peer1 NETWORK | CO-LOCATION | DEDICATED HOSTING

Management's Discussion & Analysis
For The Three and Nine Months Ended March 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2006

This Management Discussion and Analysis ("MD&A"), dated May 30, 2006, should be read in conjunction with Peer1's unaudited first, second and third quarter financial statements, as well as the audited annual financial statements for the fiscal year ended June 30, 2005 and the notes thereto, all of which can be found on www.sedar.com. All figures noted 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 Highlights and Summary

- Revenue of Peer 1 increased 202% to $17.63 million for the three months ended March 31, 2006, compared to $5.84 million for three month period ended March 31, 2005.
- Gross margin was $6.20 million for the three months ended March 31, 2006, an increase of $3.91 million from $2.29 for the three months ended March 31, 2005.
- Operating profit was $1.46 million for the three months ended March 31, 2006 an increase of $1.16 million from the operating profit of $0.30 million for the three months ended March 31, 2005.
- Cash flow from operations for the three months ended March 31, 2006 was $2.64 million, compared to $0.27 million for the three months ended March 31, 2005.
- The Company appointed David A. Harrison to the Board of Directors.
- The Company appointed Gary N. Sherlock as the new Chief Financial Officer.

OUR BUSINESS

Peer 1 is a provider of Internet infrastructure solutions and related managed services. Peer 1's service offerings include bandwidth, co-location, and dedicated hosting services. Customers include hosting providers, online gaming companies, Internet phone (VoIP) companies and small and medium-sized businesses across North America. Peer 1 has established 16 datacenters and points of presence ("POPs") in Vancouver, Toronto, Montreal, New York, Seattle, San Jose, San Antonio, Los Angeles, Miami, Atlanta, Fremont, Herndon, Ashburn, Chicago, and London, England.

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

- Access to a high bandwidth, high quality IP network
- 24 hours, 7 days a week monitoring
- An environmentally protected facility
- High level of physical security

Bandwidth (Network)

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

Co-location

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

Dedicated Servers

Peer 1 provides competitively priced, unmanaged and managed dedicated server solutions to small and mid-size businesses, and technology hobbyists. The acquisition of ServerBeach (operates as ServerBeach division of Peer 1) on October 20, 2004 and the dedicated server assets of Interland (operates as Dedicated Hosting division of Peer 1) 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 business.

STRATEGY

The Company'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 compliment Peer 1's current infrastructure. Accelerated growth is based on pursuing investments and acquisitions complimentary to existing lines of business.

Bandwidth (Network)

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

Co-location Facilities

Peer 1's establishes a point of presence in new markets by co-locating in facilities owned by other suppliers. This allows Peer 1 to gauge market demand prior to establishing a new co-location facility. When a market is considered viable, the Company identifies suitable space for long term lease. Wherever possible, sites that have previously been operated as data centres 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 is acquired.

Dedicated Servers

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

RESULTS OF OPERATIONS

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

Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three and Nine Months Ended March 31, 2006
(unaudited - prepared by management)

	Three Months Ended March 2006 US$	Three Months Ended March 2005 US$	Nine Months Ended March 2006 US$	Nine Months Ended March 2005 US$
Colocation	2,498,217	1,480,925	6,751,634	3,994,843
Bandwidth	2,258,517	1,906,298	6,254,562	5,207,846
Services (Set up fees)	559,163	291,469	1,440,665	773,728
Dedicated Servers	12,310,885	2,164,115	29,144,900	3,422,213
Revenue	17,626,782	5,842,807	43,591,761	13,398,630
Cost of Sales	11,425,059	3,553,910	27,787,241	8,252,240
Gross Profit	6,201,723	2,288,897	15,804,520	5,146,390
Operating expenses	4,741,948	1,993,456	11,702,494	5,017,873
Operating profit (loss)	1,459,775	295,441	4,102,026	128,517
Amortization of licences	236,327	-	708,981	-
Amortization of preferred share discount	341,683	-	746,475	-
Interest expense	630,652	665,187	2,699,381	1,149,354
Interest accretion on notes payable	76,649	75,197	618,109	221,923
Integration costs	405,467	282,353	838,155	282,353
Realized foreign exchange loss (gain)	83,039	(16,760)	40,518	(16,379)
Unrealized foreign exchange loss (gain)	40,868	217,760	291,865	(195,608)
Loss from equity accounted investment	-	18,704	13,114	18,704
Loss for the period	(354,910)	(947,000)	(1,854,572)	(1,331,830)
Deficit, beginning of period	(10,019,911)	(6,453,728)	(8,520,249)	(6,068,898)
Adjustment for prior years' stock based compensation	-	(268,716)	-	(268,716)
Deficit, end of period	(10,374,821)	(7,669,444)	(10,374,821)	(7,669,444)
Basic and diluted loss per share	(0.01)	(0.02)	(0.03)	(0.03)

Revenues

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

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

	Three months ended March 31				Nine Months ended March 31			
	2006		2005		2006		2005	
Revenue:								
Colocation	2,498,217	14%	1,480,924	25%	6,751,634	15%	3,994,843	30%
Bandwidth	2,258,517	13%	1,906,298	33%	6,254,562	14%	5,207,846	39%
Services (Set up fees)	559,163	3%	291,469	5%	1,440,665	3%	773,728	6%
Dedicated Servers	12,310,885	70%	2,164,115	37%	29,144,900	67%	3,422,213	26%
Total Revenue	17,626,782	100%	5,842,807	100%	43,591,761	100%	13,398,630	100%

Consolidated revenue increased 202% to $17.63 million for the three months ended March 31, 2006 from $5.84 million for the three months ended March 31, 2005. The increase in revenue for the quarter is attributable to the addition of a full quarter of revenue from the Dedicated Hosting acquisition and organic growth. Consolidated revenue increased 225% to $43.59 million for the nine months ended March 31, 2006 from $13.40 million for the nine months ended March 31, 2005. The increase in revenue is attributable to seven months of revenue from Dedicated Hosting and nine months of revenue from ServerBeach compared to six months of revenue from only ServerBeach in the same period a year ago.

Co-location revenues increased 69% to $2.50 million in the three months ended March 31, 2006 from $1.48 million for the three months ended March 31, 2005. Co-location revenues increased 69% to $6.75 million for the nine months ended March 31, 2006 from $3.99 million for the nine months ended March 31, 2005. The increase is directly attributable to growth in the customer base - the number of co-location customers increased to 886 at the end of the third quarter of fiscal 2006 from 778 from the end of the third quarter of fiscal 2005.

Bandwidth revenues increased 18% to $2.26 million in the three months ended March 31, 2006 from $1.91 million in the three months ended March 31, 2005. Bandwidth revenues increased 20% to $6.25 million for the nine months ended March 31, 2006 from $5.21 million for the nine months ended March 31, 2005. The increase is partially attributable to the rapid growth and bandwidth requirements of one of the Company's largest customers.

Dedicated server revenues increased 469% to $12.31 million for the three months ended March 31, 2006 from $2.16 million for the three months ended March 31, 2005. Dedicated server revenues increased 752% to $29.14 million in the nine months ended March 31, 2006 from $3.42 million for the nine months ended March 31, 2005. The increase is attributable to seven months of revenue recognition from the Dedicated Hosting acquisition and nine months of revenue recognition from the ServerBeach acquisition and increased customer usage, addition of new customers and an overall decrease in customer churn rates.

The Company's Canadian operations accounted for 21.4% of revenues in the three month period ended March 31, 2006 compared to 51.2% of revenues in the three months ended March 31, 2005. The Company's Canadian operations accounted for 23.7% of revenues in the nine month period ended March 31, 2006 compared to 61.4% of revenues in the nine months ended March 31, 2005. This significant change is the result of the ServerBeach (October 20, 2004) and the Dedicated Hosting (September 2, 2005) acquisitions.

Cost of Sales

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

Consolidated cost of sales increased 221% to $11.43 million for the three months ended March 31, 2006 from $3.55 million for the three months ended March 31, 2005. Consolidated cost of sales increased 237% to $27.79 million for the nine months ended March 31, 2006 from $8.25 million for the nine months ended March 31, 2005. The cost of sales increase is as a result of the ServerBeach (October 20, 2004) and the Dedicated Hosting (September 2, 2005) acquisitions.

Total cost of sales is expected to increase as revenues increase. The pattern of growth in revenues related to the new facilities does not generally match the pattern of growth in the related costs. Revenue increases are a function of capacity utilization. The cost of sales related to co-location are primarily affected by the cost of facilities. The cost of sales related to bandwidth are primarily affected by cost for bandwidth, transport and infrastructure. The Company has increased its use of peering connections during the current quarter as compared to the same period last fiscal year. 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

Operating expenses consist of sales and marketing, general and administrative and technology and customer relations that are not directly used in generating revenue.

	Three months ended March 31		Nine Months ended March 31	
	2006	2005	2006	2005
Total Operating Expenses	4,741,948	1,993,456	11,702,494	5,017,873

Total operating expenses increased 138% to $4.74 million for the three months ended March 31, 2006 from $1.99 million for the three months ended March 31, 2005. Total operating expenses increased 133% to $11.70 million for the nine months ended March 31, 2006 from $5.02 million for the nine months ended March 31, 2005. The significant increase in cost of sales is a result of the ServerBeach (October 20, 2004) and the Dedicated Hosting (September 2, 2005) acquisitions.

The largest component of operating expenses is general and administrative which in the third quarter of 2006 accounted for 51% of total operating expenses compared to 38% in the same period of the prior fiscal year. The increase in general and administration costs as a percentage of total operating expenses is a result of the acquisition of the Interland dedicated server assets and increased staffing and overhead costs to manage larger business operations compared to the same period a year a go. Management continues to focus on administration costs to ensure that operations are efficient as possible and it is anticipated that they will be reduced over time as a percentage of revenue.

Sales and marketing decreased to 28% of total operating expenses in the third quarter of 2006 compared to 31% in the same period of the prior fiscal year. The decrease in sales and marketing expenses as a percentage of revenue is a result of higher than forecasted sales 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 Peer 1 Dedicated Hosting. The Company anticipates expenses for these activities continue through calendar year 2006 with current forecast of $3.60 million. Integration costs include cost of new billing, ticketing and customer support systems in addition to separation of business operations.

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							
	Jun 30 2004 (US$)	Sep 30 2004 (US$)	Dec 31 2004 (US$)	Mar 31 2005 (US$)	Jun 30 2005 (US$)	Sep 30 2005 (US$)	Dec 31 2005 (US$)	Mar 31 2006 (US$)
Revenue	2,934,536	2,891,777	4,664,046	5,842,807	6,005,862	9,678,279	16,286,700	17,626,782
Operating Profit (Loss)	(51,580)	(56,003)	(110,921)	295,441	572,014	1,331,636	1,310,615	1,459,775
Net Income (Loss)	(195,978)	(238,431)	(146,399)	(947,000)	(692,813)	(1,018,039)	(481,623)	(354,910)
Pro forma basic and fully diluted income (loss) per share	(0.00)	(0.01)	(0.00)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)

Liquidity and Capital Resources

Peer 1 has historically financed its operations through cash generated from operations, sale of common and preferred shares and issuance of debt. As at March 31, 2006, the Company had cash, cash equivalents and short term investments of $7.09 million (including $0.45 million in restricted cash – see Off-Balance Sheet Arrangements section), compared to $0.79 million (including $0.50 million in restricted cash) as at June 30, 2005. The Company had long term debt (in the form of Preferred Shares Series A, please refer to the Company's 2005 annual report for more information) of $7.75 million and notes payable of $21.37 million as at March 31, 2006 compared to nil long term debt and notes (including shareholder notes) payable of $13.34 million as at June 30, 2005.

The Company had a working capital deficit of $1.82 million at March 31, 2006 compared to a working capital deficit of $15.32 million as at June 30, 2005. The improvement in working capital is a result of the Company's 2005 financing and re-capitalization of the balance sheet in conjunction with the acquisition of the dedicated server assets of Interland, as described in detail the 2005 Annual Report.

Operating Activities

Cash flow from operating activities for the three months ended March 31, 2006 and 2005 was $2.64 million and $0.27 million, respectively. Cash flow from operating activities for the nine months ended March 31, 2006 and 2005 was $10.13 million and $3.07, respectively. The increase in cash provided by operations in the three months ended March 31, 2006 resulted primarily from improvement in the Company's operating results as well as overall improvement in its working capital balances.

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 March 31, 2006 and 2005 was $1.51 million and $1.89 million, respectively. Cash used by investing activities for the nine months ended March 31, 2006 and 2005 was $23.77 million and $11.76 million, respectively. The increase in use of cash is a result of capital expenditures to fund the Company's operations and growth strategy, which includes purchases of cabinets/cages and computer equipment, such as servers, routers and firewalls. The increase in use of cash was also a result of the purchase of Interland's dedicated server assets on September 2, 2005.

Following the acquisition of the Interland dedicated hosting assets, the Company expanded its existing accounting policy, as described in the Accounting Policies section of this discussion. As a result, during the quarter ended March 31, 2006 $1.39 million of software has been re-classified from property and equipment to goodwill, licenses and other intangibles. Additionally, for comparative purposes $1.03 million in software was re-classified from property and equipment to goodwill, licenses and other intangibles. The re-classifications had a net zero cash effect on cash provided / used for investing activities.

Financing Activities

Cash outflows from financing activities for the three months ended March 31, 2006 was $0.47 million compared to cash inflows from financing of $1.16 million for the three months ended March 31, 2005. The increase in cash use from financing activities for the 3 months ended March 31, 2006 was a result of principal repayment of notes payable. Cash provided by financing activities for the nine months ended March 31, 2006 and 2005 was $19.99 million and $8.78 million, respectively. The increase in cash from financing activities for the nine months ended March 31, 2006 is a result of the financings and re-capitalization undertaken in conjunction with the acquisition of the dedicated server assets from Interland in September 2005, as discussed in the Company's first and second quarter financial statements and MD&A.

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2006 the Company has provided two letters of credit totaling US$450,000 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

During the third quarter of fiscal 2006, Peer 1 provided services in the normal course of business to companies either owned or subject to significant influence by the Company's directors and principal shareholders.

The company entered into a number of related party transactions with companies either owned or subject to significant influence by the company's management, directors and principal shareholders.

At March 31, 2006 amounts due to and from related parties were as follows:

	FY2006	**FY2005**
Included in accounts receivable	$80,391	$94,581
Included in accounts payable and accrued liabilities	$30,477	$2,112

During the nine month period ending March 31, 2006 transactions with related parties were as follows:

	FY2006	**FY2005**
Revenues earned	$76,739	$63,454
Interest expensed	$334,287	$208,408
Other expenses incurred	$224,314	$64,946

These transactions are in the normal course of operations and are measured at their exchange amounts. Other expenses incurred are management and consulting fees of $224,314.

SUBSEQUENT EVENTS AND PROPOSED TRANSACTIONS

- The Company appointed Bill White as its new Chief Information Officer.
- The Company is currently classified as an "Issuer in Default" by the British Columbia Securities Commission for failure to file a Business Acquisition Report related to the acquisition of the Interland Dedicated Server Assets. The Company expects to remedy this default within the present fiscal quarter.
- In May 2006, the Company provided an additional letter of credit totaling US$55,000 as security to a supplier. The security for the supplier will be required for the term of nine months, the extent to which a sufficient credit history is established 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.

OUTSTANDING SHARE DATA

Peer 1 has authorized share capital of unlimited common shares without par value and unlimited preferred shares without par value. At March 31, 2006 77,320,913 common shares were issued and outstanding compared to 49,119,367 as at March 31, 2005.

At March 31, 2006 6,239,904 warrants for the purchase of shares ranging in price from US$0.23 to CAD$0.40 (approximately US$0.3636) were outstanding compared to 6,480,121 as at March 31, 2005. As the date of this MD&A nil warrants have been exercised subsequent to the end of the quarter.

As at March 31, 2006 4,507,250 stock options were outstanding under the Company's stock option plan compared to 3,640,250 stock options outstanding at March 31, 2005. Nil options were exercised after the quarter end; 465,000 additional options have been granted as of the date of this MD&A.

Under the preferred share financing described in the first and second quarter financial statemtents, 7,000 preferred shares of Peer 1 Network (USA) Inc. were issued. By way of the Investor Rights Agreement, the holders of the preferred shares may require the company to acquire any or all of their preferred shares in exchange for common shares of Peer 1. Subject to adjustment in specified circumstances, the conversion would be for 4,365 common shares of Peer 1 for each preferred share.

CRITICAL ACCOUNTING ESTIMATES

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

In estimating the allowance for doubtful accounts, management reviews the payment history of current customer as well as overall historical collection trends. Our allowance varies by line of business and ranges from approximately 2-2.5% 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 debt conversion features and issue of warrants is based on estimates of dividend yield (Nil), expected volatility of the Peer 1 stock price (75%), risk-free interest rate (estimate changes over time as actual results change) and option term (varies depending on the warrants or options issued).

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

ACCOUNTING POLICIES

- 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. Due to the most recent acquisition of the dedicated server assets of Interland Inc, the Company's US dollar revenues account for approximately 76% of total revenues. Effective October 1, 2005, the Company changed its functional currency to the U.S. dollar from the Canadian dollar in order to more accurately reflect the currency of the jurisdiction in which the majority of its operations is situated. Concurrent with the change in its functional currency, the Company adopted the U.S. Dollar as its reporting currency. All figures presented prior to October 1, 2005 for comparative purposes are also reported in U.S. dollars.
- Following the acquisition of the Interland dedicated hosting assets, the Company's investment in software licences has materially increased. As a result, the Company has expanded its accounting policy with respect to classification of software and licenses. The expanded policy distinguishes personal computer software and licenses for internal use from software acquired for revenue-generating assets and higher value software with expected life that exceeds one year. Personal computer software licensed for internal use continues to be amortized over one year, whereas the new categories of software licences are amortized over their expected useful lives. In addition, all software licences are now classified as intangible assets instead of fixed assets. Comparative information has been restated to reflect this presentation.

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 to a variety of factors, including but not limited to:

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

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

Competition

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

Price Sensitive Market

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

Currency Fluctuations

The Company's revenues and costs are affected by fluctuations in the rate of exchange between the Canadian dollar and the U.S. 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 to 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

The Company may pursue strategic relationships, investments and acquisitions. The Company may not be able to successfully manage its operations if it fails to successfully integrate the acquired technologies and/or businesses. The risks commonly encountered in the creation and execution of strategic relationships, 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 the company is available on SEDAR at www.sedar.com.