



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

PEER 1 NETWORK ENTERPRISES, INC.
Condensed Interim Consolidated Statement of Financial Position (Unaudited)
(in thousands of United States dollars)

	Sept 30, 2011	June 30, 2011	July 1, 2010
		(note 13)	(note 13)
Assets			
Current:			
Cash and cash equivalents	\$ 3,487	\$ 7,803	\$ 2,321
Trade and other receivables (note 11)	5,281	6,447	3,249
Current tax asset	30	1,189	96
Prepaid expenses	3,189	1,448	1,610
Income tax receivable	2,171	2,874	1,192
Total current assets	14,158	19,761	8,468
Non-current:			
Other assets	\$ 2,329	\$ 2,353	\$ 2,738
Deferred tax assets	2,130	1,817	1,277
Property and equipment (note 5)	92,461	87,697	53,717
Equipment under finance lease (note 5)	569	724	986
Intangible assets (note 6)	6,983	6,636	5,921
Total non-current assets	104,472	99,227	64,639
Total assets	\$ 118,630	\$ 118,988	\$ 73,107
Liabilities			
Current:			
Trade and other payables	10,469	9,944	9,115
Loans and borrowings (note 7)	6,503	5,008	3,000
Derivatives (note 4)	452	250	170
Income tax payable	-	-	569
Obligations under finance lease	141	237	376
Deferred revenue	2,790	2,561	2,210
Total current liabilities	\$ 20,355	\$ 18,000	\$ 15,440
Non-current:			
Loans and borrowings (note 7)	49,389	53,062	16,404
Derivatives (note 4)	1,470	875	171
Deferred tax liability	964	1,660	640
Obligations under finance lease	2,351	11	232
Deferred revenue	852	791	740
Total non-current liabilities	55,026	56,399	18,187
Total liabilities	\$ 75,381	\$ 74,399	\$ 33,627
Equity			
Issued capital	\$ 28,326	\$ 28,221	\$ 27,631
Share-based payments reserve	10,226	9,985	6,804
Warrants	-	-	86
Accumulated other comprehensive income	11	391	-
Retained earnings	4,686	5,993	4,961
Total equity (note 8)	\$ 43,249	\$ 44,589	\$ 39,482
Total liabilities and equity	\$ 118,630	\$ 118,988	\$ 73,107

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

On behalf of the Board of Directors
"Scott Shaw"
Director

"David Harrison"
Director

PEER 1 NETWORK ENTERPRISES, INC.
Condensed Interim Consolidated Statement of Comprehensive Income (Unaudited)
(in thousands of United States dollars, except per share amounts)

	Three months ended Sept 30	
	2011	2010
		(note 13)
Revenue		
Colocation services	\$ 8,382	\$ 7,093
Hosting services	23,129	19,235
	31,511	26,328
Cost of sales	18,781	16,286
Gross profit	12,730	10,042
Administration expenses	4,950	4,656
Sales and marketing expenses	4,754	3,950
Other operating expenses	1,204	1,191
Operating profit before other items	1,822	245
Finance income	(6)	(13)
Gain on disposal of property and equipment	48	(16)
Foreign exchange loss (gain)	1,991	(1,699)
Finance expense	1,528	373
Profit (loss) before income taxes	(1,739)	1,600
Income taxes	(432)	561
Profit (loss) for the period	(1,307)	1,039
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	(4,690)	2,201
Unrealized gain (loss) on net investment in subsidiaries	4,310	(1,090)
Other comprehensive income (loss) for the period, net of tax	(380)	1,111
Total comprehensive income (loss) for the period	\$ (1,687)	\$ 2,150
Profit (loss) attributable to common shares	\$ (1,307)	\$ 1,039
Total comprehensive income (loss) attributable to common shares	(1,687)	2,150
Earnings (loss) per share		
Basic	\$ (0.01)	\$ 0.01
Diluted	\$ (0.01)	\$ 0.01
Weighted average number of common shares outstanding		
Basic	120,633,144	119,733,661
Diluted	120,633,144	120,321,757

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

PEER 1 NETWORK ENTERPRISES, INC.
Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)
(in thousands of United States dollars except number of shares)

	Common shares	Share capital	Warrants	Share-based payments reserve	Accumulated other comprehensive income	Retained earnings	Total
Balance at July 1, 2010	119,721,834	\$ 27,631	\$ 86	\$ 6,804	\$ -	\$ 4,961	\$ 39,482
Stock options exercised	47,285	47	-	(21)	-	-	26
Stock-based compensation	-	-	-	1,367	-	-	1,367
Purchase of shares for cancellation pursuant to normal course issuer bid	(189,500)	(44)	-	-	-	(211)	(255)
Transactions with owners	119,579,619	27,634	86	8,150	-	4,750	40,620
Profit for the period	-	-	-	-	-	1,039	1,039
Other comprehensive income (loss):							
Foreign currency translation gain	-	-	-	-	2,201	-	2,201
Unrealized loss on net investment in subsidiaries	-	-	-	-	(1,090)	-	(1,090)
Total comprehensive income for the period	-	-	-	-	1,111	1,039	2,150
Balance at September 30, 2010	119,579,619	27,634	86	8,150	1,111	5,789	42,770
Balance at July 1, 2011	120,576,370	\$ 28,221	\$ -	\$ 9,985	\$ 391	5,993	\$ 44,590
Stock options exercised	85,889	105	-	(105)	-	-	-
Stock-based compensation	-	-	-	346	-	-	346
Transactions with owners	120,662,259	28,326	-	10,226	391	5,993	44,936
Loss for the period	-	-	-	-	-	(1,307)	(1,307)
Other comprehensive income (loss):							
Foreign currency translation loss	-	-	-	-	(4,690)	-	(4,690)
Unrealized gain on net investment in subsidiaries	-	-	-	-	4,310	-	4,310
Total comprehensive loss for the period	-	-	-	-	(380)	(1,307)	(1,687)
Balance at September 30, 2011	120,662,259	28,326	-	10,226	11	4,686	43,249

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

PEER 1 NETWORK ENTERPRISES, INC.-
Consolidated Statement of Cash Flows (Unaudited)
(in thousands of United States dollars)

	Three months ended September 30	
	2011	2010
		(note 13)
Operating Activities:		
Net income (loss)	\$ (1307)	\$ 1,039
Adjustments for non-cash items:		
Depreciation of property and equipment	5,432	4,249
Amortization of intangible assets	272	116
Bad debt expense	297	112
Gain on disposal of property and equipment	48	(16)
Amortization of deferred loan origination fees	64	56
Future income tax expense	(303)	(379)
Stock-based compensation	346	1,367
Interest paid	(770)	(274)
Income taxes refunded (paid)	276	(1,959)
Net change in non-cash working capital	971	(2,267)
Cash flows from operating activities	5,326	2,044
Investment Activities:		
Investment in other assets	32	157
Acquisition of property and equipment	(10,717)	(5,216)
Acquisition of intangible assets	(619)	(256)
Proceeds on disposition of equipment	29	16
Cash flows used in investing activities	(11,275)	(5,299)
Financing Activities:		
Proceeds from notes payable	-	6,000
Repayments of notes payable	-	(750)
Payment of finance lease obligations	(96)	(99)
Purchase of shares for cancellation pursuant to normal course issuer bid	-	(255)
Issuance of capital stock	-	26
Cash flows from (used in) financing activities	(96)	4,922
Foreign exchange gain (loss) on cash and cash equivalents	1,729	(1,627)
Increase in cash and cash equivalents	(4,316)	40
Cash and cash equivalents, beginning ⁽¹⁾	7,803	2,321
Cash and cash equivalents, ending ⁽¹⁾	\$ 3,487	\$ 2,361
Supplemental non-cash financing and investing disclosure:		
Effect of acquisition of property and equipment in trade and other payables	\$ 31	\$ 1,440

⁽¹⁾ Cash and cash equivalents consist of highly liquid money market instruments with original maturity of three months or less, which are readily convertible into a known amount of cash.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
September 30, 2011 and 2010
(dollar amounts are presented in thousands of
United States dollars, except per share amounts)

1. Nature of Operations:

Peer 1 Network Enterprises, Inc. (the “Company”) was incorporated under the laws of British Columbia. The Company’s corporate headquarters are located at Suite 1000 – 555 West Hastings Street, Vancouver, British Columbia and its registered office is at Suite 1810 – 1111 West Georgia Street, Vancouver, British Columbia. These condensed interim consolidated financial statements of the as at and for the three months ended September 30, 2011 and 2010 comprise the Company and its subsidiaries (together referred to as the “Company”).

The Company is a provider of Internet infrastructure solutions and related managed services. The Company provides co-location facilities with high performance Internet bandwidth and hosting servers to web-centric and enterprise customers across North America. The Company has established local offices and data centres in Canada, the USA, and the UK and also has established points of presence in London, UK and Amsterdam in the Netherlands.

2. Basis of Preparation:

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and include the significant accounting policies as described in note 3. Those accounting policies are based on the IFRS and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

These condensed interim consolidated financial statements represent the Company’s initial presentation of its results and financial position under IFRS and were prepared in accordance with IAS 34 “Interim Financial Reporting” and by IFRS 1 “First Time Adoption of IFRS” as discussed in note 3. Items included in this note are reconciliations and descriptions of the effect of the transition from Canadian generally accepted accounting principles (“Canadian GAAP”) to IFRS on equity, comprehensive income, IFRS 1 exemptions and elections applied by the Company, an explanation of the transition to IFRS, details of significant changes in accounting policies, and presentation classifications. Comparative figures in the financial statements have been restated to consistently apply the same IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s 2011 Canadian GAAP annual consolidated financial statements and the IFRS transition disclosures included in note x to these financial statements and the additional disclosures included herein. These condensed interim consolidated financial statements, including comparatives, were prepared on a going concern basis and approved and authorised for issue by the board of directors on November 9, 2011.

The standards that are available for adoption in the consolidated financial statements for the year ending July 31, 2012 are subject to change and may be affected by additional interpretations. Accordingly, the accounting policies will be finalized when the first annual consolidated financial statements are prepared for the year ending July 31, 2012.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
September 30, 2011 and 2010
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2. Basis of Preparation: (continued)

b) Basis of measurement

These condensed interim consolidated financial statements are unaudited and have been prepared on the historical cost bases, except certain financial instruments which are measured at fair value as explained in the accounting policies set out in note 3.

c) Use of estimates and significant management judgments in applying accounting policies

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Significant Accounting Policies:

a) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries that are the entities over which the Company has control. The accounting policies of its subsidiaries are consistent with the policies adopted by the Company. Results of subsidiaries are included in the condensed interim consolidated statement of comprehensive income from the effective date of control or up to the effective date of loss of control, as appropriate.

b) Business combinations

Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Company's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of acquisition. Any excess of identifiable net assets over acquisition cost is recognised in profit or loss immediately after acquisition.

As part of its transition to IFRS, the Company elected to not retrospectively apply IFRS 3 "Business Combinations" to acquisitions which took place before the date of transition to IFRS.

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Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
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3. Significant Accounting Policies: (continued)

c) Foreign currency translation

These condensed interim consolidated financial statements are presented in United States dollars. All financial information presented in United States dollars has been rounded to the nearest thousand unless otherwise indicated.

Translation of Foreign Currency Transactions: At each balance sheet date, foreign currency monetary items are translated to reflect the exchange rate at the balance sheet date. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Translation of Foreign Operations: The translation of foreign operation financial statements at each balance sheet date for consolidation purposes requires that assets and liabilities for each balance sheet presented to be translated at the closing rate at the date of that balance sheet. Income and expenses for each income statement are translated at exchange rates at the dates of the transactions and all resulting exchanges differences are recognized as a separate component of equity.

d) Revenue recognition

The two primary sources of revenue are from Co-location Services and Hosting Services. Co-location Services includes co-location, internet bandwidth connectivity, and other co-location related services including IP monitoring, tape back-up, technical support, additional access cards, and additional power and DNS services. Hosting Services includes the provision of hosting servers and internet bandwidth connectivity. Co-location 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.

e) Finance income and finance expense

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprises interest expense on borrowings and other costs incurred to obtain debt financing, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are netted against the related indebtedness, deferred and amortized by a charge to finance costs over the term of the debt using the effective interest method.

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3. Significant Accounting Policies: (continued)

f) Borrowing costs

The Company follows the provisions of IAS 23 “Borrowing Costs” which became effective for periods beginning on or after 1 January 2009. The revised standard requires the capitalization of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a substantial period of time to get ready for their intended use or sale. In prior periods, the Company’s policy was to immediately expense those borrowing costs. In accordance with the transitional provisions of the revised standard, the Company has capitalized borrowing costs relating to qualifying assets for which the commencement date for capitalization was on or after 1 July 1, 2010. No retrospective restatement has been made for borrowing costs that have been expensed for qualifying assets with a commencement date before the effective date. Thus, it did not have an effect on the transition to IFRS.

The revised standard has decreased the Company’s reported finance expense and increased the capitalized cost of qualifying assets under construction in the current period.

g) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

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3. Significant Accounting Policies: (continued)

h) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid money market instruments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

i) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is provided on a declining balance basis since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Depreciation is determined at the following annual rates

Data Centre equipment	20%
Computer equipment	30%
Furniture and fixtures	30%
Network equipment	20%
Equipment under capital lease	20%

Servers that are included as part of the hosting product line are amortized straight line over their expected useful life, which is 36 months.

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

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.

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised as profit or loss within 'gain/loss on disposal of property and equipment.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
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3. Significant Accounting Policies: (continued)

j) 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.

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) Goodwill

Goodwill represents the excess of acquisition cost in a business combination over the fair value of the Company's share of the identifiable net assets acquired. Goodwill is recorded at the amount originally recognized less accumulated impairment losses. Fair value is determined based on the present value of discounted cash flows.

As part of its transition to IFRS, the Company elected to not retrospectively apply IFRS 3 "Business Combinations" to acquisitions which took place before the date of transition to IFRS. In respect of acquisitions prior to July 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian GAAP.

m) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

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3. Significant Accounting Policies: (continued)

m) Impairment (continued)

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant trade and other receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows of other assets or groups of assets ("cash-generating units" or "CGU"). An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment at least annually. An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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September 30, 2011 and 2010
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3. Significant Accounting Policies: (continued)

n) Leases

Leases are classified as either finance or operating leases. A lease that transfers substantially all the benefits and risks incidental to the ownership of property is classified as a finance lease. At the inception of a finance 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. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Subsequent to initial recognition, the lease is accounted for in accordance with the accounting policy applicable to that lease.

Depreciation methods and useful lives for assets held under finance lease agreements, correspond to those applied to comparable assets which are legally owned by the Company. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

Other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease terms.

Total rental costs over the term of the lease are aggregated and expensed over the term of the related leases on a straight-line basis.

o) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities, including derivatives, are measured initially at fair value. Financial assets and financial liabilities are measured subsequently as described below.

i) Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held-to-maturity financial assets; and
- available-for-sale financial assets.

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September 30, 2011 and 2010
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3. Significant Accounting Policies: (continued)

o) Financial instruments (continued)

i) Financial assets (continued)

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income. All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Cash is designated as loans and receivables and measured at amortized cost. Accounts receivable, loans and advances are designated as loans and receivables.

ii) Financial liabilities

The Company's financial liabilities include accounts payable, accrued liabilities, obligations under finance lease and loans and borrowings.

The Company recognizes financial liabilities on the date that they are originated or the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss. The Company has not designated any financial liabilities at fair value through profit or loss or as held for trading.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

p) Derivative financial instruments including hedge accounting

A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at fair value through profit or loss.

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.

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3. Significant Accounting Policies: (continued)

p) Derivative financial instruments including hedge accounting (continued)

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.

Financial instruments recognized at fair value are classified in fair value hierarchy level as follows:

- Level 1 – valuation based on unadjusted quotes prices in active markets that are assessable at the measurement date for identical assets or liabilities and amounts resulting from direct arms-length transactions.
- Level 2 – valuation techniques based on inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly for substantially the full contractual term.
- Level 3 – valuations techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities).

Hedge accounting

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 HFT. The Company may choose to designate derivative financial instruments as hedging instruments for which hedge accounting is applied.

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3. Significant Accounting Policies: (continued)

q) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation which will probably lead to an outflow of economic resources that can be estimated reliably. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values using a pre-tax rate that reflect current market assessments where the time value of money is material.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

r) Equity

Share capital represents the nominal value of common shares that have been issued. Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased for cancellation pursuant to the Company's normal course issuer bid ("NCIB"), the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

Retained earnings include all current and prior period retained profits. The excess of the purchase price over the average stated value of shares purchased for cancellation was charged to retained earnings.

s) Share-based payment transactions

The Company operates equity-settled share-based remuneration plans for its executives and key employees. The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the remuneration. All share-based remuneration is recognized as stock based compensation expense in profit and loss.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

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3. Significant Accounting Policies: (continued)

s) Share-based payment transactions (continued)

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being represented in share based payment option reserve

t) Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to common shares by the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, such as convertible notes and shares options granted. The dilutive effect is 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.

u) Future accounting pronouncements

The following Standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted if all five Standards are adopted at the same time.

(i) Financial instruments

IFRS 9 Financial Instruments (“IFRS 9”) is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. As part of the project to replace IAS 39, Financial Instruments: Recognition and Measurement, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. More specifically, the standard:

- establishes two primary measurement categories for financial assets: amortized cost and fair value;
- prescribes that classification depends on entity's business model and the contractual cash flow characteristics of the financial asset;
- eliminates the existing categories: held to maturity, available for sale, and loans and receivables.

Certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments. The Company has not early adopted the standard.

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3. Significant Accounting Policies: (continued)

u) Future accounting pronouncements (continued)

(ii) Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements (“IFRS 10”) will replace existing guidance on consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purpose Entities. The portion of IAS 27 that deals with separate financial statements will remain. IFRS 10 changes the definition of control, such that the same consolidation criteria will apply to all entities. The revised definition focuses on the need to have both “power” and “variable returns” for control to be present. Power is the current ability to direct the activities that significantly influence returns. Variable returns can be positive, negative or both. IFRS 10 requires continuous assessment of control of an investee in line with any changes in facts and circumstances.

(iii) Joint Arrangements

IFRS 11 Joint Arrangements (“IFRS 11”) will replace IAS 31 Interests in Joint Ventures (“IAS 31”), and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 defines a joint arrangement as an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control. The focus is not solely on the legal structure of joint arrangements, but rather on how the rights and obligations are shared by the parties to the joint arrangement. IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities. In addition, the Standard categorizes joint arrangements as either joint operations or joint ventures.

(iv) Disclosure of Interests in Other Entities

IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”) is the new Standard for disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Matters covered include information about the significant judgments and assumptions that any entity has made in determining whether it has control, joint control or significant influence over another entity.

(v) Separate Financial Statements

IAS 27 Separate Financial Statements (“IAS 27”) has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The amended IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent currently within the scope of the current IAS 27 Consolidated and Separate Financial Statements that is replaced by IFRS 10.

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3. Significant Accounting Policies: (continued)

u) Future accounting pronouncements (continued)

(vi) Investments in Associates and Joint Ventures

IAS 28 Investments in Associates and Joint Ventures (“IAS 28”) has been revised and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of IAS 28 Investments in Associates does not include joint ventures.

(vii) Fair Value Measurement

IFRS 13 Fair Value Measurement (“IFRS 13”) was issued by the IASB in May 2011, and is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 13 was issued to remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

(viii) Presentation of Financial Statements

IAS 1 Presentation of Financial Statements (“IAS 1”) was amended in June 2011. The amendments are effective for annual periods beginning on or after July 1, 2012. Early adoption is permitted. The amendments to IAS 1 requires companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (“OCI”) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

(ix) The IASB is expected to publish new IFRSs on the following topics during 2012. The Company will assess the impact of these new standards on the Company’s operations as they are published:

- Leases
- Revenue recognition

4. Derivative Liabilities

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

	Sept 30, 2011	June 30, 2011	July 1, 2010
Derivative financial instruments designated as cash flow hedges			
Interest – rate swap agreement	\$ 1,922	\$ 1,125	\$ 341

The interest rate swap matures at the same time as the loans and borrowings described in Note 7.

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5. Property and Equipment

	Computer equipment	Data center equipment	Dedicated servers	Furniture and fixtures	Leasehold improvements	Network equipment	Total
Cost:							
Balance, July 1, 2010	\$ 3,717	\$ 9,565	\$ 48,988	\$ 794	\$ 28,027	\$ 17,425	\$ 108,516
Additions	1,859	2,678	16,963	65	25,773	2,725	50,063
Disposals	-	(92)	(1,893)	-	-	-	(1,985)
Currency translation adjustment	120	643	346	13	2,195	701	4,018
Balance, June 30, 2011	5,696	12,794	64,404	872	55,995	20,851	160,612
Additions	365	676	8,258	4	3,023	1,367	13,693
Disposals	(201)	-	(479)	-	-	(16)	(696)
Currency translation adjustment	(129)	(626)	(1,114)	(11)	(3,065)	(619)	(5,564)
Balance, Sept 30, 2011	5,731	12,844	71,069	865	55,953	21,583	168,045
Depreciation:							
Balance, July 1, 2010	(1,310)	(4,358)	(31,858)	(401)	(7,927)	(7,959)	(53,813)
Depreciation	(942)	(1,320)	(11,381)	(133)	(3,584)	(1,983)	(19,343)
Disposals	-	83	1,893	-	-	-	1,976
Currency translation adjustment	(57)	(264)	(54)	-	(296)	(340)	(1,011)
Balance, June 30, 2011	(2,309)	(5,859)	(41,400)	(534)	(11,807)	(10,282)	(72,191)
Depreciation	(236)	(325)	(3,248)	(25)	(1,143)	(416)	(5,393)
Disposals	133	-	479	-	-	6	618
Currency translation adjustment	66	308	730	7	505	335	1,951
Balance, Sept 30, 2011	(2,346)	(5,876)	(43,439)	(552)	(12,445)	(10,357)	(75,015)
Net carrying amount:							
Balance, July 1, 2010	2,407	5,207	17,130	393	20,100	9,466	54,703
Balance, June 30, 2011	3,387	6,935	23,004	338	44,188	10,569	88,421
Balance, Sept 30, 2011	3,385	6,968	27,630	313	43,508	11,226	93,030

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6. Intangible Assets

	Licenses	Computer software	Goodwill	Total
Cost:				
Balance, July 1, 2010	\$ 4,727	\$ 6,181	\$ 2,363	\$ 13,271
Additions	-	1,388	-	1,388
Disposals	-	-	-	-
Currency translation adjustment	-	93	-	93
Balance, June 30, 2011	4,727	7,662	2,363	14,752
Additions	-	638	-	638
Disposals	-	-	-	-
Currency translation adjustment	-	(51)	-	(51)
Balance, Sept 30, 2011	4,727	8,249	2,363	15,339
Amortization:				
Balance, July 1, 2010	(4,727)	(2,623)	-	(7,350)
Amortization expense	-	(735)	-	(735)
Disposals	-	-	-	-
Currency translation adjustment	-	(31)	-	(31)
Balance, June 30, 2011	(4,727)	(3,389)	-	(8,116)
Amortization expense	-	(271)	-	(271)
Disposals	-	-	-	-
Currency translation adjustment	-	31	-	31
Balance, Sept 30, 2011	(4,727)	(3,629)	-	(8,356)
Net carrying amount:				
Balance, July 1, 2010	-	3,558	2,363	5,921
Balance, June 30, 2011	-	4,273	2,363	6,636
Balance, Sept 30, 2011	-	4,620	2,363	6,983

7. Loans and Borrowings

On November 9, 2010, the Company entered into credit agreement (the “CA”) with National Bank of Canada as Agent (the “Agent”) under which the Agent and other lenders (the “Lenders”) agreed to provide the Company with two credit facilities (the “Facilities”): a revolving facility (the “Revolving Facility”) for a term of five years, for up to \$30,000,000 (or the Canadian dollar equivalent); and a non-revolving facility (the “Non-Revolving Facility”) for a term of five years for up to \$45,000,000 (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 the Revolving Facility. At the Company’s option, the Company can convert Loans from one type to another. Both Facilities mature five years after the closing date. The Revolving Facility has an accordion feature (the “Accordion Feature”), which allows the Company to borrow up to an additional \$25,000,000. The Accordion Feature must be drawn in multiples of \$5,000,000 and is available to be drawn down up to 90 days preceding the Maturity Date. Repayment terms of the Accordion Feature are the same of those under the Revolving Facility.

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7. Loans and Borrowings (continued)

Loans and borrowings as of September 30, 2011 include amounts payable to National Bank of Canada. Amounts are shown net of related transaction and financing costs. Details are as follows:

	Sept 30, 2011	June 30, 2011	July 1, 2010
Loans and borrowings under non-revolving term	\$ 43,356	\$ 44,515	\$ 12,750
Loans and borrowings under revolving term facility	13,356	14,515	7,000
Less: unamortized deferred loan origination fees	(820)	(960)	(346)
Loans and borrowings, net of related transaction and financing costs	55,892	58,070	19,404
Less: current portion	(6,503)	(5,008)	(3,000)
	\$ 49,389	\$ 53,062	\$ 16,404

(a) On May 29, 2009, the Company entered into a credit agreement with National Bank of Canada for a three year revolving facility up to US\$25 million ("Facility A"). Facility A was fully paid off on December 14, 2010. On November 9, 2010, the Company entered into a credit agreement with National Bank as Agent under which the Agent and other lenders agreed to provide the Company with a revolving facility (the "Revolving Facility") for a term of five years, for up to \$30,000,000 (or the Canadian dollar equivalent). As of September 30, 2011, the Company has advanced CDN\$14 million under the revolving facility.

(b) On May 29, 2009, the Company entered into a credit agreement with National Bank of Canada for a three year revolving facility up to US\$15 million ("Facility B"). Facility B was fully paid off on December 14, 2010. On November 9, 2010, the Company entered into a credit agreement with National Bank as Agent under which the Agent and other lenders agreed to provide the Company with a non-revolving facility (the "Non-Revolving Facility") for a term of five years for up to \$45,000,000 (or the Canadian equivalent). As of September 30, 2011, the Company has advanced US\$30 million and CDN\$14 million under the non-revolving facility.

Borrowing costs of \$0.15 million (FY2011:\$0.001 million) have been capitalized for the quarter ended September 30, 2011. The capitalization rate is 5.28% (FY2011: 6.58%) and is related to interest capitalization of borrowing cost related to the build-out of the Portsmouth data center.

8. Shareholders' Equity

Capital Stock:

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

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8. Shareholders' Equity

Stock Options:

The Company's stock-based compensation plans include an Employee Stock Option Plan ("Option Plan").

In 2002, the Company's Board of Directors adopted the Option Plan (as amended in 2006 and 2008), which provided for a maximum of 20% of the number of common shares outstanding to be allocated to Option Plan participants.

Terms and conditions of options granted under the Option Plan are determined solely by the Company's Board of Directors. Under the Option Plan, the exercise price of each option equals the last trading price on the Toronto Stock Exchange on the day prior to the option grant date. The term of option grants may not exceed 10 years from the date of the grant of the option. Generally, options are granted with a three year vesting period (1/3 vesting on the 1st anniversary of the grant, and thereafter 1/24th of the remaining unvested Options vest monthly) with the total grant expiring generally four or five years after the grant date.

During the three months ended September 30, 2011, 85,889 options were exercised. (three months ended September 30, 2010: 47,285). During the three months ended September 30, 2011, there were no shares purchased for cancellation pursuant to normal course issuer bid (during the three months ended September 30, 2010: 189,500 shares were repurchased and cancelled).

As at September 30, 2011, the Company had 21,655,350 stock options outstanding (September 30, 2010: 18,653,300).

9. 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:

	Sept 30, 2011	Sept 30, 2010
Transactions during the period:		
Revenue earned from companies owned or subject to significant influence by directors and principal shareholders	\$ 25	\$ 34
Other expenses from companies owned or subject to significant influence by directors and principal shareholders	\$ -	\$ -

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9. Related Party Balances and Transactions (continued)

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.

	Sept 30, 2011		Sept 30, 2010
<hr/>			
Balances at the end of the period:			
Accounts receivable from companies owned or subject to significant influence by directors and principal shareholders	\$	-	\$ -
Accounts payable to companies owned or subject to significant influence by directors and principal shareholders	\$	-	\$ -
<hr/>			

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

10. 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 at September 30, 2011, the Company's capital totaled \$98,146 (June 30, 2011: \$95,105).

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 includes the maintenance of financial ratios. The Company's overall strategy with respect to capital risk management remains unchanged for the three months ended September 30, 2011.

11. 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.

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11. Financial Risk Management (continued)

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 cash and cash equivalents and trade and other receivables. 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 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 September 30, 2011 and June 30, 2011, no single customer represented more than 5% of accounts receivable. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance is a specific loss component that relates to individually significant exposures, and an overall loss component established based on historical trends and other information. Trade accounts receivable are written off against the allowance account after management has determined that the loss is probable. As at September 30, 2011, the Company had an allowance for doubtful accounts of \$671 (June 30, 2011: 383). At September 30, 2011 and June 30, 2011, the Company had no individually material past due trade accounts receivables.

The following table provides the aging analysis of accounts receivable:

	Sept 30, 2011	June 30, 2011	July 1, 2010
Total trade and other receivables	\$ 5,952	\$ 6,830	\$ 3,834
Less: allowance for doubtful accounts	(671)	(383)	(585)
Trade and other receivables, net	\$ 5,281	\$ 6,447	\$ 3,249
Of which:			
Not overdue	\$ 2,697	\$ 2,190	\$ 1,121
1-30 days	1,203	1,605	1,470
31-60 days	478	218	440
61-90 days	202	161	129
91 days and over	324	152	28
Less: allowance for doubtful accounts	(671)	(383)	(585)
Trade and other receivables – other	1,048	2,504	646
Trade and other receivables, net	\$ 5,281	\$ 6,447	\$ 3,249

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11. Financial Risk Management (continued)

b) Credit risk: (continued)

The following table reflects the movement in the allowance for doubtful accounts:

	Sept 30, 2011	June 30, 2011	July 1, 2010
Allowance for doubtful accounts, beginning	\$ 383	\$ 585	\$ 585
Foreign exchange effect on opening balance	(8)	8	-
Bad debt expense	298	426	-
Write-off of uncollectible accounts	(2)	(636)	-
Allowance for doubtful accounts, ending	\$ 671	\$ 383	\$ 585

c) Liquidity:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at September 30, 2011, the Company had financial assets held for trading of \$3,487 (June 30, 2011: \$7,803), loans and receivables of \$5,281 (June 30, 2011: \$6,447) and other financial liabilities of \$68,853 (June 30, 2011: \$68,261). 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 subject to interest rate risk on its cash and cash equivalents. A change of 1% in interest rates for the three months ended September 30, 2011 would have changed net income by \$0.14 million (September 30, 2010: \$0.06 million).

e) Currency risk:

The Company's functional currencies are Canadian Dollars, US Dollars and UK Pounds Sterling. The Company is exposed to currency risk for sales and purchases that are denominated in Canadian Dollars, Euros and UK Pound Sterling and has not entered into derivative contracts to limit its exposure to foreign exchange risk.

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11. Financial Risk Management (continued)

f) 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 finance 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.

12. Segment Information

Operating segment

The Company operates in a single reportable operating segment which involves the provision of outsourced data center infrastructure services. The Company's service offerings include the provision of physical space within its data centres, a complete suite of managed and dedicated hosting services and high availability bandwidth connectivity.

Segment information is presented in accordance with IFRS 8 "Operating Segments" for all periods presented. IFRS 8 only requires disclosure of segment information. There was no effect on the recognition and measurement of financial statement items upon transition to IFRS.

Geographic segments

The Company presents geographic segment information for Canada, US, and the UK. The Company's revenues, assets and liabilities by geographic areas for the three months ended September 30, 2011 and September 30, 2010 are as follows:

	Canada	USA	UK	Sept 30, 2011
Revenue	\$ 8,310	\$ 21,865	\$ 1,336	\$ 31,511
Current assets	2,756	6,110	3,121	11,987
Non-current assets	37,645	48,520	20,478	106,643
Total assets	\$ 40,401	\$ 54,630	\$ 23,599	\$ 118,630
Current liabilities	9,454	9,141	1,760	20,355
Non-current liabilities	51,238	3,490	298	55,026
Total liabilities	\$ 60,692	\$ 12,631	\$ 2,058	\$ 75,381

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12. Segment Information (continued)

	Canada	USA	UK	Sept 30, 2010
Revenue	\$ 5,482	\$ 20,270	\$ 576	\$ 26,328
Current assets	3,166	5,262	751	\$ 9,179
Non-current assets	27,605	41,156	2,490	71,251
Total assets	\$ 30,771	\$ 46,418	\$ 3,241	\$ 80,430
Current liabilities	5,711	8,895	364	14,970
Non-current liabilities	22,113	552	41	22,706
Total liabilities	\$ 27,824	\$ 9,447	\$ 405	\$ 37,676

13. First Time Adoption of International Financial Reporting Standards (IFRS)

a) Explanation of transition to IFRS

These are the Company's first condensed interim consolidated financial statements prepared in accordance with IFRS. The Company has adopted IFRS on July 1, 2011 with a date of transition of July 1, 2010, and this is date on which the Company prepared its opening IFRS balance sheet.

The Company's IFRS accounting policies presented in note 3 have been applied in preparing the condensed interim consolidated financial statements for the three months ended September 30, 2011, the comparative information presented in these financial statements for the year ended June 30, 2011 and the three months ended September 30, 2010, and in the preparation of an opening IFRS statement of financial position at July 1, 2010.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Under IFRS 1 "First-time Adoption of International Financial Accounting Standards" the IFRS are applied retrospectively at the transition date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied.

b) Exceptions and Exemptions

In preparing these condensed interim consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain optional exemptions from full retrospective application of IFRS. Below describes the IFRS 1 applicable exceptions and exemptions applied by the Company in the conversion from Canadian GAAP to IFRS.

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13. First Time Adoption of International Financial Reporting Standards (IFRS) (continued)

b) Exceptions and Exemptions (continued)

Mandatory exceptions adopted by the Company:

- 1) The Company has only applied hedge accounting in the opening statement of financial position where all the requirements in IAS 39 were met at the date of transition.
- 2) The Company has used estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error.

Optional exemptions adopted or not adopted by the Company:

1) *IFRS 3 Business Combinations*

IFRS 1 indicates that a first-time adopter may elect not to adopt IFRS 3 “Business Combinations” retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the transition date.

2) *IAS 27 Consolidated and Separate Financial Statements*

In accordance with IFRS 1, if a company elects to apply IFRS 3 retrospectively, IAS 27 “Consolidated and Separate Financial Statements” must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

3) *IAS 21 The Effects of Changes in Foreign Exchange Rates*

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 “The Effects of Changes in Foreign Exchange Rates” for cumulative translation differences that exists at the date of transition to IFRS. The Company has chosen to apply this election. The Company has deemed the cumulative translation differences for foreign operations at the date of transition to be zero. Adjustments to give effect to this are recorded against opening equity. After the date of transition, translation differences arising on translation of foreign operations are recognised in other comprehensive income and included in a separate 'translation reserve' within equity. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

4) *IFRS 2 Share-based Payments*

IFRS 1 encourages, but does not require, first time adopters to apply IFRS 2 “Share-based Payment” to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010.

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13. First Time Adoption of International Financial Reporting Standards (IFRS) (continued)

b) Exceptions and Exemptions (continued)

5) *IAS 32 Financial Instruments Presentation*

The Company has elected to not apply split accounting to a compound instrument since the liability component of that instrument is no longer outstanding on July 1, 2010, the date of transition to IFRS.

6) *IAS 23 Borrowing Costs*

The Company has elected to apply the transitional provisions of IAS 23 “Borrowing Costs” and commence capitalizing borrowing costs for qualifying assets on July 1, 2010, the date of transition to IFRS.

c) Reconciliations of Canadian GAAP to IFRS

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reporting previously in financial statements prepared in accordance with Canadian GAAP. Presented below are reconciliations and explanations prepared by the Company to reconcile to IFRS the equity, comprehensive income, and cash flows from those previously reported under Canadian GAAP.

	Note	Three months ended Sept 30, 2010	Twelve months ended June 30, 2011
Profit reported under Canadian GAAP		\$ 356	\$ (1,108)
IFRS adjustments increase / (decrease):			
Depreciation – effect of change in foreign exchange	ii	(31)	(327)
Stock based compensation – share based payment transactions	iv	(910)	(1,235)
Unrealized foreign exchange – revaluation of transactions and operations – effect of change in foreign exchange.	ii	1,646	3,524
Capitalization of borrowing costs	v	1	349
Income Taxes – Share Based Payments	viii	8	698
Gain amortization – deferred gain on sales and leaseback transaction	iii	(20)	(78)
Hedge accounting – swap mark to market	vi	(11)	(579)
Profit reported under IFRS		\$ 1,039	\$ 1,244
Accumulated Other comprehensive income reported under Canadian GAAP		\$ (11)	\$ (579)
IFRS adjustments increase / (decrease):			
Hedge accounting – swap mark to market	vi	11	579
Unrealized foreign exchange – translation adjustment – effect of changes in foreign exchange.	ii	2,201	4,461
Unrealized foreign exchange – revaluation of intercompany net investment – effect of changes in foreign exchange.	ii	(1,090)	(4,070)
Other comprehensive income reported under IFRS		\$ 1,111	\$ 391
Accumulated comprehensive income reported under IFRS		\$ 2,150	\$ 1,635

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13. First Time Adoption of International Financial Reporting Standards (IFRS) (continued)

c) Reconciliations of Canadian GAAP to IFRS (continued)

	July 1, 2010	Sept 30, 2010	June 30, 2011
Equity under Canadian GAAP	\$ 39,788	\$ 40,361	\$ 40,340
IFRS adjustments increase / (decrease):			
Current and deferred tax arising from share based payment	viii (1,304)	(1,304)	(974)
Deferred gain on sales and leaseback transaction	iii 493	473	414
Unrealized foreign exchange – revaluation of transactions and operations – effect of change in foreign exchange.	ii 504	3,238	4,481
Stock based compensation – Share based payment transactions	iv -	(910)	(1,255)
Capitalization of borrowing costs	v -	1	349
Share based payments reserve – Share based payment transactions	iv -	910	1,235
Equity under IFRS	\$ 39,481	\$ 42,769	\$ 44,590

d) Notes to the reconciliations

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The adoption of IFRS has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP financial statements have been reconciled to IFRS, with the resulting differences explained.

i) Cumulative translation differences

At the date of transition to IFRS, as allowed by International Financial Reporting Standard 1 First Time Adoption of International Financial Reporting Standards, the Company has elected to use the exemption which deems cumulative translation differences for all foreign operations to be zero at the date of transition, July 1, 2010.

ii) The effect of changes in foreign exchange rates

As part of the transition to IFRS, the Company identified differences in the application of functional currencies to companies in its consolidated financial statements in accordance with IAS 21, Effects of Changes in Foreign Exchange Rates, compared to previous Canadian GAAP. This resulted in an increase to the total comprehensive income of \$2,735 at September 30, 2010 (June 30, 2011- \$3,588 and July 1, 2010 an increase to retained earnings of \$505).

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13. First Time Adoption of International Financial Reporting Standards (IFRS) (continued)

d) Notes to the reconciliations (continued)

iii) Deferred gain on sales and leaseback transactions

Previously, Canadian GAAP required that gains arising on sales and leaseback transactions be deferred and amortized over the term of the resulting lease. IFRS requires that where the original sale was at fair value that the gain be recognized in income immediately. This resulted in an increase to the liability in the amount of \$20 at September 30, 2010 (June 30, 2011 an increase in liability of \$78; July 1, 2010 an increase of \$493). The impact on amortization for the quarter is a decrease in the gain amortization of \$20 at September 30, 2010.

iv) Share-based payment transactions

The Company has elected under IFRS to not apply IFRS 2, Share Based Payments to equity awards that vested and liability awards that settled prior to July 1, 2010 in determining the adjustment at July 1, 2010. The Company recorded an additional share-based payments expense of \$910 for the three month period ended September 30, 2010 and \$1,235 for the year ended June 30, 2011 under IFRS arising from the measurement of differences described above.

v) Borrowing costs

The Company has elected to apply the transitional election of IAS 23, Borrowing Costs, and commence capitalizing borrowing costs for qualifying assets on July 1, 2010. This has resulted in \$1 of interest being capitalized on major projects at September 30, 2010 (June 30, 2011 - \$349).

vi) Hedge accounting

IFRS 1 requires a Company to recognize, classify and appropriately measure all financial assets and financial liabilities at the date of transition in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The Company has only applied hedge accounting in the opening statement of financial position where all requirements in IAS 39 were met at the date of transition. This has resulted in an adjustment of \$341 at July 1, 2010. The Company did not meet the requirements of cash flow hedge under IAS 39 on the date of transition and has accounted for its hedges as such. Under cash flow hedge accounting, derivative financial instruments are marked to market at each period and unrealized gains or losses are recognized in the consolidated statements of comprehensive income to the extent the hedging relationship is effective. This has resulted in an adjustment to other comprehensive income at September 30, 2010 of \$11 (June 30, 2011 \$579) and a decrease to profit of \$11 (June 30, 2011 \$579).

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13. First Time Adoption of International Financial Reporting Standards (IFRS) (continued)

d) Notes to the reconciliations (continued)

vii) Reclassification of contributed surplus

The Company grants stock options to certain directors and certain employees of the Company as an element of compensation. In accordance with Canadian GAAP, the grant date fair value of such options is recognized as compensation expense over the related service period with a corresponding increase in contributed surplus.

In accordance with IFRS, contributed surplus does not arise as a result of the granting of stock options. Accordingly, contributed surplus related to stock options has been reclassified to the "Share-based payments reserve" which is a separate component of equity. The reclassification of this balance had no impact on net equity as at transition to IFRS.

viii) Current and deferred tax arising from share based payment

Previously, Canadian GAAP allowed for the deferred tax asset for a stock option to be determined based on the options fair value on the date the option is granted. Under IFRSs the deferred tax asset is based on the tax deduction that would be available based on the current share price at each reporting date based on the intrinsic value. This resulted in an increase to the deferred tax asset in the amount of \$8 at September 30, 2010 (June 30, 2010 - \$698; and a decrease of deferred tax asset at July 1, 2010 - \$187).

e) Cash flows

The adoption of IFRS has had no impact on the net flows of the Company. The changes made to the consolidated balance sheets and consolidated statements of operations and comprehensive income have resulted in the reclassification of amounts on the statements of cash flows, however as there have been no changes to the net cash flows. IAS 7 "Statement of Cash Flows" requires that cash flows relating to finance expense/interest and income tax to be disclosed separately within the statement classifications. Under Canadian GAAP these amounts were previously disclosed as a note to the statement of cash flows. These amounts have been separately disclosed under 'operating activities' within the consolidated statement of cash flows under IFRS.

f) Presentation reclassifications

IAS 12 "Income Taxes" requires that all deferred income tax items be classified as non-current in the balance sheet. The total amount presented as 'Current portion of future income tax benefits' under Canadian GAAP has been reclassified to 'Deferred tax assets'.