicated servers that are included as part of the dedicated server business unit are amortized straight line over their expected useful life, which is 36 months for purchased servers and 24 months for servers that have been acquired as a result of a business combination.

Amortization of leasehold improvements is provided on a straight-line basis over the terms of the respective leases.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
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2. Significant Accounting Policies: (continued)

c) Property and Equipment: (continued)

Equipment under capital lease is amortized based on the asset category they belong to.

The carrying values of property and equipment are reviewed when indications of impairment exist. When the net carrying amount of the property and equipment exceeds the estimated net recoverable amount, the asset is written down to its estimated fair value and a charge is recorded in the consolidated statement of operations.

d) Leases:

Leases are classified as either capital or operating leases. A lease that transfers substantially all the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the future minimum lease payments or the property's fair value at the beginning of such lease.

e) Goodwill:

Goodwill is recorded at the amount originally recognized. Goodwill is tested for impairment in value on an annual basis. Fair value is determined based on the present value of discounted cash flows. Following the impairment test at year-end, management has concluded that there has been no impairment in the value of goodwill.

f) Intangible Assets:

Computer software comprising PC based software acquired for internal use is amortized on a straight line basis over three years. Computer software acquired as a component of revenue producing assets, or internal systems such as accounting or customer relations management systems is amortized over the expected useful life of the software. Amortization commences when the asset is put into service. Licenses are recorded at cost. Amortization is provided on a straight-line basis over the term of the licenses.

g) Deferred Lease Inducements:

Lease inducements, including rent free periods, are deferred and accounted for as a reduction of rent expense over the term of the related leases on a straight-line basis.

h) Debt Instruments:

Where the Company issues debt instruments with detachable warrants or conversion options in connection with a debt instrument, the estimated fair market value of the warrants and conversion feature are credited to shareholders' equity. The reduced liability component of the debt is accreted by a charge to interest expense.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
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2. Significant Accounting Policies: (continued)

i) Future Income Taxes:

Income taxes are calculated using the asset and liability method of tax allocation. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet, and unutilized losses carried forward are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the year that the temporary differences are expected to reverse. The carrying value of the future income tax asset is limited to the amount that is more likely than not to be realized.

j) Financing Costs:

Costs directly identifiable with the raising of capital are charged against the related capital stock. Costs incurred to obtain debt financing are netted against the related indebtedness, deferred and amortized by a charge to interest expense over the term of the related debt using the effective interest rate method. Financing costs expensed for 2010 are \$250 (2009: \$1,084).

k) Capitalization of Internally Developed Software:

Internally developed software is stated at cost less accumulated amortization and is amortized using the straight line method over its estimated useful life. Software assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. Costs are capitalized during the software application development stage. Upgrades and enhancements are capitalized if they result in added functionality which enables the software to perform tasks it was previously incapable of performing.

Software maintenance, training, data conversion and business process reengineering costs are expensed in the period in which they are incurred.

l) Foreign Currency Translations:

Monetary assets and liabilities denominated in currencies other than United States dollars are translated at the rate of exchange in effect at the end of the year. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains or losses are recognized immediately in the consolidated statement of operations.

The Company's non-US subsidiaries are managed as integrated operations and accordingly are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year. Exchange gains or losses arising from the translation are included in operations.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
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2. Significant Accounting Policies: (continued)

m) Revenue Recognition:

The two primary sources of revenue are from Colocation services and Hosting services. Colocation services include colocation, internet bandwidth connectivity, and other Colocation related services including: IP monitoring, tape back-up, technical support, additional access cards, additional power and DNS services. Hosting services include the provision of dedicated hosting servers and Internet bandwidth connectivity. Colocation services and Hosting services revenue is recognized once an agreement is in place, the price is fixed or determinable, the service is provided and there is probable assurance of cash collection. Revenue is earned through monthly charges at contractually agreed upon prices. Revenue is recognized ratably over the term of the contract as services are provided to the customer. One-time installation fees are deferred and recognized on a straight-line basis over the contractual period, which typically varies from six months to three years.

n) Stock-based Compensation:

The Company has a stock-based compensation plan for executives and other key employees. The stock-based compensation expense is recognized in accordance with CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Beginning January 1, 2004, the Company changed its accounting policy related to employee stock options, and began to recognize compensation expense for stock or stock option grants to employees, based on the fair value of the stock or stock options issued. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options is recorded as share capital.

o) Earnings per Share:

The diluted earnings per share is calculated based on the weighted-average number of common shares outstanding during the year, plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period. The basic earnings per share is calculated based on the weighted-average number of common shares outstanding during the year.

p) Use of Estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Significant estimates are used in determining, but are not limited to, the valuation of accounts receivable, the estimated useful lives of property and equipment and intangible assets, the recoverability of long-lived assets, the measurement of accrued liabilities, the measurement of future income tax valuation allowances and stock-based compensation expense. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results may differ from these estimates.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
(dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

q) Derivative Financial Instruments:

The Company uses derivative financial instruments in the management of its interest rate exposure. The Company's policy is not to use derivative financial instruments for trading or speculative purposes.

Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparisons with similar instruments where observable market prices exist, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuations techniques.

Hedges

When the Company uses derivatives in hedge accounting relationships, the Company formally documents all relationships between hedging instruments and hedged item, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. When hedging instruments become ineffective before their maturity or the hedging relationship is terminated, deferred gains or losses on such instruments continue to be deferred and charged to earnings in the same period as the corresponding gains or losses for the hedged items; gains and losses realized subsequently as a result of marking to market are charged directly to earnings. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, deferred gains or losses are charged to earnings.

Derivative financial instruments are classified as held for trading, unless they are designated as hedging instruments for which hedge accounting is applied (see below).

Cash flow hedges – The Company has designated its interest-rate swap agreement as a cash flow hedge. In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified in net income when the hedged item affects net income. Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
(dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

r) Interest Expense:

The Company's policy is to expense all interest costs.

s) Comparative Numbers:

The 2009 comparative figures have been reclassified, where applicable, in order to conform with the presentation used in the current year.

t) Financial Instruments:

Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Company has designated its cash, cash equivalents, restricted cash and derivative financial instruments as held-for-trading, which are measured at fair value. Accounts receivable and security deposit are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, obligations under capital lease and notes payable are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the years ended June 30, 2010 and 2009.

u) 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.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
(dollar amounts are presented in thousands of
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2. Significant Accounting Policies: (continued)

v) 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.
- 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 June 30, 2010 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 an 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.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
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2. Significant Accounting Policies: (continued)

v) Recent Accounting Pronouncements: (continued)

v) Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board announced that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. The Company will commence reporting under IFRS in the first quarter of fiscal year 2012 with comparative figures for the transitional period. The International Accounting Standards Board's work plan has projects underway that are expected to result in new pronouncements that continue to evolve IFRS. As a result, IFRS as at the transition date may be different from its current form.

The Company is in the process of assessing the impact of the convergence initiative and developing a plan for the implementation of IFRS. Such considerations include:

- Assessment of significant differences between Canadian GAAP and IFRS and their impacts on the Company's Consolidated Financial Statements.
- Identification, evaluation and selection of continuing IFRS policies.
- Evaluation of IT and financial systems' data capture and reporting functionality.
- Impact on disclosure controls and procedures, including changes in note disclosures, and communication with internal and external stakeholders.
- Identification of impact on internal control over financial reporting and training.
- Assessment of impact on other business activities such as compensation structure and financial covenants.

The Company has completed a high level impact assessment and scoping phase which utilizes a diagnostic approach to identify a modest number of topics that may impact either the Company's financial results or conversion efforts to IFRS. The next steps involves detailed analysis of relevant IFRS standards, draft up proposals for accounting policy change/adoption, and creation of financial statement templates in accordance with IFRS. It is not practically possible at this time to quantify the impact of these differences on the financial statements.

Training of key personnel is in progress and personnel have been identified to lead the transition effort. The Company has also engaged the services of external consultants to assist with the comparative analysis between Canadian GAAP and IFRS and other technical elements. Continued progress is necessary before the Company can prudently develop a timeline schedule of major implementation activities and key deliverables.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the years ended June 30, 2010 and 2009
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3. Acquisition of VIA Net.Works USA, Inc.:

On March 17, 2010, the Company acquired all the shares of Atlanta based VIA Net.Works USA, Inc. ("VIA Net.Works"), a privately held subsidiary of Clara.net Holdings limited, in an all cash-transaction. The purchase price has been established at \$550,000. The results of VIA Net.Works' operations have been included in the consolidated financial statements since March 18, 2010.

VIA Net.Works' assets and liabilities at the acquisition date have been recorded at their fair values with the excess purchase price being allocated to goodwill. The goodwill is expected to be deductible for tax purposes. During the initial year following acquisition, the Company may as necessary change amounts determined as goodwill to reflect changed valuation estimates for certain assets and liabilities acquired.

The following table summarizes the value of the assets acquired and liabilities assumed at the date of acquisition:

As at March 17, 2010

Cash and cash equivalent	\$ 16
Accounts receivable, net	192
Prepaid expenses	61
Other assets	12
Property and equipment	289
Goodwill	648
Future income tax asset	170
Total assets acquired	1,388
Accounts payable and accrued liabilities	300
Capital lease obligation	256
Deferred revenue	282
Total liabilities assumed	838
Net assets acquired	550

4. Derivative Liabilities:

The fair value of the derivative financial instrument in a hedge relationship is as follows:

	2010	2009
Derivative financial instruments designated as cash flow hedges		
Interest – rate swap agreement	\$ 341	\$ 268

The interest rate swap matures at the same time as the notes payable described in Note 11.

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5. Other Assets:

	2010	2009
Network installation fees	\$ 84	\$ 36
Restricted cash ^(a)	250	250
Security deposits	2,341	2,397
Trademark	7	-
Sublease rent incentive	6	9
	\$ 2,688	\$ 2,692

^(a) The Company has issued a letter of credit of \$250 (2009: \$250) to a landlord in lieu of deposit requirements. The letter of credit has a term of one year, with annual renewal provisions. Certificate of deposit for the full amount of the issued letter of credit has been pledged as security, and is disclosed on the balance sheet under the caption of other assets.

6. Property and Equipment:

	2010		
	Cost	Accumulated amortization	Net
Computer equipment	\$ 3,641	\$ 1,256	\$ 2,386
Data centre equipment	9,197	4,085	5,113
Dedicated servers	48,927	31,853	17,074
Furniture and fixtures	786	389	397
Leasehold improvements	27,464	7,623	19,841
Network equipment	15,613	7,186	8,427
	\$ 105,629	\$ 52,392	\$ 53,237

	2009		
	Cost	Accumulated amortization	Net
Computer equipment	\$ 1,869	\$ 892	\$ 977
Data centre equipment	7,346	3,290	4,056
Dedicated servers	36,508	23,937	12,571
Furniture and fixtures	720	243	477
Leasehold improvements	16,296	5,853	10,443
Network equipment	13,688	5,356	8,332
	\$ 76,427	\$ 39,571	\$ 36,856

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6. Property and Equipment: (continued)

Included in 2010 total cost is \$223 for projects which have not yet been put into use and have therefore not incurred amortization during the year (2009: \$1,285). In 2010, expenditures for property and equipment were \$29,991 (2009: \$14,664).

Total amortization of property and equipment was \$13,630 (2009: \$11,626), \$13,180 of which is included in cost of revenue (2009: \$11,502), and \$449 of which is included in operating expenses (2009: \$123).

7. Equipment under Capital Lease:

In February 2008, the company entered into a master capital lease agreement to acquire the right of use of certain network equipment. The leases under the master capital lease carry an interest rate of 6.3% and expire in January 2012. There are 5 separate leases under the master lease agreement with a term of 4 years and a one dollar purchase option per lease at expiry.

Additionally, the Company acquired leases in connection with the acquisition of Via Net.Works USA, Inc., with various expiry dates from August 2010 to February 2013.

	2010			2009		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Network equipment	\$ 1,357	\$ 547	\$ 810	\$ 1,357	\$ 344	\$ 1,013
Computer equipment	\$ 200	\$ 24	\$ 176	\$ -	\$ -	\$ -
	\$ 1,557	\$ 571	\$ 986	\$ 1,357	\$ 344	\$ 1,013

	2010	2009
Total minimum lease payments payable	\$ 644	\$ 620
Portion representing interest to be expensed over the remaining term of the leases	36	46
Principal outstanding	608	574
Less: current portion	376	211
Non-current portion	\$ 232	\$ 363

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7. Equipment under Capital Lease: (continued)

In aggregate the future minimum lease payments are \$644. The following is a schedule of future minimum lease payments:

2010	\$ 408
2011	225
2012	11

Total amortization of Equipment under capital lease is \$227, which is included in cost of revenue (2009: \$254).

8. Deferred Gain:

On August 9, 2006, the Company exercised its option to purchase its leased data centre property located at 2300 NW Place, Miami, Florida. The gross purchase price was \$4.6 million and was subject to closing adjustments. On September 26, 2006, the Company subsequently entered into a sale and leaseback arrangement for this property. The gross sale price was \$5.6 million. The Company leased the premises back from the purchaser for an initial term of 10 years with the option to renew for a further two 5 year periods. After adjustments, the Company recorded a deferred gain of \$788 on this transaction which is being amortized over the term of the lease. The unamortized balance of the deferred gain is \$493 (2009: \$572).

9. Intangible Assets:

	2010		
	Cost	Accumulated amortization	Net
Licenses	\$ 4,727	\$ 4,727	\$ -
Computer software	6,077	2,591	3,486
Other intangibles	41	-	41
	\$ 10,844	\$ 7,317	\$ 3,527

Included in computer software for 2010 is \$2,377 relating to system integration software which has not yet been put into service and therefore was not amortized during the year (2009: \$1,290). During the fiscal year ended June 30, 2010, \$180 was amortized in respect of internally developed software (2009: \$150). In 2010, expenditures for intangible assets were \$1,627 (2009: \$1,416).

Total amortization of intangible assets was \$652 (2009: \$1,362), \$118 of which is included in cost of revenue (2009: nil), and \$534 of which is included in operating expenses (2009: \$1,362).

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9. Intangible Assets: (continued)

	2009		
	Cost	Accumulated amortization	Net
Licenses	\$ 4,726	\$ 4,411	\$ 315
Computer software	4,450	2,254	2,196
Other intangibles	41	-	41
	\$ 9,217	\$ 6,665	\$ 2,552

10. Deferred Lease Inducements:

	2010	2009
Deferred lease inducements	\$ 683	\$ 802
Less: current portion	126	138
	\$ 557	\$ 664

11. Notes Payable:

Notes payable as of June 30, 2010 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:

	2010	2009
Notes payable - Credit Facility A (Line of Credit)	\$ 7,000	\$ -
Notes payable - Credit Facility B	12,750	15,000
Less: unamortized deferred loan origination fees	(346)	(447)
Notes payable, net of related transaction and financing costs	19,404	14,553
Less: current portion	(3,000)	(2,250)
	\$ 16,404	\$ 12,303

Total amortization of deferred loan origination fees was \$250 (2009: \$774), which is included in interest expense.

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11. Notes Payable: (continued)

NATIONAL BANK OF CANADA

On May 29, 2009, the Company entered into credit agreement (the "CA") with National Bank of Canada ("National") under which National agreed to provide the Company with two credit facilities (the "Facilities"). Facility A is a three year 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 revolving facility for a term of three years but up to US\$15,000,000 (or the Canadian equivalent). Loans ("Loans") made under either Facility may be, at the Company's 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 the Company's option, the Company can convert Loans from one type to another. As at June 30, 2010 the Company has been advanced \$7,000,000 under Credit Facility A.

Both Facilities mature on May 29, 2012. The Company 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 the Company declines 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 the Company's financial performance. Standby fees are payable on the portions of the Facilities that are not advanced of 0.50% to 0.65% depending on the Company's performance. There is also a standby fee on Letters of Credit issued of 2.75% to 3.50% depending on the Company's performance. In addition, there is an annual fee payable in Canadian dollars of .25% calculated on the maximum available amount of each Facility at such time (including all outstanding Loans). When the Company entered into the CA, the Company 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. The Company 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). The Company 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, the Company 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 the Company's presently held and after acquired property and on all of the presently held and after acquired property of its subsidiaries. In addition, all of the shares of its subsidiaries are pledged to National as security for the Facilities. The amounts advanced to the Company under the Loans are to be used for working capital, financing Capital Expenditures and Investments, as defined in the CA.

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11. Notes Payable: (continued)

On June 30, 2009 Credit Facility B was fully advanced in the amount of US\$15 million (2009: US\$15 million). At the same time that the Company was advanced \$US15 million under Facility B, the Company entered into a three year interest rate swap arrangement which locks in the interest rate at 5.36% over the three year term of this loan. As of June 30, 2010, the Company has made 3 consecutive payments totaling US\$2.25 million against Facility B.

As of June 30, 2010, the Company has been advanced US\$7 million under Facility A.

12. 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	Exercised	Outstanding at June 30, 2010	Expiry Date
US\$0.2333	1,628,286		1,628,286	-	-
CDN\$0.40	833,333		-	833,333	January 31, 2011
	2,461,619		1,628,286	833,833	

Stock Options

	2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	16,027,850	\$0.89	9,151,054	\$0.85
Granted	4,088,950	\$1.05	7,222,350	\$1.06
Exercised	561,667	\$0.49	133,888	\$0.35
Expired	532,111	\$0.66	125,000	\$0.42
Forfeited	213,194	\$1.26	86,666	\$1.01
Outstanding, ending	18,809,828	\$1.01	16,027,850	\$0.89
Options exercisable, ending	12,229,522	\$0.91	8,378,464	\$0.74

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12. Shareholders' Equity: (continued)

Stock Options (continued)

The following table summarizes stock options outstanding and exercisable:

	Range of Exercise Prices	Number Outstanding 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Outstanding, ending	\$0.34 – \$0.64	4,127,400	1.03 Years	\$0.57
Outstanding, ending	\$0.65 – \$0.94	300,000	3.62 Years	\$0.94
Outstanding, ending	\$0.95 – \$1.25	12,605,311	3.59 Years	\$1.12
Outstanding, ending	\$1.26 – \$1.52	1,777,117	2.98 Years	\$1.28
Options exercisable, ending	\$0.34 – \$0.64	4,127,400	1.03 Years	\$0.54
Options exercisable, ending	\$0.65 – \$0.94	188,889	3.62 Years	\$0.94
Options exercisable, ending	\$0.95 – \$1.25	6,691,522	2.79 Years	\$1.12
Options exercisable, ending	\$1.26 – \$1.52	1,221,711	2.96 Years	\$1.01

During the fiscal year ended June 30, 2010, directors and officers of the Company were granted aggregate 3,203,950 options with an exercise price of \$1.01 expiring June 24, 2015 (2009: 2,955,750).

The fair value of each option is estimated as at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2010	2009
Dividend yield	-	-
Expected volatility	55%	61%
Risk-free interest rate	2.5%	2.9%
Expected average option term	5 years	5 years

The weighted average fair value of the options granted to employees and directors of the Company during the year was \$0.51 (2009: \$0.57) per option. The 2010 stock based compensation expense is \$2,183 (2009: \$2,282).

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12. Shareholders' Equity: (continued)

New Stock Option Plan

During the quarter ended December 31, 2008 the Company's Board of Directors approved the adoption of a 2008 Combined Incentive and Nonqualified Stock Option Plan (the "New Plan") to replace the Company's 2006 Combined Incentive and Nonqualified Stock Option Plan. The New Plan received shareholder approval and conditional TSX Exchange approval on November 14, 2008. Under the new plan 23,850,530 common shares have been reserved for the issuance of options. In accordance with the adoption of the New Plan, all existing stock options become outstanding under and governed by the New Plan. This number of shares represents 20% of the Company's outstanding share capital as at September 6th, 2006. Under the new plan as under the 2006 plan which it replaced, the exercise price of each option equals the market price of the stock on the date of the grant. Outstanding options as at June 30, 2010, vest on varying terms from the date granted to over 36 months. Upon a change of control of the Company, 8,290,600 options would vest immediately.

Earnings per Share

	2010	2009
Basic earnings per share:		
Net earnings available to common shareholders	\$ 2,241	\$ 5,722
Weighted average number of common shares outstanding	<u>120,685,262</u>	119,139,925
	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Diluted earnings per share:		
Net earnings available to common shareholders	\$ 2,241	\$ 5,722
Weighted average number of common shares outstanding	120,685,262	119,139,925
Dilutive effect of warrants	802,093	1,866,293
Dilutive effect of stock options	<u>2,975,045</u>	808,705
Adjusted weighted average number of common shares outstanding	<u>124,462,399</u>	121,814,923
	<u>\$ 0.02</u>	<u>\$ 0.05</u>

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12. Shareholders' Equity: (continued)

Normal Course Issuer Bid

Pursuant to the Company's normal course issuer bid (NCIB), as approved by the Toronto Stock Exchange, the Company is entitled to acquire from April 16, 2010 to April 15, 2011 up to 6,064,731 common shares of the Company's issued and outstanding shares as at April 12, 2010. For the fiscal year ended June 30, 2010, the Company has purchased for cancellation a total of 1,642,786 common shares under this program for \$1,710 (2009: nil shares repurchased). The excess of the purchase price over the average stated value of shares purchased for cancellation was charged to retained earnings.

	Common shares purchased for cancellation	Charged to share capital	Charged to retained earnings	Paid
Opening balance	-	\$ -	\$ -	\$ -
Purchased during the period	1,642,786	379	1,331	1,710
Balance, June 30, 2010	1,642,786	\$ 379	\$ 1,331	\$ 1,710

13. Settlement of Legal Claim:

In March, 2010, the Company completed mediation with respect to a claim issued in March 2007, whereby the Company was served with a Writ of Summons and Statement of Claim (subsequently amended) issued in the Supreme Court of British Columbia by the plaintiffs, Aidan Stretch, James Walsh, WindyPoint Capital Inc., and WindyPoint Capital Holdings Inc. (collectively referred to as "WindyPoint"). In accordance with the outcome of the mediated settlement, the Company has expensed CDN\$450,000 during the year ended June 30, 2010 (2009 – Nil).

14. Income Taxes:

Income tax expense (recovery) consists of:

	2010	2009
Current tax expense	\$ 3,839	\$ 4,006
Future tax expense (recovery)	(646)	655
	\$ 3,193	\$ 4,661

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14. Income Taxes: (continued)

Income taxes vary from the amount that would be computed by applying the estimated combined statutory income tax rate 28.75% (2009: 30.55%) for the following reasons:

	2010	2009
Expected income tax expense	\$ 1,562	\$ 3,172
Permanent differences	803	717
Other	828	772
Income tax expense	\$ 3,193	\$ 4,661

Significant components of the future tax assets are shown below:

	2010	2009
Non-capital losses carried forward	\$ 1,145	\$ 152
Accounting depreciation in excess of tax depreciation	(631)	57
Deferred lease inducements	252	303
Deferred gain	187	217
Other	1,044	550
Total future tax assets	\$ 1,997	\$ 1,279

The Company's management evaluates the likelihood that future income tax assets will be realized based on projected future earnings and tax planning strategies.

15. Supplemental Disclosure of Cash Flow Information:

a) Supplemental Disclosure:

	2010	2009
Interest paid	\$ 1,045	\$ 1,318
Income taxes paid	6,620	3,182
Interest received	19	70
Effect of acquisition of property and equipment in accounts payable	(267)	212

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16. 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:

	2010	2009
<hr/>		
Transactions during the year:		
Revenue earned from companies owned or subject to significant influence by directors and principal shareholders	\$ 128	\$ 100
Other expenses from companies owned or subject to significant influence by directors and principal shareholders	\$ 1	\$ 104
<hr/>		

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.

As at June 30, 2010 and 2009 there were no amounts due to and from related parties.

17. 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. As of June 30, 2010, the Company's capital totaled \$57,478 (2009: \$36,022).

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, which include the maintenance of financial ratios. As of June 30, 2010, the Company is in compliance with all externally imposed capital requirements. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2010.

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18. 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 at commencement of service for dedicated hosting customers and colocation 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, Canada and the UK and represent various industries. At June 30, 2010, 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 June 30, 2010, the Company had an allowance for doubtful accounts of \$585 (2009: \$922). At June 30, 2010, the Company had no individually material past due trade accounts receivables (2009: \$nil).

	As at June 30,	
	2010	2009
Total accounts receivable	\$ 3,834	\$ 4,371
Less: allowance for doubtful accounts	(585)	(922)
Accounts receivable, net	\$ 3,249	\$ 3,449
Of which:		
Not overdue	\$ 1,121	\$ 468
1-30 days	1,470	1,615
31-60 days	440	628
61-90 days	129	252
91 days and over	28	610
Less: allowance for doubtful accounts	(585)	(922)
Accounts receivable – other	646	798
Accounts receivable, net	\$ 3,249	\$ 3,449

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18. Financial Risk Management: (continued)

b) Credit risk: (continued)

	As at June 30,	
	2010	2009
Allowance for doubtful accounts, beginning	\$ 922	\$ 886
Foreign exchange effect on opening balance	25	-
Bad debt expense	583	651
Acquired from Via acquisition	23	-
Write-off of uncollectible accounts	(968)	(615)
Allowance for doubtful accounts, ending	\$ 585	\$ 922

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 June 30, 2010, the Company had financial assets held for trading of \$2,321 (2009: \$15,744), loans and receivables of \$3,249 (2009: \$3,449) and other financial liabilities of \$29,126 (2009: \$23,064). 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, Canada and the UK, substantially all of the Company's financial assets and liabilities originate in United States dollars, Canadian dollars and UK Pound Sterling. The Company is exposed to currency risk for sales and purchases that are denominated in Canadian dollars, Euros and UK Pound Sterling and may enter into derivative contracts to limit its exposure to foreign exchange risk. The Company is subject to interest rate risk on its cash and cash equivalents. A change of 1% in interest rates for the three months ended June 30, 2010 would have changed net income by \$49 (2009: \$26); and a change of 1% in interest rates for the twelve months ended June 30, 2010 would have changed net income by \$163 (2009: \$114).

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18. 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.

CICA Handbook Section 3862 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

	Fair Value at June 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalent	\$ 2,321	\$ 2,321	\$ -	\$ -
Accounts receivable	3,249	3,249	-	-
Security deposit	2,341	-	2,341	-
Restricted cash	250	250	-	-
	\$ 8,161	\$ 5,820	2,341	-
Liabilities				
Accounts payable	\$ 9,115	\$ 9,115	\$ -	\$ -
Notes payable	19,404	19,404	-	-
Lease obligations	608	608	-	-
Derivatives	340	-	340	-
	\$ 29,467	\$ 29,127	\$ 340	\$ -

The three levels of the fair value hierarchy established by Section 3862 are as follows:

Level 1:

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities and amounts resulting from direct arms length transactions.

Cash and cash equivalents, accounts receivable, restricted cash, accounts payable, notes payable, and lease obligations are valued using quoted market prices or from amounts resulting from direct arms length transactions. As a result, these financial assets and liabilities have been included in Level 1 of the fair value hierarchy.

Level 2:

Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full contractual term. Derivatives are included in Level 2 of the fair value hierarchy as they are valued using price models. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward price curves, yield curves and credit spreads. Security deposits are included in Level 2 of the fair value hierarchy as they are valued using amortized cost method.

Level 3:

Inputs for the asset or liability are not based on observable market data. Currently the Company has no financial instruments at this level.

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19. Commitments and Contingencies:

a) Premises leases

The Company has entered into agreements to lease premises which expire between fiscal 2010 and 2020. The future minimum lease payments for the next five fiscal years are as follows:

2011	\$ 6,946
2012	6,694
2013	6,335
2014	5,084
2015	4,343

b) Services agreements

The Company has entered into a series of agreements to obtain bandwidth, backbone, peering, local loop/cross connect and points of presence services. These agreements expire between 2011 and 2015. Minimum payments for the next five fiscal years under the contracts are as follows:

	2011	2012	2013	2014	2015
Bandwidth	\$ 319	\$ -	\$ -	\$ -	\$ -
Backbone	1,672	978	203	-	-
Peering	99	16	-	-	-
Local loop/cross	531	272	259	259	208
Points of presence	50	-	-	-	-
	\$ 2,671	\$ 1,266	\$ 462	\$ 259	\$ 208

c) Other commitments

The Company has entered into agreements to purchase certain software licenses. These agreements expire between fiscal 2011 and 2013. Minimum payments for the next three fiscal years under the contracts are as follows:

2011	\$ 2,655
2012	1,746
2013	1,546

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20. 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 June 30, 2010 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.

Geographic segment information is shown on the basis of the geographic location of the permanent establishment that derived the results. The geographic segments in operation are as follows:

	Canada	US	UK	2010
Revenue	\$ 20,146	\$ 76,678	\$ 1,099	\$ 97,923
Property and equipment	21,603	30,337	2,283	54,223
Goodwill	-	2,363	-	2,363
Intangible assets	686	2,818	23	3,527
Amortization of property and equipment	1,820	11,565	472	13,857
Amortization of intangible assets	30	618	4	652

	Canada	US	UK	2009
Revenue	\$ 17,604	\$ 74,690	\$ 15	\$ 92,309
Property and equipment	8,864	28,338	667	37,869
Goodwill	-	1,715	-	1,715
Intangible assets	339	2,213	-	2,552
Amortization of property and equipment	1,628	10,184	68	11,880
Amortization of intangible assets	17	1,346	-	1,363