



NETWORK | CO-LOCATION | DEDICATED HOSTING

Management's Discussion & Analysis
For The Quarter Ended September 30, 2006



**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL RESULTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006**

This Management Discussion and Analysis ("MD&A"), dated November 20, 2006, should be read in conjunction with Peer 1's unaudited financial statements for the quarter ended September 30, 2006 as well as the audited annual financial statements for the fiscal year ended June 30, 2006 and the notes thereto, all of which can be found on www.sedar.com. Unless otherwise noted, all figures are in United States dollars.

FORWARD LOOKING STATEMENTS

This discussion includes certain forward looking statements in respect to various issues including upcoming events. These forward looking statements are based upon current expectations which involve risks and uncertainties that could cause actual outcomes and results to differ materially. Factors that could cause or contribute to such differences include, but are not limited to, general economic conditions, changes in technology, general sales risks, and limited intellectual property protection. Other risks and uncertainties are described in a subsequent section of this filing. Peer 1 Network Enterprises Inc. ("Peer 1" or the "Company") disclaims any obligation to revise any forward looking statements as a result of information received after the fact or regarding future events.

OVERVIEW

Quarterly Financial Highlights

- Peer 1's revenue increased 81% to \$17.49 million for the quarter ended September 30, 2006, compared to \$9.68 million for the quarter ended September 30, 2005;
- Gross profit was \$6.22 million for the quarter ended September 30, 2006, an increase of \$2.50 million from \$3.72 million for the quarter ended September 30, 2005;
- Operating income was \$1.78 million for the quarter ended September 30, 2006 an increase of \$0.68 million from the operating income of \$1.10 million for the quarter ended September 30, 2005.
- Net profit was \$0.25 million for the quarter ended September 30, 2006, compared to a net loss of \$1.02 million for the quarter ended September 30, 2005.
- Cash flow from operating activities for the quarter ended September 30, 2006 was \$1.1 million, compared to \$ 2.03 million for the quarter ended September 30, 2005.

Quarterly Key Developments

- On July 27, 2006 Peer 1 filed a Business Acquisition Report, related to the Dedicated Hosting acquisition, with the British Columbia Securities Commission. The Company is compliant with all securities regulations.

- On August 9, 2006 the Company exercised its option to purchase its leased data center property located at 2300 NW Place, Miami, Florida.

The gross purchase price was \$4,617,266 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 sales price was \$5,600,000. 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 five-year periods.

After adjustments, the Company recorded a deferred gain of \$788,135 on this transaction. This gain will be taken into income over the term of the leaseback agreement.

- On September 7, 2006 the Company opened a new data center at 8500 Vicar Drive in San Antonio, TX with 12,000 square feet of raised floor space and an adjoining 6,000 square feet of office space.
- On September 26, 2006, the Company committed to a lease for a 3,500 square foot expansion of its co-location facilities in Vancouver.
- On September 6, 2006 the Company announced that its Board of Directors had approved the adoption of a 2006 Combined Incentive and Nonqualified Stock Option Plan (“New Plan”) to replace the Company’s 2002 Incentive Stock Option Plan.

Under the New Plan 15,468,382 common shares have been reserved for the issuance of options. This number of shares represents 20% of the Company’s outstanding share capital as at September 6th, 2006. The previous plan had a reserve of 10% of the outstanding share capital of the Company.

The New Plan is subject to shareholder and TSX Venture Exchange approval. Approval is required on or before February 28, 2007 or the New Plan will terminate. The plan was “accepted for filing” by the TSX Venture Exchange on October 27, 2006 and is subject to approval by the Company’s shareholders at the Annual General Meeting to be held on December 20, 2006.

On September 6, 2006 the Company’s Board of Directors granted options to certain non-director officers of the Company to acquire 2,973,100 shares. These options are exercisable at a price of \$0.63 per share, and have a term of five years, expiring on September 6th, 2011.

The options vest, subject to adjustment in certain circumstances, as to one third on September 6th, 2007 and two thirds monthly in equal amounts over the 24 months ending September 6th, 2009.

In addition 828,000 of the options granted, included in the above total, are exercisable only after all requisite approvals of the new plan have been obtained.

OUR BUSINESS

Peer 1 is a provider of Internet infrastructure solutions and related managed services. Peer 1's service offerings include bandwidth, co-location, and dedicated hosting services. Customers include hosting providers, online gaming companies, Internet phone (VoIP) companies and small and medium-sized businesses across North America. Peer 1 has established data centers and points of presence ("POPs") in 17 cities across North America and Europe including: Vancouver, Toronto, Montreal, New York, Seattle, San Jose, San Antonio, Los Angeles, Miami, Atlanta, Fremont, Herndon, Ashburn, Chicago, Dallas, Amsterdam and London, England.

Management of Peer 1 believes that the Company has been successful in attracting and generating business as a result of:

- Access to a high bandwidth, high quality IP network
- 24 hours, 7 days a week monitoring
- Environmentally protected facilities
- High level of physical security
- Customer support

Dedicated Servers

Peer 1 provides competitively priced, unmanaged and managed dedicated server solutions to small and mid-size businesses. The acquisition of ServerBeach on October 20, 2004 and the dedicated server assets of Interland, Ltd. on September 2, 2005 significantly increased the Company's capacity to provide dedicated server solutions and product offerings that complement the Company's co-location and bandwidth service offerings.

Bandwidth (Network)

Peer 1's bandwidth service is provided by way of an expandable network through connections to multiple globally based providers in Canada, the US and the UK. Peer 1 utilizes hundreds of peering partners to ensure continuous Internet connectivity, greater route diversity, and ultimately, enhanced Internet performance. Traffic generated from and received by our customers is charged for on a per unit basis, except for those who have committed to minimum usage levels.

Co-location

Peer 1's co-location service involves the physical locating of a customer's switching gear and/or servers in one of our datacenter facilities that provide the infrastructure necessary for effective functioning of their equipment. The infrastructure resources include a secured cage or cabinet, regulated power, emergency backup power, dedicated Internet connection, regulated air temperature and physical security. Co-location customers are charged for the service provided by way of a monthly rental charge.

STRATEGY

Peer 1's growth strategy includes organic, leveraged, and accelerated growth. Organic growth focuses on the addition of new customers and the expansion of the network's reach into key peering points worldwide. Leveraged growth focuses on the introduction of new products and services that leverage and complement Peer 1's current infrastructure. Accelerated growth is based on pursuing investments and acquisitions complementary to existing lines of business.

Dedicated Servers

Peer 1's strategy for dedicated servers is to provide servers built with quality parts within a low cost infrastructure that supports a price competitive strategy. The Company, through its ServerBeach division specializes in offering self-managed dedicated servers where the client retains control of the functionality and performance of the server. Peer 1 Dedicated Hosting specializes in managed dedicated servers providing firewalls, storage area networks, security and support to augment the client's applications, as well as custom hosting solutions for clients with unique requirements.

Bandwidth (Network)

Peer 1's strategy is to continue to build a series of dedicated links, peering relationships and establish traffic exchange agreements with other networks between the Company's facilities using multiple high-speed connections. Peering arrangements are fundamental to the Company's strategy, and create two advantages: first, they reduce latency between networks; and secondly, they avoid additional costs associated with a third party network. Peering is a relationship between two or more networks of any size in which the networks create a direct link between each other and agree to forward each other's packets directly across this link instead of using the standard Internet backbone.

Co-location Facilities

Peer 1 establishes a point of presence in new markets by co-locating in facilities owned by other suppliers. This allows Peer 1 to gauge market demand prior to establishing a new co-location facility. When a market is considered viable, the Company identifies suitable space for long term lease. Wherever possible, sites that have previously been operated as data centers are sought to reduce initial capital investment requirements. Equipment is acquired and installed on a phased basis based on demand. As market share grows, additional space and equipment are acquired.

SELECTED QUARTERLY INFORMATION

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

	Three Months Ended September 2006 US\$	Three Months Ended September 2005 US\$
Revenue	17,486,167	9,678,279
Cost of Sales	11,266,206	5,959,856
Gross Profit	6,219,961	3,718,423
Operating expenses	4,447,782	2,623,114
Operating Income before other items	1,772,179	1,095,309
Other Items:		
Amortization of preferred share discount	357,139	144,227
Interest expense - long term	825,826	992,497
Interest expense - short term	-	34,854
Interest accretion on notes payable	55,655	477,624
Integration costs	224,562	67,563
Foreign exchange loss (gain)	(32,887)	383,469
Gain on disposal of fixed assets	(4,685)	-
Loss from equity accounted investment	-	13,114
Income (Loss) before income taxes	346,569	(1,018,039)
Income tax expense	97,118	-
Income (Loss) for the period	249,451	(1,018,039)
Deficit, beginning of period	(11,707,729)	(8,520,249)
Deficit, end of period	(11,458,278)	(9,538,288)
Basic earnings (loss) per share	0.00	(0.02)
Diluted earnings (loss) per share	0.00	(0.02)

RESULTS OF OPERATIONS

Acquisitions

Over the past three years, Peer 1's strategic focus has expanded through the execution of our three-pronged growth strategy to grow and diversify the Company's sources of revenue.

In FY2004, Peer 1's primary focus was on providing bandwidth and co-location services, which represented over 94% of the Company's consolidated revenue. In FY2006, bandwidth and co-location revenues represented 27% of consolidated revenues, while dedicated server revenue accounted for 70% of consolidated revenues. The shift in sources of revenue is attributable to the FY2005 acquisition of ServerBeach Ltd. and the FY2006 acquisition of dedicated hosting assets from Interland, Inc. (the "Dedicated Hosting" acquisition) as described below.

On September 2, 2005, the Company acquired the dedicated server assets of Interland, Inc. for \$14.0 million. Included in the operating assets were existing customer contracts and data centers in Atlanta, GA; Fremont, CA; and Miami, FL, totaling over 115,000 square feet and 8,300 servers. Interland has since been renamed Web.com.

For the quarter ended September 30, 2006 dedicated server revenue accounted for 71% of total revenue, compared to 58% for the quarter ended September 30, 2005.

Revenues

The Company's business model is based on recurring revenue streams for all of its main offerings. Once a customer is obtained, the revenue from services and product offerings, which are invoiced monthly, generally continue on a go forward basis with a manageable level of customer churn. Customer contracts range from month-to-month to three year terms.

Set-up fees are charges customers pay for initial configuration and installation of services. These services are typically billed once and only upon completion of such configuration and installation.

	Three Months Ended September 2006		Three Months Ended September 2005	
	US\$		US\$	
Revenue				
Co-location	2,286,226	13.1%	1,746,778	18.0%
Bandwidth	2,179,728	12.5%	1,942,075	20.1%
Services	531,479	3.0%	411,507	4.3%
Dedicated servers	12,488,734	71.4%	5,577,919	57.6%
	<u>17,486,167</u>	<u>100%</u>	<u>9,678,279</u>	<u>100%</u>

Consolidated revenue was \$17.49 million for the quarter ended September 30, 2006 compared to \$9.68 million for the quarter ended September 30, 2005. The increase in revenue for the quarter is attributable to the inclusion of the results of the acquired assets from the Interland, Inc. acquisition for the full quarter ended September 30, 2006 versus only one month of contribution in Q1FY05 combined with organic growth.

Co-location revenues were \$2.29 million in the quarter ended September 30, 2006 from \$1.74 million for the quarter ended September 30, 2005. The increase is directly attributable to growth in the customer base - the number of co-location customers increased to 864 at the end of the quarter ended September 30, 2006 from 689 as at September 30, 2005.

Bandwidth revenues increased to \$2.18 million in the quarter ended September 30, 2006 from \$1.94 million in the quarter ended September 30, 2005. The increase is a result of organic growth and the addition of new customers.

Dedicated server revenues were \$12.49 million for the quarter ended September 30, 2006 compared to \$5.58 million for the quarter ended September 30, 2005. The increase is a result of a full quarter of results attributable to the assets acquired from Interland, Inc. having been included in revenue this quarter compared to one month in the same period last year, increased customer usage, addition of new customers and an overall decrease in customer churn rates.

The Company's Canadian operations accounted for \$3,719,990 of revenues in the quarter ended September 30, 2006 compared to \$3,082,724 of revenues in the quarter ended September 30, 2005. This change is the result of increased co-location revenues in the Canadian operations for the current quarter compared to the same period last year.

Cost of Sales

Cost of sales for the Company are primarily fixed and relate to infrastructure and staffing. Infrastructure costs consist of rent, maintenance, power, cooling, security, leasing and/or amortization of equipment and improvements, insurance, software licenses and supplies. Variable costs consist of power consumption, and incremental bandwidth from upstream carriers.

Consolidated cost of sales was \$11.27 million for the quarter ended September 30, 2006 compared to \$5.96 million for the quarter ended September 30, 2005. Cost of sales as a percentage of revenue increased to 64.4% in the quarter ended September 30, 2006 from 61.6% for the quarter ended September 30, 2005. The cost of sales increase for the current quarter is as a result of the inclusion of the operations relating to the acquired assets from Interland, Inc. for an additional two months in the current quarter compared to the same period last year..

Total cost of sales is expected to increase as revenues increase. The pattern of growth in revenues related to the new facilities does not generally match the pattern of growth in the related costs. Revenue increases are a function of capacity utilization. The cost of sales related to co-location are primarily affected by the cost of facilities. The cost of sales related to bandwidth are primarily affected by cost for bandwidth, transport and infrastructure. The cost of sales related to the dedicated server line of business is primarily affected by the costs of facilities, costs of servers and bandwidth costs.

Operating Expenses

The following table presents operating expenses consisting of sales and marketing, general and administrative and technology and customer relations, as a percentage of revenue.

(in \$ thousands)	Quarter Ended September 30,			
	2006	%	2005	%
Operating Expenses	4,448	25.4%	2,623	27.1%

Total operating expenses were \$4.45 million for the quarter ended September 30, 2006 compared to \$2.62 million for the quarter ended September 30, 2005, as a result of the Dedicated Hosting acquisition. Operating expenses as a percentage of revenue decreased to 25.4% in the quarter ended September 30, 2006 from 27.1% for the quarter ended September 30, 2005.

The largest component of operating expenses is general and administrative which for the first quarter of 2007 accounted for 61.6 % of total operating expenses compared to 64.9% in the same period of the prior fiscal year. Management continues to focus on administration costs to ensure that operations are as efficient as possible and it is anticipated that they will be reduced as a percentage of revenue over time.

Sales and marketing costs decreased slightly to 27.50% of total operating expenses in the first quarter of 2007 compared to 27.9% in the same period of the prior fiscal year.

As the Company continues to pursue its growth strategy, operating expenses may increase to support marketing, promotional opportunities and general and administration requirements.

Other Income and Expenses:

The Company is currently incurring expenses related to the integration of the Dedicated Hosting acquisition. The Company incurred \$0.69 million in integration costs in the quarter ended September 30, 2006, of which \$0.22 million was expensed, \$0.41 million was capitalized as internally developed software and \$0.06 million was capitalized as computer equipment. The Company anticipates expenses for these activities to continue through the balance of this fiscal year. Integration costs include the cost of a new billing, ticketing and customer support system in addition to separation of business operations.

Liquidity and Capital Resources

Peer 1 has historically financed operations through cash generated from operations, sale of common and preferred shares and issuance of debt. As at September 30, 2006, the Company had cash, cash equivalents and short term investments of \$5.86 million (including \$0.5 million in restricted cash – see Off-Balance Sheet Arrangements section), compared to \$6.17 million (including \$0.5 million in restricted cash) as at June 30, 2006. The Company had long term debt (in the form of Preferred Shares Series A,) (please refer to the Company’s 2006 annual report for more information) of \$8.4 million and notes payable of \$20.2 million as at September 30, 2006 compared to \$8.1 million long term debt and notes payable (including shareholder notes) of \$21.05 million as at June 30, 2006.

The Company had a working capital deficit of \$4.2 million at September 30, 2006 compared to a working capital deficit of \$5.8 million as at June 30, 2006. The improvement in working capital is a result of net proceeds received from the sale/leaseback transaction discussed earlier, see “Quarterly Key Developments”.

The working capital deficit of \$4.2 million at September 30, 2006 includes deferred revenue of \$3.68 million and current portion of notes payable of \$3.66 million. The Company anticipates current liquidity and cash generated from operations to be sufficient to fund existing operations for the foreseeable future.

Operating Activities

Cash flow from operating activities for the quarters ended September 30, 2006 and 2005 was \$1.1 million and \$2.0 million, respectively. Cash provided by operations in the quarter ended September 30, 2006 resulted primarily from improvement in the Company’s operating results.

Implementation of one or more of the Company’s growth strategies, combined with the continued integration of the Dedicated Hosting acquisition, may have short-term negative impact on its expenses and cash flow from operations.

Investing Activities

Cash used for investing activities for the quarters ended September 30, 2006 and 2005 was \$2.3 million and \$19.8 million, respectively. Cash used in investing activities is a result of capital

expenditures to fund Peer 1's operations and growth strategy, which includes cabinets/cages, leasehold improvements and computer equipment, such as servers, routers and firewalls. The use of cash for the quarter ended September 30, 2005 was primarily a result of the Dedicated Hosting acquisition on September 2, 2005.

Financing Activities

Net cash inflow from financing activities for the quarter ended September 30, 2006 was \$0.89 million compared to cash inflows from financing of \$23.2 million for the quarter ended September 30, 2005. Cash provided from financing activities for the quarter ended September 30, 2006 was the result of the net proceeds from the sale leaseback offset by principal payments on the notes payable. Cash provided from financing activities for the quarter ended September 30, 2005 was the result of the financings and re-capitalization undertaken in conjunction with the Dedicated Hosting acquisition.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2006 Peer 1 has provided two letters of credit totaling US\$0.50 million as security to a landlord for a facility lease and to a major supplier. The security for the facility lease will be required for the term of the lease, whereas the security for the supplier is dependant on whether the Company continues to use the same supplier, the extent to which a sufficient credit history is established with the supplier to reduce or negate the need for such security, and other similar discretionary factors. The letters of credit are secured by way of term deposits which are included in the reported cash balance. The financial statements classify these term deposits as restricted cash.

TRANSACTIONS WITH RELATED PARTIES

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:

	2007	2006
<hr/>		
Transactions during the quarter -		
Revenue earned	\$40,094	\$24,312
Interest expensed	-	\$585,669
Other expenses	\$101,901	\$1,718,379

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. Included in other expenses is \$0 (\$139 in 2006) in accounts receivable that has been written off.

2007

2006

Balances at quarter end -

Accounts receivable from related companies

\$73,192

\$22,515

Accounts payable to a related party

\$1,984

\$4,402

The balances are payable on demand and have arisen from the sale of products and provision of services referred to above.

Details of related party transactions for the three months ended September 30, 2006

Related person or entity	Related person	A/R	A/P	USD			Other
				Revenue	Interest		
Celerity Partners	Mark Benham	-	-	-	-	1,035	Expense chargeback \$1,035
Code Marketing Ltd.	Lance Tracey	-	-	-	-	66,891	Management fees \$66,891
DA Harrison & Associates	David Harrison	-	1,824	-	-	6,785	Consulting services
E-Xact Transactions Ltd.	Scott Shaw, Lance Tracey	5,699	161	17,066	-	434	1) Revenue from contract to provide colocation and bandwidth in Vancouver \$17066...2) E-Xact provides Peer 1 with credit card gateway processing services \$434
Fatport	Michael Cytrynbaum	2,409	-	2,403	-	-	Revenue from contract to provide colocation and bandwidth in Vancouver.
Pubsub Concepts Inc.	Lance Tracey	65,084	-	20,625	-	-	Revenue from contract to provide colocation and bandwidth in New York.
Sutton Group Realty Services Ltd.	Scott Shaw, Lance Tracey	-	-	-	-	26,756	Consulting expenses C\$10000 per month
		<u>73,192</u>	<u>1,984</u>	<u>40,094</u>	<u>-</u>	<u>101,901</u>	

SUMMARY OF QUARTERLY RESULTS

The following table sets out certain operating results of the Company for the past eight quarters.

	Quarter Ended (in thousands \$)							
	31-Dec	March 31	June 30	30-Sep	31-Dec	March 31	June 30	30-Sep
	2004	2005	2005	2005	2005	2006	2006	2006
	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)
Revenue	4,685	5,843	6,019	9,678	16,287	17,627	17,134	17,486
Operating Profit (Loss)	(114)	(12)	500	1,280	1,014	1,097	638	1,772
Net Income (Loss)	(529)	(762)	(654)	(1,018)	(481)	(355)	(1,333)	249
Basic income (loss) per share	(0.01)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)	0.00
Fully diluted income (loss) per share	(0.01)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)	0.00

SUBSEQUENT EVENTS AND PROPOSED TRANSACTIONS

None

OUTSTANDING SHARE DATA

Peer 1 has authorized share capital of unlimited common shares without par value and unlimited preferred shares without par value. At September 30, 2006 77,341,913 common shares were issued and outstanding compared to 77,325,913 as at June 30, 2006. As of the date of this MD&A, 100,000 additional shares were issued subsequent to the end of our first quarter ending September 30, 2006.

At September 30, 2006 there were 6,239,904 warrants for the purchase of shares ranging in price from US\$0.23 to CAD\$0.40 (approximately US\$0.36) outstanding compared to 6,239,904 as at June 30, 2006. As of the date of this MD&A no warrants have been exercised subsequent to the end of our first quarter ending September 30, 2006.

As at September 30, 2006 there were 7,976,850 stock options outstanding under the Company's stock option plan compared to 5,024,750 stock options outstanding at June 30, 2006.

As of the date of this MD&A, 100,000 options were exercised and 800,000 options were granted subsequent to the end of our first quarter ending September 30, 2006.

In accordance with the the Investor Rights Agreement, the holders of the 7,000 preferred shares series A may require the Company to acquire any or all of their preferred shares in exchange for common shares of Peer 1. Subject to adjustment in specified circumstances, the conversion would be for 4,365 common shares of Peer 1 for each preferred share having a face value of \$1,000.

CRITICAL ACCOUNTING ESTIMATES

Management makes certain estimates in order to report the Company's financial position and results of operations. Such estimates include the collectability of accounts receivable, the useful life of fixed assets, the likelihood of M&A projects being completed (see section below), valuation of the conversion features attached to debt instruments and warrants issued.

In estimating the allowance for doubtful accounts, management reviews the payment history of current customers as well as overall historical collection trends. The allowance for doubtful accounts is equal to 1.5% of revenue.

Estimates as to the useful life of fixed assets are based upon experience and are in line with other companies in the industry.

Valuation of the options and warrants is based on estimates of dividend yield (nil), expected volatility of the Peer 1 stock price (estimate changes over time as stock price changes), risk-free interest rate (estimate changes over time as actual results change) and option term (varies depending on the warrants or options issued).

In all of the above cases, actual results may be different than the estimates made.

ACCOUNTING POLICIES

Peer 1 prepares its financial statements on the basis of accounting principles generally accepted in Canada. All accounting policies have been applied on a basis consistent with that of the previous year. Due to the Dedicated Hosting acquisition, the Company's US dollar revenues account for approximately 71% of total company revenues for the current quarter. Effective October 1, 2005, the Company changed its functional currency to the US dollar from the Canadian dollar in order to more accurately represent the currency of the economic environment in which it operates as a result of increasing US dollar denominated revenues and expenditures. Concurrent with the change in its functional currency, Peer 1 has adopted the US dollar as its reporting currency. All figures presented prior to October 1, 2005 for comparative purposes are also reported in US dollars.

RISKS

Operating Results are Expected to Fluctuate

The Company has experienced fluctuations in its operating results on a quarterly and on an annual basis. In view of the rapidly evolving nature of the Company's business, and the risks explained herein and those that are included in filings with regulatory authorities, the Company believes that period-to-period comparisons should not be relied upon as an indication of future performance. The Company expects that operating results will continue to fluctuate in the foreseeable future due to a variety of factors, including but not limited to:

- changes in general economic conditions and specific market conditions in the telecommunications and Internet industries;
- the timing and magnitude of operating expenses, capital expenditures and expenses relating to the expansion of sales, marketing, operations and acquisitions, if any, of related or complementary businesses and assets;
- the cost and availability of adequate public utilities, including power; and
- certainty that customer contracts will be renewed upon expiry.

Any of the foregoing factors could have material adverse effect on the Company's business, results of operations or financial condition.

Competition

The Company operates in a competitive market. The company competes on the basis of certain factors including the ability to provide its customers with scalable Internet operations and infrastructure, the use of private backbone connections and the ability to provide redundant, high-speed connectivity to the Internet. There is no assurance the Company's current and future competitors will not be able to develop co-location services, dedicated servers or other infrastructure expertise comparable or superior to those developed by the Company or to adapt more quickly than the Company to new technologies, evolving industry standards or customer requirements. Certain of Peer 1's competitors or potential competitors have or may have far greater financial resources, brand recognition and established business relationships with enterprises in Peer 1's target market than Peer 1 at the present time.

Price Sensitive Market

Peer 1's offerings are currently priced on a value basis. However, the competitive market in which Peer 1 conducts its business could require the Company to reduce its prices. If Peer 1's competitors offer discounts on certain products or services in an effort to recapture or gain market share or to sell other products, the Company may be required to lower prices or offer other favorable terms to compete successfully. Any such changes would likely reduce Peer 1's margins and could adversely affect operating results.

Currency Fluctuations

The Company's revenues and costs are affected by fluctuations in the rate of exchange between the Canadian dollar and the US dollar. Exposure to exchange rate fluctuations exists because a portion of the Company's revenues, trade receivables and trade payables are in Canadian and US dollars depending on the location of business. The Company expects that Canadian and US dollar sales and expenses will continue to account for a material portion of operations for the foreseeable future. As a result, exchange rate fluctuations may affect the Company's revenue and earnings growth materially in the future.

Dependence on Key Suppliers

The Company's operations are dependent on the timely delivery of materials by outside suppliers. While the Company enters into purchase agreements with some of its suppliers, the Company cannot be sure that materials, components, and subsystems will be available in quantities required, if at all. If any of the suppliers fail to meet the Company's needs, it may not have readily available alternatives. The Company's inability to fill its supply needs would jeopardize its ability to satisfactorily complete the Company's obligations under its contracts on a timely basis. This might result in reduced sales, contractually imposed penalties for delay of services, termination of one or more of these contracts or damage to the Company's reputation and relationships with its customers. All of these events could have negative impact on the Company's financial condition.

Integration Risk of Acquisitions

The Company may pursue strategic relationships, investments and acquisitions. The Company may not be able to successfully manage its operations if it fails to successfully integrate the acquired technologies and/or businesses. The risks commonly encountered in the creation (execution) of a strategic relationship, investment in or acquisition of businesses would accompany any future investments or acquisitions by the Company. Such risks may include the following:

- issues related to product transition (such as development, distribution and customer support);
- the substantial management time devoted to such activities;
- the potential disruption of the Company's on-going business;
- undisclosed liabilities;
- failure to realize anticipated benefits (such as synergies and costs savings);
- the difficulty in integrating potentially distinct businesses into one business unit; and
- technological uncertainty regarding the current and future functionality of products and services.

OTHER INFORMATION

Additional information relating to Peer 1 is available on SEDAR at www.sedar.com.