



NETWORK | CO-LOCATION | DEDICATED HOSTING

Management's Discussion & Analysis
For The Quarter Ended September 30, 2007



**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL RESULTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007**

This Management Discussion and Analysis ("MD&A"), dated November 20, 2007, should be read in conjunction with Peer 1's unaudited first quarter financial statements, as well as the audited annual financial statements for the fiscal year ended June 30, 2007 and the notes thereto, all of which can be found on www.sedar.com. Unless otherwise noted, all figures are in United States dollars.

FORWARD LOOKING STATEMENTS

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

OVERVIEW

Quarterly Financial Highlights

- Peer 1's revenue increased 20.11% to \$20.96 million for the three months ended September 30, 2007, compared to \$17.45 million for the three months ended September 30, 2006.
- Gross profit increased 37.73% to \$8.98 million for the three months ended September 30, 2007, compared to \$6.52 million for the three months ended September 30, 2006.
- Operating income increased 62.64% to \$2.83 million for the three months ended September 30, 2007, compared to \$1.74 million for the three ended September 30, 2006.
- Income before income taxes was \$2.15 million for the three months ended September 30, 2007, compared to \$0.35 million for the three months ended September 30, 2006.
- Net income was \$1.25 million for the three months ended September 30, 2007, compared to \$0.25 million for the three months ended September 30, 2006.

Quarterly Key Developments

- During the quarter ended September 30, 2007, the Company committed to a substantial upgrade of the Peer 1 I.P. Network. This upgrade will be accomplished through installation of carrier class routers purchased from the leaders in high performance networking, Cisco and Juniper. These two suppliers were chosen as part of the Peer1 multi vendor strategy to leverage the capabilities of each supplier to provide a best fit to each area of the Peer1 backbone. The Juniper M series multiservice edge routing portfolio uniquely combines best-in-class IP/MPLS capabilities with reliability, stability, security, and service richness, while the Cisco 7600 series

provides the same features with the added benefit of having high-density Ethernet switching capabilities. Each router series has 10 gigabit interface capabilities allowing Peer1 to upgrade existing areas of the backbone, as well as keeping an eye to the future for further capacity expansion. As a result of this purchase the Company will have substantially increased bandwidth capacity, IP performance and the ability to accommodate new feature sets such as MPLS. The total estimated capital expenditure related to this upgrade is approximately \$4 million.

- On September 4, 2007, Peer 1 and Juniper Networks, Inc. the leader in high-performance networking announced that Peer 1 has expanded its managed firewall service offerings with the addition of Juniper Networks Secure Services Gateways (SSGs). Fully managed by Peer 1 experts, the Juniper Networks SSG platforms will provide best-in-class protection, superior capacity and Gigabit Ethernet interfaces, enabling Peer 1 to offer cost-effective, high-capacity security solutions that scale to meet the demands of the largest enterprises. The expanded managed firewall services ensure a secure and trusted network environment without requiring enterprise customers to dedicate IT resources, enabling customers to reduce operational costs and complexity.

The Juniper Networks SSG appliances are purpose-built firewalls that deliver a blend of performance and security. Managed by Peer 1 experts, these systems are optimized to protect Peer 1's managed hosting service offerings. Peer 1 will customize these appliances to match a customer's specific security needs, leveraging the SSG product line to offer a range of scale options to meet the needs of businesses of all sizes.

- On September 10, 2007 the company announced several changes of roles for members of the company executive management team.

Lance Tracey, co-founder and Chief Executive Officer, announced that he was stepping down from his role as CEO. Immediately thereafter, Mr. Tracey assumed his new role as Executive Chairman of Peer 1's board of directors.

Fabio M. Banducci was appointed the Company's new CEO in addition to his existing role as President of Peer 1.

Gary Sherlock, Peer 1's Chief Financial Officer, was promoted to the role of Executive Vice President in addition to his CFO responsibilities.

- On September 25, 2007 Peer 1 announced that it has deployed EMC Storage Area Network (SAN) platforms across all of its managed dedicated hosting data center operations in Atlanta, Miami, and Fremont, California (Silicon Valley). The EMC platform provides state-of-the-art technology to optimize Peer 1's data backup solution, providing managed dedicated hosting customers with faster and more reliable backup and data recovery.

The data backup service from Peer 1 provides customers with either daily or weekly backup options of local server storage to the EMC Storage Area Network in a highly secure area of the Peer 1 data centers. Peer 1's backup and data recovery solutions are fully managed by internal Peer 1 data backup experts and support professionals.

In addition to backup services, the EMC storage solution allows Peer 1 to offer highly available mass storage options to customers over 4Gbit Fiber Channel connections. This external storage will provide additional scaling options to Peer 1 customers that have traditionally been limited to local server storage.

OUR BUSINESS

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

Increased dependency on the Internet by business, technology enthusiasts and community based networks is driving the need for more Internet infrastructure solutions. Increased complexity of IT infrastructure is driving the need for outsourced service providers such as Peer 1. Management of Peer 1 believes that the Company has been successful in attracting and generating business as a result of offering:

- Cost savings
- 24 hours, 7 days a week monitoring
- Environmentally protected facilities
- High level of security
- Access to a high bandwidth, high quality IP network
- Customer support
- Scalability
- Backup and redundancy capabilities

Dedicated Servers

Peer 1 provides competitively priced, managed and unmanaged dedicated server solutions to small- and mid-size businesses. Managed dedicated hosting is a comprehensive web hosting service whereby the client is provided the ability to utilize a Peer 1 server or servers and related infrastructure and services housed in one of the Company's data centers, and receives professional managed support. The server is dedicated to the customer's use only. Unmanaged dedicated hosting is similar, but the customer performs the majority of management activities on the server. The acquisition of ServerBeach on October 20, 2004 and the dedicated server assets of Interland, Ltd. on September 2, 2005 significantly increased the Company's capacity to provide dedicated server solutions and product offerings that complement the Company's co-location and bandwidth service offerings.

Co-location

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

Bandwidth (Network)

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

STRATEGY

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

Dedicated Servers

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

Bandwidth (Network)

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

Co-location Facilities

On an ongoing basis Peer 1 looks for expansion opportunities in current markets that have shown strong market demand as well as new geographic markets that present a positive market profile. When a market is considered viable, the Company identifies suitable space for long term lease. Wherever possible, sites that have previously been operated as data centers are sought to reduce initial capital investment requirements. Equipment is acquired and installed on a phased basis based on demand. As market share grows, additional space and equipment are acquired.

RESULTS OF OPERATIONS

The table below presents, for the periods indicated, the statement of operations.

Peer 1 Network Enterprises, Inc. Consolidated Income Statement Three Months Ended September 30 (unaudited - prepared by management) (in thousands of United States Dollars, except per share amounts)		
	Three Months Ended September 2007 US\$	Three Months Ended September 2006 US\$
Revenue	20,959	17,450
Cost of Sales	11,983	10,927
Gross Profit	8,976	6,523
Operating expenses	6,151	4,787
Operating Income before other items	2,825	1,736
Other Items:		
Interest Income	(118)	(66)
Amortization of preferred share discount	-	357
Interest expense - long term	596	856
Interest accretion on notes payable	22	56
Integration costs	93	225
Foreign exchange loss (gain)	99	(33)
Gain on disposal of fixed assets	(14)	(5)
Income (Loss) before income taxes	2,147	346
Future income tax expense	327	-
Current Income tax expense	574	97
Income tax expense	901	97
Net income and comprehensive income	1,246	249
Deficit, beginning of period	(8,077)	(11,708)
Deficit, end of period	(6,831)	(11,459)
Basic and diluted earnings per share	0.01	0.00

Acquisitions

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

In FY2004, Peer 1's primary focus was on providing bandwidth and co-location services, which represented over 94% of the Company's consolidated revenue. For FY2006, bandwidth and co-location revenues represented 27% of consolidated revenues, while dedicated server revenue accounted for 70% of consolidated revenues. For FY2007, bandwidth and co-location revenues represented 25% of consolidated revenues, while dedicated server revenue accounted for 71% of consolidated revenues. The shift in sources of revenue is attributable to the FY2005 acquisition of ServerBeach Ltd. and FY2006 acquisition of dedicated hosting assets from Interland, Inc. (the "Dedicated Hosting" acquisition) as described below.

On September 2, 2005, the Company acquired the dedicated server assets of Interland, Inc for \$14.0 million. Included in the operating assets were existing customer contracts and data centers in Atlanta, GA; Fremont, CA; and Miami, FL.

For the quarter ended September 30, 2007 dedicated server revenue accounted for 70% of total revenue compared to 71% for the quarter ended September 2006.

Revenues

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

Services revenue includes additional charges for power and setup fees for initial configuration and installation of services. Setup fees are typically billed once and only upon completion of such configuration and installation.

	Three months ended September 30			
	2007	%	2006	%
Revenue:				
Colocation	2,901,556	14%	2,286,226	13%
Bandwidth	2,331,886	12%	2,179,728	13%
Services	1,092,869	4%	531,479	3%
Dedicated Servers	14,632,868	70%	12,452,817	71%
Total Revenue	\$ 20,959,179	100%	\$ 17,450,250	100%

Consolidated revenue increased to \$20.96 million for the three months ended September 30, 2007 from \$17.45 million for the three months ended September 30, 2006. The increase in revenue is attributable to organic growth, leveraged growth and the effect of the appreciation of the Canadian dollar against the US dollar. The increase in revenue that is the result of the increased value of the Canadian dollar denominated sales totaled \$0.37 million and was \$0.17 million, \$0.15 million and \$0.05 million for Colocation, Bandwidth and Services revenue respectively.

Co-location revenues increased to \$2.90 million in the three months ended September 30, 2007 from \$2.29 million for the three months ended September 30, 2006. The increase is attributable to increased pricing, increased sales volume and appreciation of the Canadian dollar against the US dollar. As the Company continues to pursue its organic growth strategy, the Company expects the data center expansions in Vancouver and Toronto and the resultant increase in co-location capacity to continue to generate incremental revenue in future periods.

Bandwidth revenues increased to \$2.33 million in the three months ended September 30, 2007 compared to \$2.18 million in the three months ended September 30, 2006.

Dedicated server revenues increased to \$14.63 million for the three months ended September 30, 2007 from \$12.45 million for the three months ended September 30, 2006. The increase is attributable to increased sales, addition of new customers, an overall decrease in customer churn rates and introduction of quality products.

The Company's Canadian operations accounted for \$4.6 million of revenues in the three months ended September 30, 2007 compared to \$3.7 million of revenues in the three months ended September 30, 2006. This change is the result of increased co-location revenues in the Canadian operations for the current quarter compared to the same period last year.

The Company reclassified \$0.1 million from revenue to interest income which is included in other items after operating income for the three months ended September 30, 2007 compared to \$0.04 million for the three months ended September 30, 2006. The Company reclassified \$0.01 million from interest expense to interest income which is included in other items after operating income for the three months ended September 30, 2007 compared to \$0.03 million for the three months ended September 30, 2006.

Cost of Sales

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

Consolidated cost of sales increased to \$11.98 million for the three months ended September 30, 2007 from \$10.93 million for the three months ended September 30, 2006. Cost of sales as a percentage of revenue decreased to 57.2% for the three months ended September 30, 2007 compared to 62.6% for the same period in 2006. The decrease in cost of sales as a percentage of revenue is attributable to the reduction in depreciation on certain fully depreciated equipment acquired in September 2005 in addition to the impact of favourable bandwidth pricing.

In the three months ended September 30, 2007, in order to better reflect their functional contribution to the Company, \$0.3 million in costs associated with certain technical staff were included in operating expenses, specifically technology and customer relations. Comparative cost of sales figures for the three months ended September 2006 reflect a reclassification of \$0.3 million from cost of sales to operating expenses.

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

Operating Expenses

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

	Three months ended September 30			
	2007	%	2006	%
Total Operating Expenses	\$ 6,151,313	29%	\$ 4,787,333	27%

Total operating expenses increased to \$6.15 million for the three months ended September 30, 2007 from \$4.79 million for the three months ended September 30, 2006. Operating expenses as a percentage of revenue increased to 29% in the three months ended September 30, 2007 from 27% for the three months ended September 30, 2006.

As well, as discussed in cost of sales above, in the three months ended September 30, 2007, in order to better reflect their functional contribution to the Company, \$0.3 million in costs associated with certain technical staff were included in operating expenses, specifically technology and customer relations. Comparative operating expense figures for the three months ended September 2006 reflect a reclassification of \$0.3 million from cost of sales to operating expenses.

The largest component of operating expenses is general and administrative which accounted for 64% for the three months ended September 30, 2007 compared to 60% for the three months ended September 30, 2006. The increase in general and administrative expenses as a percentage of operating expenses for the three months ended September 30, 2007 compared to the same period September 30, 2006 is attributable to a one-time cost in severance expense of \$0.4 million and higher compensation expense including higher stock based compensation. Management continues to focus on administration costs to ensure that operations are as efficient as possible.

Sales and marketing costs accounted for 27% of operating expenses for the three months ended September 30, 2007 compared to 26% for the three months ended September 30, 2006. The increase for the three months ended September 30, 2007 is a result of increased marketing efforts to support growth.

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

Other income and expenses:

The Company is currently incurring expenses related to the integration of the Dedicated Hosting acquisition. The Company incurred \$0.13 million in integration costs in the quarter ended September 30, 2007, of which \$0.09 million was expensed, \$0.04 million was capitalized as internally developed software and nil was capitalized as computer equipment. In the quarter ended September 30, 2006 the Company incurred \$0.69 million in integration costs, of which \$0.22 million was expensed, \$0.41 million was capitalized as internally developed software and \$0.06 million was capitalized as computer equipment. Integration costs include the cost of a new billing, ticketing and customer support system in addition to separation of business operations.

As discussed in revenue above, the Company reclassified \$0.01 million from interest expense to interest income which is included in other items after operating income in the three months ended September 30, 2007 compared to \$0.03 million in the three months ended September 30, 2006.

Interest Expense

Interest expense decreased to \$0.60 million in the three months ended September 30, 2007 compared to \$0.86 million in the three months ended September 30, 2006 primarily as a result of the renegotiation of the loan with Fortress Credit Opportunities I LP on more favorable terms.

Income Tax Expense (Recovery)

As at June 30, 2007, the Company had recorded an income tax benefit of \$3.97 million primarily due to the reduction of the valuation allowance on future income tax assets. The reduction in the valuation allowance was based upon a number of factors, including the Peer 1's recent history of profitability and ability to utilize non-capital loss carry forwards, an analysis of the expected timing of reversals of temporary differences and budgeted and forecasted earnings, after adjusting for non-deductible expenditures. Although realization is not assured, the Company believes it is more likely than not that certain future tax assets will be realized and therefore a benefit has been recorded. In future periods, income tax expense will be recorded based on the Company's expected statutory tax rate adjusted for permanent items. This will be subject to periodic assessments of the valuation allowance which could result in increases or decreases to the future tax asset and income tax expense.

For the three months ended September 30, 2007, Peer 1 recorded a non-cash future income tax expense of \$0.3 million, which resulted primarily from the utilization of non-capital loss carry forwards, the benefit of which had previously been recognized.

The Company's effective tax rate of 41.9% differs from the combined federal, provincial and state tax rates due to the effect of non-deductible expenditures.

SUMMARY OF QUARTERLY RESULTS

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

	Quarter Ended (in thousands \$)							
	31-Dec 2005	31-Mar 2006	30-Jun 2006	30-Sep 2006	31-Dec 2006	31-Mar 2007	30-Jun 2007	30-Sep 2007
	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)
Revenue	16,286	17,627	17,117	17,450	18,065	18,755	19,828	20,959
Operating Profit (Loss)	1,073	1,224	621	1,736	2,218	1,915	1,482	2,825
Net Income (Loss)	(481)	(355)	(1,333)	249	849	230	2,303	1,246
Basic income (loss) per share	(0.01)	(0.01)	(0.01)	0.00	0.01	0.00	0.02	0.01
Fully diluted income (loss) per share	(0.01)	(0.01)	(0.01)	0.00	0.01	0.00	0.02	0.01

Liquidity and Capital Resources

Peer 1 has historically financed operations through cash generated from operations, sale of common and preferred shares and issuance of debt. As at September 30, 2007, the Company had cash, cash equivalents and short term investments of \$11.2 million (including \$0.5 million in restricted cash – see Off-Balance Sheet Arrangements section), compared to \$9.26 million (including \$0.5 million in restricted cash) as at June 30, 2007. The Company had long term debt in the form of notes payable of \$18.8 million as at September 30, 2007 compared to \$19.6 million of notes payable as at June 30, 2007.

The Company had a working capital deficit of \$2.8 million at September 30, 2007 compared to a working capital deficit of \$1.3 million as at June 30, 2007. The decrease in working capital as at September 30, 2007 is largely attributable to outstanding invoices related to investment in property, plant and equipment of which approximately \$2.6 million relates to the upgrade of the Peer 1 I.P. Network upgrade.

The working capital deficit of \$2.8 million at September 30, 2007 includes deferred revenue of \$4.4 million and current portion of notes payable of \$3.3 million. The Company anticipates current liquidity and cash generated from operations to be sufficient to fund existing operations for the foreseeable future.

Operating Activities

Cash flow from operating activities for the three months ended September 30, 2007 and 2006 was \$5.3 million and \$2.6 million, respectively. The increase in cash provided by operations in the three months ended September 30, 2007 compared to the same period last year resulted primarily from the increase in net income as well as cash flow from non-cash working capital items, specifically accounts payable and accrued liabilities and income taxes payable. Excluding changes in non-cash working capital items, cash flow from operating activities for the three months ended September 30, 2007 and 2006 was \$4.7 million and \$4.4 million, respectively.

Implementation of one or more of the Company's growth strategies, combined with the continued integration of Peer 1 Dedicated Hosting, may have short-term negative impact on its expenses and cash flow from operations.

Investing Activities

Cash used for investing activities for the three months ended September 30, 2007 and 2006 was \$3.4 million and \$3.8 million, respectively. The decrease in use of cash for the three month period ended September 30, 2007 compared to the same period last year was a result of the decrease in investment in goodwill, licences and other intangibles.

Financing Activities

Net cash inflows from financing activities for the three months ended September 30, 2007 was \$0.05 million compared to cash inflows from financing of \$0.9 million for the three months ended September 30, 2006. The decrease in cash provided by financing activities for the three months ended September 30, 2007 compared to the same period last year is primarily a result of \$1.8 million in net proceeds received from the sale leaseback of the leased data centre property in Miami in the three months ended September 2006, offset by \$0.9 million received from the issuance of share capital in the three months ended September 2007.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2007 Peer 1 has provided two letters of credit totaling \$0.5 million as security to a landlord for a facility lease and for a major supplier. The security for the facility lease will be required for the term of the lease, whereas the security for the suppliers is dependant on whether the Company continues to use the same suppliers, the extent to which a sufficient credit history is established with the suppliers to reduce or negate the need for such security, and other similar discretionary factors. The letters of credit are secured by way of term deposits which are included in the reported cash balance. The financial statements classify these term deposits as restricted cash.

TRANSACTIONS WITH RELATED PARTIES

Peer 1 entered into a number of related party transactions with companies either owned or subject to significant influence by management, directors, and principal shareholders.

At September 30 amounts due to and from related parties were as follows:

	FY2008	FY2007
Accounts receivable from related companies	\$ 8,159	\$73,192
Accounts payable to related parties	\$26,876	\$ 1,984

During the three month period ending September 30 transactions with related parties were as follows:

	FY2008	FY2007
Revenues earned by the Company from related parties	\$19,072	\$ 40,094
Interest expensed by the Company	-	-
Other expenses incurred by the Company	\$70,905	\$101,901

These transactions are in the normal course of operations and are measured at their exchange amounts. Other expenses incurred include fees in the amount of \$70,359 for management and consulting services provided by related parties.

Details of related party transactions for the three months ended September 30, 2007						
Related person or entity	Related person	A/R	A/P	USD Revenue	Interest	Other
Code Marketing Ltd.	Lance Tracey	-	26,639	-	-	60,787
E-Xact Transactions Ltd.	Scott Shaw, Lance Tracey	6,411	238	16,872	-	545
Fatport	Michael Cytrynbaum	1,748	-	2,200	-	-
Sutton Group Realty Services Ltd.	Scott Shaw, Lance Tracey	-	-	-	-	9,573
		8,159	26,876	19,072	-	70,905

SUBSEQUENT EVENTS AND PROPOSED TRANSACTIONS

- On October 3, 2007, Peer 1 announced that the Company is now offering the latest SWsoft Plesk 8.2 for Linux control panel software for its managed hosting customers.

Plesk provides server administrators with a simple yet powerful tool to manage their servers and websites. Plesk 8.2 also includes an intuitive interface that allows users without a technical background to create new email accounts and manage domains.

The Plesk control panel automates a large number of tasks to help service providers reduce operating costs and resources. The new feature set also includes additional skins and the ability to customize, along with improved security via a redesigned subsystem and support for third-party FTP servers to assist with secure uploads.

OUTSTANDING SHARE DATA

Peer 1 has authorized share capital of unlimited common shares without par value and unlimited preferred shares without par value. At September 30, 2007 118,150,795 common shares were issued and outstanding. As of the date of this MD&A 118,463,295 common shares were issued and outstanding.

At September 30, 2007 3,139,904 warrants for the purchase of shares ranging in price from US\$0.23 to CAD\$0.40 (approximately US\$0.402) were outstanding. As of the date of this MD&A no warrants have been exercised or issued subsequent to the end of the quarter.

As at September 30, 2007 9,373,000 stock options were outstanding under the Company's stock option plan. Subsequent to the quarter ended September 30, 2007 and as of the date of this MD&A, 312,500 options were exercised and nil additional options have been granted. Stock options outstanding as of the date of this MD&A are 9,060,500.

If all warrants and options were exercised there would be a total of 130,663,699 shares outstanding as of the date of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

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

In estimating the allowance for doubtful accounts, management reviews the payment history of current customers as well as overall historical collection trends. Our allowance varies by line of business and ranges from approximately 1-2.5% of annual revenues in the bandwidth and co-location business and approximately 1% in the dedicated hosting lines of business.

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

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

The measurement of income tax assets and any income tax valuation allowance is based upon estimates of future taxable income and the expected timing of reversals of temporary differences.

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

CHANGES IN ACCOUNTING POLICIES

Effective July 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook section 1530, Comprehensive Income Section 3251, Equity; section 3855, Financial Instruments – Recognition and Measurement; and, section 3865, Hedges, retroactively without restatement. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook sections had no impact on opening deficit.

Under section 3855, financial instruments must be classified into one of these five categories: held for trading, held-to-maturity, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and notes payable, are classified as other financial liabilities. The Company had neither available for sale, nor held-to-maturity instruments during the three months ended September, 30, 2007.

The Company had no “other comprehensive income or loss” transactions during the three months ended September 30, 2007. The effect of the adoption of these standards was that (\$0.01 million), the opening balance of Cumulative translation adjustment, was reclassified to Accumulated other comprehensive loss.

The carrying values of accounts receivable, notes payable, accounts payable and accrued liabilities, approximates fair value at September 30, 2007.

CONTROL OVER FINANCIAL REPORTING

Management has evaluated whether there were changes to its internal controls over financial reporting during the quarter ended September 30, 2007 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting. No such changes were identified.

ACCOUNTING POLICIES

The Company prepares its financial statements on the basis of accounting principles generally acceptable in Canada. All accounting policies have been applied on a basis consistent with that of the previous year except as noted in changes in accounting policies.

RISKS

Operating Results are Expected to Fluctuate

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

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

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

Competition

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

Price Sensitive Market

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

Currency Fluctuations

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

Dependence on Key Suppliers

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

Integration Risk of Acquisitions

Peer 1 may pursue strategic relationships, investments and acquisitions. The Company may not be able to successfully manage its operations if it fails to successfully integrate the acquired technologies and/or businesses. The risks commonly encountered in the creation (execution) of a strategic relationship, investment in or acquisition of businesses would accompany any future investments or acquisitions by the Company. Such risks may include the following:

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

OTHER INFORMATION

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