

## BC FORM 51-901F

### QUARTERLY AND YEAR END REPORT

Incorporated as part of:  Schedule A

Schedule B & C

#### ISSUER DETAILS:

**Name of Issuer:** Peer 1 Network Enterprises, Inc.  
**Issuer's Address:** Suite 1600 – 555 West Hastings St, Vancouver, B.C. V6B 4N5  
**Issuer Telephone No:** 604-683-7747  
**Contact Person:** Geoffrey Hampson  
**Contact's Position:** Director  
**Contact Telephone No:** 604-683-7747  
**Contact eMail Address:** [investor@peer1.net](mailto:investor@peer1.net)  
**Website Address:** [www.peer1.net](http://www.peer1.net)  
**For Quarter Ended:** March 31, 2004  
**Date of Report:** May 6, 2004

#### CERTIFICATE

THE SCHEDULE(S) REQUIRED TO COMPLETE THIS QUARTERLY REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS QUARTERLY REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT. PLEASE NOTE THIS FORM IS INCORPORATED AS PART OF BOTH THE REQUIRED FILING OF SCHEDULE A AND SCHEDULES B & C.

"Geoffrey Hampson"

Geoffrey Hampson

May 11, 2004

"Lance Tracey"

Lance Tracey

May 11, 2004

**Peer 1 Network Enterprises, Inc.**  
(FORMERLY Tall Tree Resources, Ltd.)  
Quarterly Report – Form 51-901F  
March 31, 2004

Schedule A: Financial Information

See attached financial statements (unaudited) and notes of the Company for the quarter ended March 31, 2004.

**Peer 1 Network Enterprises, Inc.**  
(FORMERLY Tall Tree Resources, Ltd.)  
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March 31, 2004

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

	<b>March 2004 \$</b>	<b>June 2003 \$</b>
<b>Assets</b>		
<b>Current:</b>		
Cash and cash equivalents	1,535,925	650,907
Accounts receivable	2,177,432	1,619,071
Prepaid expenses	401,811	228,401
	<u>4,115,168</u>	<u>2,498,379</u>
<b>Other assets</b>	647,095	416,174
<b>Property, plant and equipment</b>	<u>4,786,391</u>	<u>3,579,724</u>
	<u>9,548,654</u>	<u>6,494,277</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	2,321,552	2,562,021
Deferred revenue	431,024	308,759
Current portion of deferred lease inducements	17,700	17,700
Current portion of obligations under capital leases	27,066	127,850
Current portion of notes payable	111,473	111,473
Shareholder notes	1,284,348	486,854
	<u>4,193,163</u>	<u>3,614,657</u>
<b>Obligations under capital leases</b>	-	5,351
<b>Deferred lease inducements</b>	147,480	156,329
<b>Notes payable</b>	3,712,830	1,542,551
<b>Advances from affiliated companies</b>	<u>-</u>	<u>1,687,172</u>
	<u>8,053,473</u>	<u>7,006,060</u>
<b>Shareholders' Equity (Deficiency)</b>		
<b>Capital Stock</b>	9,868,802	6,779,922
<b>Warrants</b>	314,363	156,506
<b>Equity component of convertible debt</b>	337,153	682,187
<b>Contributed Surplus</b>	-	10,129
<b>Deficit</b>	<u>(9,025,137)</u>	<u>(8,140,527)</u>
	<u>1,495,181</u>	<u>(511,783)</u>
	<u>9,548,654</u>	<u>6,494,277</u>

**Peer 1 Network Enterprises, Inc.**  
(FORMERLY Tall Tree Resources, Ltd.)  
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**Peer 1 Network Enterprises, Inc.**  
**Consolidated Income Statement**  
**Three Months Ended March 31 and Year To Date**  
(unaudited - prepared by management)

	<b>Three Months Ended March 2004</b>	<b>Three Months Ended March 2003</b>	<b>Nine Months Ended March 2004</b>	<b>Nine Months Ended March 2003</b>
Revenue	3,400,250	2,643,147	9,920,624	7,090,460
Cost of Sales	2,121,692	1,959,606	6,209,031	5,663,472
<b>Gross Profit</b>	<b>1,278,558</b>	<b>683,541</b>	<b>3,711,593</b>	<b>1,426,988</b>
Operating expenses	1,121,904	1,465,146	3,684,817	3,866,654
<b>Operating profit (loss)</b>	<b>156,654</b>	<b>(781,605)</b>	<b>26,776</b>	<b>(2,439,666)</b>
Interest expense	151,440	35,082	441,900	176,630
Interest accretion on convertible debt	16,381	-	402,410	-
Foreign exchange loss (gain)	(17,136)	(42,780)	(70,098)	338
<b>Income (loss) before income taxes</b>	<b>5,969</b>	<b>(773,907)</b>	<b>(747,436)</b>	<b>(2,616,634)</b>
Provision for income taxes	-	-	-	-
<b>Income (loss) for the period</b>	<b>5,969</b>	<b>(773,907)</b>	<b>(747,436)</b>	<b>(2,616,634)</b>
Deficit, beginning of period	(8,893,932)	(6,701,920)	(8,140,527)	(4,859,193)
Warrants exercised at less than market value	137,174	-	137,174	-
<b>Deficit, end of period</b>	<b>(9,025,137)</b>	<b>(7,475,827)</b>	<b>(9,025,137)</b>	<b>(7,475,827)</b>

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

	Three Months Ended March 2004	Three Months Ended March 2003	Nine Months Ended March 2004	Nine Months Ended March 2003
<b>Cash flows from operating activities</b>				
Loss for the period	5,969	(773,907)	(747,436)	(2,616,634)
Amortization	248,075	182,505	646,246	536,556
Decrease in deferred lease inducements	(2,950)	146,258	(8,849)	146,258
Increase in accrued interest and accretion of convertible debt	167,821	35,082	844,310	176,630
	<u>418,915</u>	<u>(410,062)</u>	<u>734,271</u>	<u>(1,757,190)</u>
Change in non-cash working capital items				
Increase in accounts receivable	113,835	3,573	(558,361)	(378,033)
Increase in prepaid expenses	114,354	(116,468)	(173,410)	(120,689)
Increase in accounts payable and accrued liabilities	(733,695)	(1,008,439)	(240,469)	(776,149)
Increase in deferred revenue	53,966	(52,140)	122,265	98,631
	<u>(32,625)</u>	<u>(1,583,536)</u>	<u>(115,704)</u>	<u>(2,933,430)</u>
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	(421,239)	(262,871)	(1,852,913)	(1,114,188)
Investment in other assets	(181,876)	-	(230,921)	-
	<u>(603,115)</u>	<u>(262,871)</u>	<u>(2,083,834)</u>	<u>(1,114,188)</u>
<b>Cash flows from financing activities</b>				
Repayment of obligations under capital leases	(19,057)	(126,113)	(106,135)	(481,238)
Proceeds from notes payable and affiliated companies	(229,621)	49,295	342,009	(323,656)
Repayment of notes payable and advances from affiliated companies	(214,515)	-	(302,943)	-
Share capital issued	2,441,577	1,843,023	2,441,577	4,540,347
Proceeds from shareholder notes	(14,990)	(116,380)	710,048	-
	<u>1,963,394</u>	<u>1,649,825</u>	<u>3,084,556</u>	<u>3,735,453</u>
Increase (decrease) in cash and cash equivalents	1,327,654	(196,582)	885,018	(312,165)
Cash and cash equivalents - beginning of period	208,271	22,576	650,907	138,159
Cash and cash equivalents - end of period	<u>1,535,925</u>	<u>(174,006)</u>	<u>1,535,925</u>	<u>(174,006)</u>

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly do not include all information and note disclosures required for the annual financial statements under Canadian generally accepted accounting principles. It is management’s opinion that all adjustments considered necessary for fair presentation of the financial position, results of operations and cash flow for the nine month period have been made. These financial statements have been prepared in accordance with the same accounting principles applied in the preparation of the annual audited consolidated financial statements filed with the British Columbia Securities Commission for the fiscal year ended June 30, 2003. The annual financial statements should be referenced in conjunction with this interim report.

### **2. Business Combination:**

On July 23, 2002, shareholders’ approval was received for a name change from Tall Tree Resources to Peer 1 Network Enterprises, Inc. On July 24, 2002, Peer 1 Network Enterprises, Inc., a public company listed on the TSX Venture Exchange, purchased all of the issued and outstanding shares of Peer 1 Network, Inc. in consideration for the issuance of 20,000,000 shares to the shareholders of Peer 1 Network, Inc. As the former shareholders of Peer 1 Network Inc acquired control of the company and the company did not constitute a business, the transaction has been accounted for as a reverse acquisition and recapitalization of the public company.

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**3. Share Capital**

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

b) Issued and Fully Paid:

	<b>Number</b>	<b>Amount</b>
Balance at beginning of year	36,934,482	\$ 6,779,922
Changes in share capital	<u>7,301,885</u>	<u>\$ 3,088,880</u>
Balance at March 31, 2004	<u>44,236,367</u>	<u>\$ 9,868,802</u>

c) Warrants Outstanding

The company has the following non-transferable share purchase warrants outstanding:

<b>Exercise Price</b>	<b>Outstanding 12/31/03</b>	<b>Issued</b>	<b>Expired/ Exercised</b>	<b>Outstanding 3/31/04</b>	<b>Expiry Date</b>
\$0.72	4,305,416	-	-	4,305,416	July 24, 2004
\$0.45	400,000	-	-	400,000	July 24, 2004
\$0.39	5,312,343	-	45,000	5,267,343	Feb 18, 2005
\$0.32	4,145,906	-	-	4,145,906	April 4, 2005
\$0.32	5,941,096	-	5,941,096	-	Oct 22, 2005
\$0.32	1,834,215	-	-	1,834,215	Oct 23, 2005
\$0.28	<u>500,000</u>	-	-	<u>500,000</u>	Nov 6, 2005
	<u>22,438,976</u>		<u>5,986,096</u>	<u>16,452,880</u>	

d) Shares held in escrow:

As of March 31, 2004, 16,231,275 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 having jurisdiction thereon.

e) Stock Options

The company has the following stock options outstanding:

<b>Exercise Price</b>	<b>Outstanding 12/31/03</b>	<b>Issued</b>	<b>Expired/ Exercised</b>	<b>Outstanding 3/31/04</b>	<b>Expiry Date</b>
\$0.45	2,186,250	-	-	2,186,250	July 24, 2007
\$0.45	100,000	-	-	100,000	Nov 7, 2007
\$0.44		300,000		300,000	March 9, 2009
\$0.42		30,000	5,000	25,000	Jan 29, 2009
\$0.39	110,000	-		110,000	Nov 7, 2007
\$0.32	<u>348,000</u>		<u>5,000</u>	<u>343,000</u>	Sept 9, 2008
	<u>2,744,250</u>	<u>330,000</u>	<u>10,000</u>	<u>3,064,250</u>	

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

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

	<b>2004</b>	<b>2003</b>
Included in accounts receivable	\$ 167,286	\$ 40,585
Included in accounts payable	\$ 2,996	-

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

Revenues earned	\$ 328,235	\$ 165,968
Interest expensed	\$ 346,707	\$ 87,481
Consulting and other expenses paid	\$ 5,504	\$ 51,519

These transactions are in the normal course of operations and are at measured at their exchange amounts.

## BC FORM 51-901F

### QUARTERLY AND YEAR END REPORT

Incorporated as part of:                      **Schedule A**  
**X**                      **Schedule B & C**

#### ISSUER DETAILS:

**Name of Issuer:** Peer 1 Network Enterprises, Inc.  
**Issuer's Address:** Suite 1600 – 555 West Hastings St. Vancouver, B.C., V6B 4N5  
**Issuer Telephone No:** 604-683-7747  
**Contact Person:** Geoffrey Hampson  
**Contact's Position:** Director  
**Contact Telephone No:** 604-683-7747  
**Contact eMail Address:** [investor@peer1.net](mailto:investor@peer1.net)  
**Website Address:** [www.peer1.net](http://www.peer1.net)  
**For Quarter Ended:** March 31, 2004  
**Date of Report:** May 6, 2004

#### CERTIFICATE

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<u>"Geoffrey Hampson"</u>	Geoffrey Hampson	May 11, 2004
<u>"Lance Tracey"</u>	Lance Tracey	May 11, 2004

## **Schedule B: Supplementary Information**

1. Analysis of expenses and deferred costs

*See the Management Discussion and Analysis below.*

2. Related Parties Transactions

*See Note 4 to unaudited financial statements in Schedule A for detail.*

3. Securities Issued and options granted during the period:

- a) Securities Issued:

*See Note 3 to unaudited financial statements in Schedule A for detail.*

- b) Options Issued:

*See Note 3 to unaudited financial statements in Schedule A for detail.*

4. Securities at end of reporting period:

- a) Authorized and issued share capital:

*See Note 3 to unaudited financial statements in Schedule A for detail.*

- b) Options, warrants, and convertible securities outstanding:

*See Note 3 to unaudited financial statements in Schedule A for detail.*

- c) Shares in escrow of subject:

*See Note 3 to unaudited financial statements in Schedule A for detail.*

5. List of Officer and Directors

<b>List of Directors:</b>	<b>List of Officers</b>
Michael Cytrnbaum	Geoffrey Hampson, President & CEO
Geoffrey Hampson	James Taylor, CFO & Secretary
Werner Paulus	Mark Teolis, CTO
Scott Shaw	Rick Hingson, VP Operations
Lance Tracey	

## **Schedule C: Management Discussion & Analysis**

### **Description of Business**

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

### **Discussion of Operation and Financial Condition**

#### Financial Condition

Cash balances increased by \$1.3 million during the third quarter primarily as a result of the exercise of warrants, offset by investment in capital assets.

The accounts receivable balance is \$114,000 lower than it was at December 31 2003 as collections activity improved following the Christmas and New Year holidays. The average days sales outstanding at March 31 amounted to 60 days (improved from 64 days at December 31, 2003). Since the company bills its customers at month end, the reported accounts receivable balance always includes at least a month’s sales.

Other assets are made up of \$450,000 in security deposits paid on long term property leases, \$10,000 in deferred network installation fees and \$185,000 in legal and other fees paid as part of the debt restructuring. The deferred loan origination fees are being amortized over the term of the related note, while network installation fees are amortized over the term of the related contract.

\$421,000 was invested in fixed asset additions during the third quarter, with the nine month total amounting to \$1,853,000. Of this, approximately \$1.1 million was spent to expand the colocation space in Vancouver and Toronto, and to add to colocation equipment at other locations. An additional \$680,000 in network equipment was added, with the balance spent on miscellaneous small fixed asset acquisitions.

The notes payable balance has been amended to reflect the debt restructuring that took place earlier in the fiscal year. A portion of the debt has been attributed to warrants and equity to reflect the economic value of the warrants and conversion provisions.

A total of 5,986,096 shares were issued during the quarter for the exercise of warrants. As the exercise price for these warrants was lower than the market price, the difference has been charged to contributed surplus, with any excess applied against retained earnings. As shown in the consolidated income statement, \$137,000 was charged to retained earnings during the quarter.

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At the end of the quarter, Peer 1 is able to report its first shareholders' equity position, compared to shareholder deficiency positions reported in previous periods.

Operations

The third quarter represented a major milestone for Peer 1 Network, as we are able to report our first quarter of net income.

Revenues for the third quarter of fiscal 2004 were 29% higher than for the same three month period in fiscal 2003. On a year to date basis, the revenue increase amounts to 40%. This growth was evident in both of the company's major revenue sources – bandwidth revenue which increased from \$5.2 million to \$6.3 million (21% growth YTD) and co-location revenue which increased from \$1.6 million to \$3.1 million (94% growth YTD). Revenues for the third quarter were essentially flat when compared to the previous quarter, as growth during the first two months of the quarter was not what it was expected to be. However, sales rebounded in March, and with the addition of several large customers, is expected to continue to grow into the fourth quarter.

Sales activity had improved in all locations by the end of the quarter. This is particularly encouraging in the three US locations, since Peer 1's presence has only recently been established there. The addition of sales staff in the Seattle and San Jose locations late in the quarter will only help to improve Peer 1's visibility in these markets.

The gross profit for the third quarter was 87% higher than for the same three month period in 2003 and more than two and a half times higher on a year to date basis (an increase of 160% YTD). From a profit margin of 26% in the third quarter of 2003, the company has been able to achieve a margin of 38% in the corresponding three month period in 2004. The improvement is due primarily to the high proportion of fixed costs inherent in the colocation and bandwidth business. For colocation in particular, costs of sales are largely fixed – therefore every dollar of incremental revenue earned significantly improves the gross profit margin. The same is true for bandwidth margins, with the additional benefit that the company expects to further improve margins as a result of recently negotiated contracts with vendors that have led to lower costs (taking advantage of the higher volumes), as well as through increased peering.

Operating expenses as a percentage of revenues dropped from 55% in the third quarter of 2003 to 33% in the third quarter of 2004. On a year to date basis the reduction is even more dramatic – from 54% in 2003 to 37% in 2004. The largest component of operating expenses is salaries and wages which comprises approximately 53% of the total (47% in 2003). Sales commissions, which have increased as a result of the sales growth, account for the increase in this component. Rent and administration costs make up the next most significant component at 16% of total operating costs (22% in 2003). The decrease is primarily in administration costs due to cost control initiatives. Travel costs are 12% of total operating expenses, up from 11% in 2003. This is a result of travel required to investigate growth strategy initiatives. Professional fees are unchanged at 9% of total costs.

**Peer 1 Network Enterprises, Inc.**

(formerly Talltree Resources Ltd.)

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Also included in the determination of the net income or loss for the period is accretion of interest on long term debt. This is a non-cash accounting entry that amortizes the value of the conversion provisions and warrants issued with convertible debt over the term of the debt issue. The accretion estimate has been reduced by approximately \$175,000, this quarter. The impact of the reduction in accretion estimate is expected to continue in the fourth quarter.

Subsequent Events

None.

Liquidity

The company had working capital of \$30,800 at March 31, 2004 compared to a working capital deficit of \$1,116,000 for the period ended June 30, 2003. This is consistent with management projections of positive working capital by the third quarter, that were made earlier in the year.

A significant portion of the working capital calculation pertains to shareholder notes. If these were excluded from the determination of working capital (shareholders are unlikely to impact liquidity in a negative manner), working capital at the end of the third quarter would improve to \$1.3 million compared to a deficit of \$629,000 at June 30, 2003.