



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**

PEER 1 NETWORK ENTERPRISES, INC.
Consolidated Balance Sheets
September 30, 2010
(in thousands of United States dollars)

	September 30, 2010	June 30, 2010
Assets		
Current:		
Cash and cash equivalents	\$ 2,361	\$ 2,321
Accounts receivable	3,219	3,249
Income tax receivable	1,689	623
Future income tax asset	94	97
Prepaid expenses	3,548	1,655
	10,911	7,945
Other assets	2,531	2,688
Future income tax asset	2,310	1,900
Property and equipment	55,710	53,237
Equipment under capital lease	920	986
Goodwill	2,363	2,363
Intangible assets	3,722	3,527
	\$ 78,467	\$ 72,646
Liabilities		
Current:		
Accounts payable and accrued liabilities	\$ 9,039	\$ 9,114
Deferred revenue	2,347	2,216
Current portion of deferred gain	79	79
Current portion of deferred lease inducements	126	126
Current portion of derivative liabilities (Note 2)	201	170
Current portion of notes payable (Note 3)	3,000	3,000
Current portion of obligations under capital lease	378	376
	15,170	15,081
Deferred gain	394	414
Deferred lease inducements	539	557
Derivative liabilities (Note 2)	151	170
Notes payable (Note 3)	21,709	16,404
Obligation under capital lease	143	232
	38,106	32,858
Shareholders' equity (Note 4)	40,361	39,788
	\$ 78,467	\$ 72,646

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

	Three months ended			
	September 30, 2010		September 30, 2009	
	Number	Amount	Number	Amount
SHARE CAPITAL (Note 4)				
Common shares				
Balance at beginning of period	119,721,834	\$ 27,631	119,314,323	\$ 26,950
Stock options exercised	47,285	47	113,375	59
Warrants exercised	-	-	1,628,286	781
Purchase of shares for cancellation pursuant to normal course issuer bid	(189,500)	(44)	-	-
Balance at end of period	119,579,619	27,634	121,055,984	27,790
CONTRIBUTED SURPLUS				
Balance at beginning of period		6,804		4,766
Stock-based compensation		457		563
Stock options exercised		(21)		(22)
Balance at end of period		7,240		5,307
Warrants				
Balance at beginning of period	833,333	86	2,461,619	493
Warrants exercised	-	-	(1,628,286)	(407)
Balance at end of period	833,333	86	833,333	86
RETAINED EARNINGS				
Balance at beginning of period		5,619		4,709
Net income		356		1,267
Purchase of shares for cancellation pursuant to normal course issuer bid		(211)		-
Balance at end of period		5,764		5,976
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Balance at beginning of period		(352)		(279)
Other comprehensive loss		(11)		(82)
Balance at end of period		(363)		(361)
Total - shareholders' equity		\$ 40,361		\$ 38,798

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

	September 30, 2010	September 30, 2009
Revenue		
Colocation Services	\$ 7,093	\$ 6,628
Hosting Services	19,235	16,746
	26,328	23,374
Cost of revenue	16,257	13,711
Gross profit	10,071	9,663
Operating expenses	8,864	7,185
Operating income before other items	1,207	2,478
Other items:		
Interest income	(13)	(4)
Gain on insurance recovery		(93)
Gain on disposal of property and equipment	(16)	(12)
Foreign exchange loss (gain)	(53)	80
Interest expense – long term	364	313
	282	284
Income before income taxes	925	2,194
Future income tax expense (recovery)	(371)	(297)
Current income tax expense	940	1,224
Income tax expense	569	927
Net income	\$ 356	\$ 1,267
Other comprehensive income:		
Change in unrealized fair value of derivatives designated as cash flow hedges	(11)	(82)
Comprehensive income	\$ 345	\$ 1,185
Net income attributable to:		
Common shares	\$ 356	\$ 1,267
Comprehensive income attributable to:		
Common shares	345	1,185
Basic and diluted earnings per share	\$ 0.00	\$ 0.01
Weighted average number of shares outstanding:		
Basic	119,733,661	119,508,564
Diluted	120,728,588	123,296,839

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

	Three months ended	
	September 30, 2010	September 30, 2009
Operating Activities:		
Net income	\$ 356	\$ 1,267
Adjustments for non-cash items:		
Amortization of property and equipment	4,249	3,151
Amortization of intangible assets	116	323
Increase in accrued interest	-	-
Bad debt expense	112	158
Gain on disposal of property and equipment	(16)	(12)
Gain on insurance	-	(93)
Amortization of deferred gain	(20)	(19)
Amortization of deferred loan origination fees	55	49
Future income tax recovery	(371)	(297)
Stock-based compensation included in income	457	562
Decrease in deferred lease inducements	(18)	(36)
Changes in non-cash working capital:		
Increase in accounts receivable	(81)	(507)
Increase in prepaid expenses	(1,893)	(87)
Decrease in accounts payable and accrued liabilities	(1,573)	(158)
Decrease in income taxes payable	(1,066)	(2,423)
Decrease in deferred revenue	131	84
Cash flows from operating activities	438	1,962
Investing Activities:		
Acquisition of subsidiary, net of cash acquired		-
Investment in other assets	157	(91)
Acquisition of property and equipment	(5,216)	(5,958)
Acquisition of intangible assets	(256)	(324)
Proceeds on disposition of equipment	16	12
Cash flows used in investing activities	(5,299)	(6,361)
Financing Activities:		
Proceeds from line of credit	6,000	-
Repayments of notes payable	(750)	-
Payment of capital lease obligations	(99)	(55)
Issuance of capital stock	26	411
Purchase of shares for cancellation pursuant to normal course issuer bid	(255)	-
Cash flows from (used in) financing activities	4,922	356
Foreign exchange gain (loss) on cash and cash equivalents	(21)	53
Increase (decrease) in cash and cash equivalents	40	(3,990)
Cash and cash equivalents, beginning	2,321	15,744
Cash and cash equivalents, ending	\$ 2,361	\$ 11,754
Supplemental Disclosure of Cash Flow Information (Note 5)		

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
As at and for the three months ended September 30, 2010 and 2009
(in thousands of United States dollars, except per share amounts)

1. Significant Accounting Policies:

a) Nature of Operations:

Peer 1 Network Enterprises, Inc. (the "Company") was incorporated under the laws of British Columbia. The Company is a provider of Internet infrastructure solutions and related managed services. The Company provides colocation facilities with high performance Internet bandwidth and hosting servers to web-centric and enterprise customers in North America and the UK. The Company has established local offices and data centres in Canada, USA, and the UK, and also has established points of presence in London, UK and Amsterdam in the Netherlands. The corporate headquarters are in Vancouver.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly do not include all information and note disclosures required for the annual financial statements under Canadian generally accepted accounting principles. It is management's opinion that all adjustments considered necessary for fair presentation of the financial position, results of operations and cash flow for the interim periods presented have been made. These financial statements have been prepared in accordance with the same accounting principles applied in the preparation of the annual audited consolidated financial statements filed with the British Columbia Securities Commission for the fiscal year ended June 30, 2010. The annual financial statements should be referenced in conjunction with this interim report. Certain comparative amounts have been reclassified to correspond to the presentation in the current period.

b) Basis of Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Peer 1 Network (USA) Inc., Colobrokers.com Inc., 585065 B.C. Ltd., Inc. Peer 1 (UK) Ltd., and VIA Net.Works USA, Inc. As at June 30, 2010, the following companies were merged into Peer 1 Network (USA) Inc.: Peer 1 Network (Seattle) Inc., Peer 1 Network (San Jose) Inc., Peer 1 Network (New York) Inc., Peer 1 Network (Nevada) GP, Inc., Peer 1 Network (Nevada) LP, Inc., ServerBeach Ltd., Data Center Technologies IP Inc., Peer 1 Dedicated Hosting Inc., Peer 1 Network (Texas), LP, Peer 1 Network (LA).

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

c) Recent Accounting Pronouncements:

- i) In January 2009, the CICA issued Section 1582, “Business Combinations”, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its financial statements.
- ii) In January 2009, the CICA issued Handbook Section 1601, “Consolidated Financial Statements”, which replaces the existing standard. This Section carries forward existing Canadian guidance for preparing consolidated financial statements other than non-controlling interests. The Section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- iii) In January 2009, the CICA issued Section 1602, “Non-controlling Interests”, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 1, 2011 with earlier adoption permitted. As of September 30, 2010 the Company has no non-controlling interests, and accordingly there is no currently expected impact as a result of the standard.
- iv) In June 2009, the CICA amended Handbook Section 3855, "Financial Instruments - Recognition and Measurement", to clarify the application of the effective interest method after a debt instrument has been impaired. The Section has also been amended to clarify when an embedded prepayment option is separated from its host instrument for accounting purposes. The amendments apply to interim and annual financial statements relating to fiscal years beginning on or after May 1, 2009 for the amendments relating to the effective interest method and January 1, 2011 for the amendment relating to embedded prepayment options. The Company is currently evaluating the impact of the amendments relating to embedded prepayment options.

PEER 1 NETWORK ENTERPRISES, INC.
Notes to Consolidated Financial Statements
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2. Derivative Liabilities:

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

	September 30, 2010	June 30, 2010
Derivative financial instruments designated as cash flow hedges		
Interest – rate swap agreement	\$ 352	\$ 341

The interest rate swap matures at the same time as the notes payable described in Note 3.

3. Notes Payable:

Notes payable as of September 30, 2010 include amounts payable to National Bank of Canada. Pursuant to the adoption of CICA Handbook Section 3855, amounts are shown net of related transaction and financing costs. Details are as follows:

	September 30, 2010	June 30, 2010
Notes payable - Credit Facility A (Line of Credit)	\$ 13,000	\$ 7,000
Notes payable - Credit Facility B	12,000	12,750
Less: unamortized deferred loan origination fees	(291)	(346)
Notes payable, net of related transaction and financing costs	24,709	19,404
Less: current portion	(3,000)	(3,000)
	\$ 21,709	\$ 16,404

4. Shareholders' Equity:

Capital Stock

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

Warrants

The following non-transferable share purchase warrants are outstanding:

Exercise Price	Outstanding at June 30, 2010	Issued	Exercised	Outstanding at Sept 30, 2010	Expiry Date
CDN\$0.40	833,833	-	-	833,333	January 31, 2011

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Notes to Consolidated Financial Statements
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4. Shareholders' Equity: (continued)

Stock Options

As at September 30, 2010, the Company had 18,653,300 stock options outstanding.

Normal Course Issuer Bid

Pursuant to the Company's normal course issuer bid (NCIB), as approved by the Toronto Stock Exchange, the Company is entitled to acquire from April 16, 2010 to April 15, 2011 up to 6,064,731 common shares of the Company's issued and outstanding shares as at April 12, 2010. For the three months ended September 30, 2010, the Company has purchased for cancellation a total of 189,500 common shares under this program for \$255. The Company has purchased for cancellation a total of 1,832,286 common shares under the NCIB. The excess of the purchase price over the average stated value of shares purchased for cancellation was charged to retained earnings.

	Common shares purchased for cancellation	Charged to share capital	Charged to retained earnings	Paid
Balance, June 30, 2010	1,642,786	\$ 379	\$ 1,331	\$ 1,710
Purchased during the period	189,500	44	211	255
Balance, Sept 30, 2010	1,832,286	\$ 423	\$ 1,542	\$ 1,965

5. Supplemental Disclosure of Cash Flow Information:

	September 30, 2010	September 30, 2009
Interest paid	\$ 274	\$ 90
Income taxes paid	1,959	3,647
Interest received	13	4
Effect of acquisition of property and equipment in accounts payable	\$ 1,440	\$ 1,696

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6. 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:

	September 30, 2010	September 30, 2009
Transactions during the period:		
Revenue earned from companies owned or subject to significant influence by directors and principal shareholders	\$ 34	\$ 28
Other expenses from companies owned or subject to significant influence by directors and principal shareholders	\$ -	\$ -

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.

	September 30, 2010	September 30, 2009
Balances at the end of the period:		
Accounts receivable from companies owned or subject to significant influence by directors and principal shareholders	\$ -	\$ 170
Accounts payable to companies owned or subject to significant influence by directors and principal shareholders	\$ -	\$ -

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

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7. 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.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its board of directors, will balance its overall capital structure through new share issues, share repurchases, the payment of dividends, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is subject to externally imposed capital requirements as required under the terms of its loan agreement, which include the maintenance of financial ratios. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2010

8. Financial Risk Management:

a) Overview:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Management has overall responsibility for the oversight of the Company's risk management within parameters established by the board of directors.

b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The carrying amount of financial assets represents the maximum credit exposure. The Company has adopted a credit policy which includes a requirement for payment at commencement of service for dedicated hosting customers and colocation customers.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are primarily located in the United States, Canada and the UK and represent various industries. At September 30, 2010, no single customer represented more than 5% of accounts receivable. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance is a specific loss component that relates to individually significant exposures, and an overall loss component established based on historical trends and other information. Trade accounts receivable are written off against the allowance account after management has determined that the loss is probable. As at September 30, 2010, the Company had an allowance for doubtful accounts of \$624. At September 30, 2010, the Company had no individually material past due accounts receivables.

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8. Financial Risk Management: (continued)

b) Credit risk: (continued)

	September 30, 2010
Total accounts receivable	\$ 3,843
Less: allowance for doubtful accounts	(624)
Accounts receivable, net	\$ 3,219
Of which:	
Not overdue	\$ 1,254
1-30 days	1,472
31-60 days	303
61-90 days	109
91 days and over	72
Less: allowance for doubtful accounts	(624)
Accounts receivable – other	633
Accounts receivable, net	\$ 3,219

	September 30, 2010
Allowance for doubtful accounts, beginning	\$ 585
Foreign exchange effect on opening balance	3
Bad debt expense	112
Write-off of uncollectible accounts	(76)
Allowance for doubtful accounts, ending	\$ 624

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8. Financial Risk Management: (continued)

c) Liquidity risk:

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

As at September 30, 2010, the Company had financial assets held for trading of \$2,361, loans and receivables of \$3,219 and other financial liabilities of \$34,270. All of the Company's financial liabilities have contracted maturities of less than 3 years. The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The Company provides its services in the United States, Canada and the UK, substantially all of the Company's financial assets and liabilities originate in United States dollars, Canadian dollars and UK Pound Sterling. The Company is exposed to currency risk for sales and purchases that are denominated in Canadian dollars, Euros and UK Pound Sterling and may enter into derivative contracts to limit its exposure to foreign exchange risk. The Company is subject to interest rate risk on its cash and cash equivalents. A change of 1% in interest rates for the three months ended September 30, 2010 would have changed net income by \$63.

e) Fair value of financial instruments:

The fair values of financial assets and financial liabilities are determined as follows:

- i) For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities carrying amounts approximate fair value due to their short-term maturity;
- ii) The fair value of notes payable and obligations under capital lease approximate their carrying value as their effective interest rates approximate current market rates;
- iii) The fair value of derivative financial instruments is determined based on fair market valuation methods.

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

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Notes to Consolidated Financial Statements
As at and for the three months ended September 30, 2010 and 2009
(in thousands of United States dollars, except per share amounts)

8. Financial Risk Management: (continued)

9. Segmented Information:

Management has determined that the Company operates in a single reportable operating segment which involves the provision of outsourced data center infrastructure services. The Company provides its services in the United States, Canada and the UK and substantially all of the Company's identifiable assets as at September 30, 2010 are located in the United States, Canada and the UK.

The Company's service offerings include the provision of physical space within its data centres, a complete suite of managed and unmanaged dedicated hosting services and high availability bandwidth connectivity. The Company makes decisions and evaluates financial performance primarily based on these service offerings.

10. Subsequent Events:

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 US\$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 US\$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, which is expected to be several weeks following November 9, 2010. The Revolving Facility has an accordion feature (the "Accordion Feature"), which allows the Company to borrow up to an additional US\$25,000,000. The Accordion Feature must be drawn in multiples of US\$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.

Interest is payable on each Loan at the rate for that type of Loan plus a margin of 1.25% to 3.25% depending on the type of Loan and the Company's financial performance. Standby fees are payable on the portions of the Facilities that are not advanced of 0.6525% to 0.8125% depending on the Company's performance. In addition, there is an initial commitment fee of 0.7% of the Facilities, an initial arranger fee of 0.15% of the Facilities and an annual agency fee of CAD\$30,000. The Non-Revolving Facility will be permanently reduced by quarterly reductions with the first reduction to be made on December 31, 2011. For each 12-month period, the quarterly payments shall be in equal amounts and shall total; (1) for the 12-month period commencing on October 1, 2011, 15% of the principal amount of the outstanding Loans under the Non-Revolving Term Facility as at October 1, 2011, and (2) for each subsequent 12-month period, 15% of the principal amount of the outstanding Loans under the Non-Revolving Term Facility as at the last day of the Drawdown Period. The Company may permanently reduce the amount available under each Facility without penalty by an amount of not less than \$1,000,000 (US or Canadian dollars, as applicable). The Company may also cancel the Facilities and repay the Loans without penalty.

During the term of the Facilities the Company must meet certain financial conditions. The failure to meet such financial conditions will result in an event of default for which, among other things, the

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Agent may declare all outstanding Loans to be due and payable. The Facilities are secured by first ranking charges on all of the Company's presently held and after acquired property and on all of the presently held and after acquired property of its subsidiaries. In addition, all of the shares of its subsidiaries are pledged to the Agent and the Lenders as security for the Facilities.

The amounts advanced to the Company under the Loans are to be used for Distributions, working capital, financing Capital Expenditures and Investments, as defined in the CA.