

peer1

NETWORK | CO-LOCATION | DEDICATED HOSTING

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THREE AND NINE MONTHS ENDED MARCH 31, 2008 AND 2007
FINANCIAL STATEMENTS

Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At March 31, 2008
(unaudited - prepared by management)
(in thousands of United States Dollars)

	March 2008 US\$	June 2007 US\$
Assets		
Current:		
Cash and cash equivalents	10,369	8,754
Restricted Cash	250	505
Accounts receivable	3,132	4,424
Future income tax asset	296	1,392
Prepaid expenses	1,115	689
	<hr/>	<hr/>
	15,162	15,764
Other assets	2,610	4,079
Future income tax asset	1,633	2,574
Property, plant and equipment	34,645	26,924
Goodwill, licences and other intangibles	3,966	4,745
	<hr/>	<hr/>
	58,016	54,086
	<hr/>	<hr/>
Liabilities		
Current:		
Accounts payable and accrued liabilities	9,507	8,754
Deferred revenue	3,104	4,236
Current portion of deferred gain	79	79
Current portion of deferred lease inducements	139	144
Current portion of notes payable	3,292	3,350
Current portion of obligations under capital lease	221	-
Income taxes payable	365	476
	<hr/>	<hr/>
	16,707	17,039
Deferred gain	591	650
Deferred lease inducements	769	965
Notes payable	12,553	16,257
Obligations under Capital Lease	708	-
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	31,328	34,911
	<hr/>	<hr/>
Shareholders' Equity		
Common Shares	26,521	25,254
Warrants	678	917
Contributed Surplus	2,247	1,092
Deficit	(2,747)	(8,077)
Accumulated other comprehensive loss	(11)	(11)
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	26,688	19,175
	<hr/>	<hr/>
	58,016	54,086
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See accompanying notes to financial statements

Peer 1 Network Enterprises, Inc.
Consolidated Income Statement
Three and Nine Months Ended March 31
(unaudited - prepared by management)
(in thousands of United States Dollars, except per share amounts)

	Three Months Ended March 2008 US\$	Three Months Ended March 2007 US\$	Nine Months Ended March 2008 US\$	Nine Months Ended March 2007 US\$
Revenue:				
Colocation Services	7,070	5,402	20,402	15,501
Dedicated Hosting Services	15,702	13,353	45,553	38,769
	<u>22,772</u>	<u>18,755</u>	<u>65,955</u>	<u>54,270</u>
Cost of Sales	<u>12,431</u>	<u>11,747</u>	<u>36,513</u>	<u>33,711</u>
Gross Profit	10,341	7,008	29,442	20,559
Operating expenses	<u>6,232</u>	<u>5,092</u>	<u>18,599</u>	<u>14,690</u>
Operating Income before other items	4,109	1,916	10,843	5,869
Other Items:				
Interest Income	(64)	(69)	(290)	(216)
Amortization of preferred share discount	-	389	-	1,120
Interest expense - long term	471	814	1,631	2,521
Interest accretion on notes payable	22	54	66	164
Integration costs	-	90	93	608
Foreign exchange loss (gain)	(15)	14	241	(24)
Loss (Gain) on disposal of fixed assets	<u>(7)</u>	<u>82</u>	<u>(14)</u>	<u>128</u>
Income before income taxes	<u>3,702</u>	<u>542</u>	<u>9,116</u>	<u>1,568</u>
Future income tax expense (recovery)	1,066	266	2,056	(359)
Current Income tax expense	<u>434</u>	<u>46</u>	<u>1,730</u>	<u>599</u>
Income tax expense	<u>1,500</u>	<u>312</u>	<u>3,786</u>	<u>240</u>
Net income and comprehensive income	2,202	230	5,330	1,328
Deficit, beginning of period	<u>(4,949)</u>	<u>(10,610)</u>	<u>(8,077)</u>	<u>(11,708)</u>
Deficit, end of period	<u>(2,747)</u>	<u>(10,380)</u>	<u>(2,747)</u>	<u>(10,380)</u>
Earnings per Share:				
Basic	0.02	0.00	0.05	0.02
Diluted	0.02	0.00	0.04	0.02
Weighted average number of shares outstanding:				
Basic	118,467,691	79,145,735	118,180,288	77,969,530
Diluted	122,455,914	85,373,265	121,696,386	83,036,597

See accompanying notes to financial statements

Peer 1 Network Enterprises, Inc.
Consolidated Statement of Cash Flows
For the three and nine months ended March 31, 2008
(unaudited - prepared by management)
(in thousands of United States Dollars)

	Three Months Ended March 2008 US\$	Three Months Ended March 2007 US\$	Nine Months Ended March 2008 US\$	Nine Months Ended March 2007 US\$
Cash flows from operating activities				
Income for the period	2,202	230	5,330	1,328
Amortization	2,881	2,713	8,020	7,991
Amortization of preferred share discount	-	389	-	1,120
Increase (decrease) in accrued interest and accretion on notes payable	(17)	50	1	147
Bad debt expense (recovery)	125	(23)	379	401
Loss (Gain) on disposal of property and equipment	(8)	81	(14)	128
Amortization of deferred gain	(20)	(30)	(59)	(39)
Amortization of deferred loan origination fees	117	248	415	730
Future income tax expense (recovery)	1,066	266	2,056	(359)
Stock-based compensation included in income for period	399	150	1,180	316
Increase (decrease) in deferred lease inducements	37	(10)	(202)	608
Foreign exchange translation adjustment	(40)	-	(40)	-
	<u>6,742</u>	<u>4,064</u>	<u>17,066</u>	<u>12,371</u>
Change in non-cash working capital items				
Decrease (increase) in accounts receivable	(169)	(48)	913	1,214
Decrease (increase) in prepaid expenses	610	158	(426)	(58)
Increase (decrease) in accounts payable and accrued liabilities	1,448	874	771	(2,821)
Increase (decrease) in income taxes payable	(672)	(416)	(122)	(199)
Increase (decrease) in deferred revenue	61	78	(1,132)	318
	<u>8,020</u>	<u>4,710</u>	<u>17,070</u>	<u>10,825</u>
Cash flows from investing activities				
Decrease in restricted cash	-	-	255	-
Investment in other assets	18	(94)	38	(777)
Acquisition of property and equipment	(3,787)	(2,430)	(13,538)	(7,999)
Investment in goodwill, licences and other intangibles	-	(206)	(469)	(1,023)
Proceeds on disposition of equipment	20	29	46	50
	<u>(3,749)</u>	<u>(2,701)</u>	<u>(13,668)</u>	<u>(9,749)</u>
Cash flows from financing activities				
Repayment of notes payable	(821)	(864)	(2,754)	(2,592)
Payment of capital lease obligations	(36)	-	(36)	-
Share capital issued	3	735	1,003	814
Net proceeds on sale leaseback	-	-	-	1,750
	<u>(854)</u>	<u>(129)</u>	<u>(1,787)</u>	<u>(28)</u>
Increase in cash and cash equivalents	3,417	1,880	1,615	1,048
Cash and cash equivalents - beginning of period	6,952	4,834	8,754	5,666
Cash and cash equivalents - end of period	<u>10,369</u>	<u>6,714</u>	<u>10,369</u>	<u>6,714</u>
Supplemental cash flow information:				
Interest paid	394	573	1,280	1,809
Income tax paid	1,084	786	1,844	786
Interest received	64	69	290	216
Non-cash transactions - obligations under capital lease	1,006	-	1,006	-
Non-cash transactions - fixed assets disposal trade in	553	-	553	-

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements (cont'd)

(in thousands, except for share and per share amounts)

1. Significant accounting policies:

a) Nature of Operations and Basis of Presentation:

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 co-location facilities with high performance Internet bandwidth and dedicated servers to web-centric and enterprise customers across North America. The Company has established local offices and data centres throughout Canada and the USA, 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, 2007 except as described in note 1b). 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) 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; section 3861 Financial Instruments – Disclosure and Presentation 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 measurement and presentation 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.

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements (cont'd)
(in thousands, except for share and per share amounts)

b) Changes in accounting policies (cont'd):

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 and nine months ended March, 31, 2008.

The Company had no "other comprehensive income or loss" transactions during the three and six months ended March 31, 2008. The effect of the adoption of these standards was that (\$11), the opening balance of Cumulative translation adjustment was reclassified to Accumulated other comprehensive loss.

Prior to July 1, 2007 transaction and financing costs incurred to obtained financing were deferred and amortized on a straight-line basis over the term of the respective indebtedness. The unamortized balance was included in Other assets. Pursuant to CICA Handbook Section 3855, effective July 1, 2007, transactions and financing costs are capitalized to the related liability and are measured at amortized cost using the effective interest method. The Company recalculated the amortization of the loan origination fees for the prior period using the effective interest method and concluded that the amount is immaterial, and therefore no adjustment has been made to opening balances at July 1, 2007.

The carrying values of accounts receivable, notes payable, accounts payable and accrued liabilities, approximates fair value at March 31, 2008.

2. Basis of Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 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

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements (cont'd)

(in thousands, except for share and per share amounts)

Technologies IP Inc., Peer 1 Dedicated Hosting Inc., Colobrokers.com Inc., 585065 B.C. Ltd., Peer 1 Network (Texas), LP and, Peer 1 Network (LA), Inc.

3. Obligations under Capital lease

During the quarter, the Company entered into Capital lease obligations in the amount of \$1,006 which included the exchange of assets with net book value of \$556 for deemed proceeds of \$ 553.

4. Notes Payable

Amounts are shown net of related transaction and financing costs as follows:

	March 31, 2008	June 30, 2007
Notes Payable	\$ 17,049	\$ 19,862
Unamortized deferred loan origination fees	1,015	
Warrants	<u>189</u>	<u>255</u>
Notes Payable, net of related transaction and financing costs	\$ <u>15,845</u>	\$ <u>19,607</u>

Please refer to Note 1b)

5. Share Capital

a) Authorized :

Unlimited Common shares without par value

Unlimited Preferred shares without par value

b) Issued and Fully Paid:

	Number	Amount
Balance, June 30, 2007	115,994,291	\$ 25,254
Stock Option Exercise	219,004	130
Warrants exercised	<u>1,937,500</u>	<u>983</u>
Balance, September 30, 2007	118,150,795	\$ 26,367
Stock Option Exercise	<u>312,500</u>	<u>149</u>
Balance, December 31, 2007	118,463,295	\$ 26,516
Stock Option Exercise	<u>10,000</u>	<u>5</u>
Balance, March 31, 2008	<u>118,473,295</u>	<u>\$ 26,521</u>

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements (cont'd)
(in thousands, except for share and per share amounts)

c) Warrants Outstanding

	Number	Amount
Balance, June 30, 2007	5,077,404	\$ 917
Warrants exercised	<u>1,937,500</u>	<u>239</u>
 Balance, March 31, 2008	 <u>3,139,904</u>	 \$ <u>678</u>

The following non-transferable share purchase warrants are outstanding:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Outstanding 6/30/2007</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 3/31/2008</i>
Jul 18, 2007	Cdn\$0.40	1,937,500		1,937,500	-
Sept 2, 2010	US\$0.23	2,306,571	-	-	2,306,571
Jan 31, 2011	Cdn\$0.40	833,333	-	-	833,333
		5,077,404	-	1,937,500	3,139,904

d) Contributed Surplus:

	Amount
Balance, June 30, 2007	\$ 1,092
Stock options exercised	(21)
Stock based compensation	<u>352</u>
 Balance, September 30, 2007	 \$ 1,423
Stock options exercised	(2)
Stock based compensation	<u>429</u>
 Balance, December 31, 2007	 \$ 1,850
Stock options exercised	(2)
Stock based compensation	<u>399</u>
 Balance, March 31, 2008	 \$ <u>2,247</u>

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements (cont'd)

(in thousands, except for share and per share amounts)

e) Shares held in escrow:

As of March 31, 2008, 1,841,401 shares of the company are subject to an escrow agreement and may not be transferred, assigned, or otherwise dealt with without the consent of the regulatory body that has jurisdiction.

f) Stock Options

The company has the following stock options outstanding:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Outstanding 6/30/2007</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 3/31/2008</i>
Feb 14, 2013	Cdn\$1.17	-	20,000		20,000
Dec 12, 2012	Cdn\$1.40	-	125,000		125,000
Feb 28, 2012	Cdn\$1.29	40,000			40,000
June 20, 2012	Cdn\$1.25	2,007,400			2,007,400
June 18, 2012	Cdn\$1.25	1,514,700	20,000		1,534,700
July 19, 2009	Cdn\$1.15	-	25,000		25,000
May 30, 2011	Cdn\$0.75	50,004		50,004	-
Jan 17, 2012	Cdn\$0.65	100,000			100,000
April 3, 2011	Cdn\$0.65	465,000			465,000
Oct 26, 2011	Cdn\$0.64	680,000			680,000
Sept 6, 2011	Cdn\$0.63	2,886,400			2,886,400
Jan 16, 2011	Cdn\$0.59	200,000			200,000
Jan 31, 2011	Cdn\$0.55	40,000			40,000
Dec 1, 2010	Cdn\$0.47	500,000			500,000
Nov 30, 2010	Cdn\$0.47	10,000			10,000
May 30, 2009	Cdn\$0.46	10,000			10,000
July 24, 2007	Cdn\$0.45	169,000		169,000	-
Nov 7, 2007	Cdn\$0.45	300,000		300,000	-
June 30, 2009	Cdn\$0.45	10,000			10,000
Sept 30, 2010	Cdn\$0.45	2,500		2,500	-
Jan 29, 2009	Cdn\$0.42	10,000			10,000
Oct 6, 2010	Cdn\$0.41	100,000			100,000
Oct 31, 2010	Cdn\$0.40	2,500			2,500
July 29, 2010	Cdn\$0.39	10,000			10,000
Oct 20, 2009	Cdn\$0.38	150,000			150,000
Aug 31, 2010	Cdn\$0.36	7,500			7,500
May 31, 2010	Cdn\$0.35	30,000			30,000
Sept 9, 2008	Cdn\$0.32	165,000		5,000	160,000
Sept 30, 2009	Cdn\$0.31	5,000		5,000	-
Mar 1, 2010	Cdn\$0.30	30,000			30,000
Feb 28, 2010	Cdn\$0.30	10,000		5,000	5,000
Apr 30, 2010	Cdn\$0.30	10,000			10,000
Nov 30, 2009	Cdn\$0.28	12,000			12,000
Dec 31, 2009	Cdn\$0.28	5,000			5,000
Jan 31, 2010	Cdn\$0.24	15,000		5,000	10,000
		9,547,004	190,000	541,504	9,195,500

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements (cont'd)

(in thousands, except for share and per share amounts)

6. Related Party 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 for the nine month period ended March 31 are as follows:

	FY 2008	FY 2007
Revenue earned	\$52	\$73
Interest expensed	-	-
Other expenses	\$132	\$361

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.

	FY 2008	FY 2007
Balances at March 31 -		
Accounts receivable from related companies	\$1	\$9
Accounts payable to a related party	-	\$11

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

7. Contingencies

a) Legal contingencies -

In March 2007, the Company was served with a Writ of Summons and Statement of Claim issued in the Supreme Court of British Columbia. The plaintiffs claim that they are the assignees of an alleged right to receive 745,000 warrants of PEER 1 Network Enterprises, Inc. and they seek a declaration that PEER 1 Network Enterprises, Inc. be obliged to issue those warrants. The plaintiffs also seek any losses suffered due to any delay in issuing the said warrants, and costs. The Company has delivered a response to the Writ and Statement of Claim and the parties have delivered initial Lists of Documents. At this early stage of the action, although the Company is of the belief that it has a meritorious defense in this claim and intends to vigorously defend the action, no assurance can be given that an adverse outcome in this case cannot occur. A contingent loss has not been recorded with respect to this claim and an estimate of the contingent loss if any cannot be made.

b) Outstanding legal matters -

The Company is involved in certain legal actions and claims. It is the opinion of management that all legal matters will be resolved without material effect on the Company's consolidated financial statements.

See accompanying notes to financial statements

Notes to Unaudited Consolidated Financial Statements (cont'd)

(in thousands, except for share and per share amounts)

8. Segmented Information

During the quarter, management of the Company completed integration initiatives including the implementation of reporting systems which allow for the management and allocation of resources of the Company on the basis of a re-aligned, integrated operating structure. Prior to the completion of these initiatives, the Company was managed on the basis of separate lines of business comprising two reporting segments. Following the completion of these integration initiatives and re-alignment, 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'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.

9. Subsequent events

On April 18, 2008, The Toronto Stock Exchange ("TSX") conditionally approved the listing of the common shares of the Company. Listing of the common shares is subject to the Company fulfilling all of the requirements of TSX. Subject to receipt by the TSX of the balance of documents required, it is proposed that the Company's common shares commence trading on the TSX on Tuesday, May 20, 2008, under its current trading symbol "PIX". Concurrent with listing on the TSX, the Company's common shares will be delisted for trading on the TSX Venture Exchange.

See accompanying notes to financial statements