

PEER 1 NETWORK ENTERPRISES INC. MANAGEMENT DISCUSSION & ANALYSIS FOR THE NINE MONTHS ENDED MARCH 31, 2005

This Management Discussion and Analysis ("MD&A"), dated May 6 2005, should be read in conjunction with Peer 1's unaudited third quarter statements, as well as the audited annual financial statements for the fiscal year ended June 30, 2004 and the notes thereto. All figures noted are in Canadian 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. The company disclaims any obligation to revise any forward looking statements as a result of information received after the fact or regarding future events.

PEER 1 NETWORK ENTERPRISES OVERVIEW

Quarterly Highlights

- Opened a new colocation facility in Herndon, Virginia to serve the eastern USA dedicated server operations of ServerBeach Ltd., as well as for Peer 1 colocation and bandwidth operations.
- Substantially completed the move of approximately 2,800 dedicated servers from a facility operated by the former owners of ServerBeach to the new Peer 1 facility in Herndon.
- 26% increase in quarterly revenues (three months ended March 31, 2005 vs three months ended December 31, 2004) from \$5.7 million to \$7.2million.
- Year to date revenues are 68% higher than for the same nine month period in FY2004.
- Gross profit margins increase from 37.4% to 38.4% on a year to date basis.
- EBITDA of \$1.53 million this quarter (normalized to exclude one-time integration costs related to the acquisition of ServerBeach), compared to \$0.7 million last quarter.

Core Business

Peer 1 Network Enterprises Inc. provides high performance internet bandwidth and co-location facilities to web-centric customers across North America. Building on a redundant, 100% Cisco powered internal network, Peer 1 guarantees 100% uptime internet access for companies with mission-critical applications. The company has established local offices and co-location facilities in Vancouver, Toronto, Montreal, New York, Seattle, San Jose, San Antonio and Herndon VA and also has points of presence (POPs) in the USA in Chicago and Los Angeles, and in the UK in London.

Bandwidth

Peer 1's bandwidth service is provided by way of an expansive, redundant network which is connected to multiple Tier 1 Internet providers in Canada and the US and which utilizes multiple major upstream providers and 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.

Colocation

The co-location service provided by Peer 1 involves the physical locating of a customer's switching gear or servers in one of the dedicated facilities operated by Peer 1, which is designed to provide the infrastructure necessary for the functioning of that equipment. Included in the required infrastructure would be such resources as a secured cage or cabinet, regulated power, emergency backup power, dedicated Internet connection, regulated air temperature and security.

The major benefits of co-location with Peer 1 are:

- Significantly reduced costs of staff, facilities and hardware
- Reduced configuration and management issues
- Access to a very high bandwidth, high quality IP network
- 24 hours, 7 days a week monitoring
- An environmentally protected facility
- High level of physical security
- Lower costs compared to "in house" solutions

Colocation customers are charged for the service provided by way of a monthly rental charge.

Dedicated Servers

ServerBeach, recently awarded Web Host Magazine's "Editor's Choice" for hosting, offers self-managed, competitively price dedicated server solutions to small and mid-size businesses, and technology hobbyists. Built on solid hardware, the renowned Peer 1 Network and burstable bandwidth, ServerBeach provides Linux and Microsoft users with high-performance servers, complete with a full set of easy-to-use developer's tools.

STRATEGY

Peer 1 Network Enterprises, Inc. management is implementing a three-level growth strategy initiative. The three elements of the strategy initiative are organic growth, leveraged growth, and accelerated growth. The organic growth strategy is predicated on the fact that the current business will continue to add more customers and expand the network's reach into key peering points worldwide. The company's leveraged growth strategy builds on the introduction of new products and services that leverage the infrastructure that Peer 1 has already has in place and is paid for. Peer 1's accelerated growth strategy focuses on actively pursuing acquisitions that are accretive to the Peer 1

business based on well defined criteria for a target company's performance and growth potential.

Network

Peer 1 has built a "clear channel" backbone network connecting all of Peer 1's facilities using multiple high-speed OCn connections. Hundreds of peering relationships and traffic exchange agreements have been established with other networks. The peering arrangements are fundamental to the company's strategy. 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. This has two main advantages: first, it reduces latency between the two networks; and secondly, it avoids additional costs associated with a third party network.

Colocation Facilities

Peer 1's strategy is to establish a point of presence in a new market by colocalizing in facilities owned by other suppliers, in order to gauge market demand, prior to making a decision to open up our own colocalization facility. When a market is deemed to be viable, the company identifies suitable space for long term lease. Wherever possible, sites that have previously been operated as data centres are sought, since this reduces the initial capital investment required. All equipment is acquired and installed on a phased basis, again to reduce the capital investment required. As market share grows, additional equipment is acquired.

THIRD QUARTER INFORMATION

Segmented Information

As this is the first year for which the reported results include the operations of ServerBeach, the following additional financial information is provided to facilitate comparisons to previous periods.

Peer 1 Network Enterprises, Inc. Segmented Balance Sheet As At March 31, 2005 (unaudited - prepared by management)				
	3/31/2005 Peer 1	3/31/2005 ServerBeach	3/31/2005 Total	6/30/2004 Peer 1
Assets				
Current:				
Cash and cash equivalents	761,603	333,020	1,094,623	976,848
Accounts receivable	2,880,543	-	2,880,543	2,139,565
Inventory	-	165,707	165,707	-
Prepaid expenses	420,351	334,450	754,801	305,724
	4,062,497	833,177	4,895,674	3,422,137
Other assets	1,237,889	-	1,237,889	794,804
Property, plant and equipment	7,521,973	3,524,713	11,046,686	5,300,519
Goodwill, licences and other intangibles	-	6,128,682	6,128,682	-
	12,822,359	10,486,572	23,308,931	9,517,460
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	3,301,380	1,023,189	4,324,569	2,201,583
Deferred revenue	709,464	478,230	1,187,694	571,156
Current portion of deferred lease inducements	11,800	-	11,800	11,800
Current portion of notes payable	642,662	9,748,800	10,391,462	510,289
Shareholder notes	2,681,356	-	2,681,356	1,315,341
	7,346,662	11,250,219	18,596,881	4,610,169
Deferred lease inducements	321,130	0	321,130	150,431
Notes payable	3,201,557	-	3,201,557	3,319,312
	10,869,349	11,250,219	22,119,568	8,079,912
Shareholders' Equity (Deficiency)				
Capital Stock	11,245,992	-	11,245,992	9,914,432
Warrants	-	-	-	-
Contributed Surplus	622,711	-	622,711	435,638
Equity component of convertible debt	435,638	-	435,638	220,355
Retained Earnings (Deficit)	(10,351,331)	(763,647)	(11,114,978)	(9,132,877)
	1,953,010	(763,647)	1,189,363	1,437,548
	12,822,359	10,486,572	23,308,931	9,517,460

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

	Three Months Ended March 31, 2005 Peer 1	Three Months Ended March 31, 2005 ServerBeach	Three Months Ended March 31, 2005 Total	Three Months Ended March 31, 2004 Peer 1
Revenue	4,513,755	2,655,369	7,169,124	3,400,250
Cost of Sales	2,861,492	1,499,156	4,360,648	2,121,692
Gross Profit	1,652,263	1,156,213	2,808,476	1,278,558
Operating expenses	1,615,382	814,018	2,429,400	1,121,904
Operating profit (loss)	36,881	342,195	379,076	156,654
Interest expense	205,587	610,597	816,184	151,440
Interest accretion on convertible debt	92,267	-	92,267	16,381
Integration costs	-	346,447	346,447	-
Realized foreign exchange loss (gain)	(12,037)	-	(12,037)	(17,136)
Unrealized foreign exchange loss (gain)	-	258,694	258,694	-
Loss from equity accounted investment	22,950	-	22,950	-
Income (loss) before income taxes	(271,886)	(873,543)	(1,145,429)	5,969
Provision for income taxes	-	16,571	16,571	-
Income (loss) for the period	(271,886)	(890,114)	(1,162,000)	5,969
Deficit, beginning of period	(9,749,722)	126,467	(9,623,255)	(8,893,932)
Adjustment for prior years' stock based compensation	(329,723)	-	(329,723)	-
Deficit, end of period	(10,351,331)	(763,647)	(11,114,978)	(8,887,963)
EBITDA	440,570	745,489	1,186,059	421,865
Normalized EBITDA	440,570	1,091,936	1,532,506	421,865

Peer 1 Network Enterprises, Inc.
Segmented Income Statement
Year To Date
(unaudited - prepared by management)

	Nine Months Ended March 31, 2005 Peer 1	Nine Months Ended March 31, 2005 ServerBeach (since Oct 20/04)	Nine Months Ended March 31, 2005 Total	Nine Months Ended March 31, 2004 Peer 1
Revenue	12,451,527	4,191,129	16,642,656	9,920,624
Cost of Sales	7,781,008	2,470,767	10,251,775	6,209,031
Gross Profit	4,670,519	1,720,362	6,390,881	3,711,593
Operating expenses	4,760,735	1,446,396	6,207,131	3,684,817
Operating profit (loss)	(90,216)	273,966	183,750	26,776
Interest expense	540,853	876,992	1,417,845	441,900
Interest accretion on convertible debt	277,505	-	277,505	402,410
Integration costs	-	346,447	346,447	-
Realized foreign exchange loss (gain)	(50,507)	-	(50,507)	(70,098)
Unrealized foreign exchange loss (gain)	-	(207,434)	(207,434)	-
Loss from equity accounted investment	22,950	-	22,950	-
Income (loss) before income taxes	(881,017)	(742,039)	(1,623,056)	(747,436)
Provision for income taxes	7,714	21,608	29,322	-
Income (loss) for the period	(888,731)	(763,647)	(1,652,378)	(747,436)
Deficit, beginning of period	(9,132,877)	-	(9,132,877)	(8,140,527)
Adjustment for prior years' stock based compensation	(329,723)	-	(329,723)	-
Deficit, end of period	(10,351,331)	(763,647)	(11,114,978)	(8,887,963)
EBITDA	926,096	1,126,982	2,053,078	495,045
Normalized EBITDA	926,096	1,473,429	2,399,525	495,045

Peer 1 Network Enterprises, Inc.				
EBITDA Reconciliation				
Three Months Ended March 31				
(unaudited - prepared by management)				
	Three Months Ended March 31, 2005 Peer 1	Three Months Ended March 31, 2005 ServerBeach (since Oct 20/04)	Three Months Ended March 31, 2005 Total	Three Months Ended March 31, 2004 Peer 1
Net Profit (Loss)	(271,886)	(890,114)	(1,162,000)	5,969
Interest Expense	180,666	343,935	524,601	151,440
Accreted Interest	92,267	-	92,267	16,381
Amortization - fixed assets	341,969	443,696	785,665	248,075
Amortization - startup costs	-	-	-	-
Amortization - loan origination fees	24,921	266,662	291,583	-
Amortization - acquisition costs	-	15,948	15,948	-
Amortization - licence fees	-	290,097	290,097	-
Taxes	-	16,571	16,571	-
Stock-based compensation expense	72,633	-	72,633	-
Unrealized FX gains/losses	-	258,694	258,694	-
EBITDA	440,570	745,489	1,186,059	421,865
Integration Costs	-	346,447	346,447	-
Normalized EBITDA	440,570	1,091,936	1,532,506	421,865

Peer 1 Network Enterprises, Inc.				
EBITDA Reconciliation				
Year To Date				
(unaudited - prepared by management)				
	Nine Months Ended March 31, 2005 Peer 1	Nine Months Ended March 31, 2005 ServerBeach (since Oct 20/04)	Nine Months Ended March 31, 2005 Total	Nine Months Ended March 31, 2004 Peer 1
Net Profit (Loss)	(888,731)	(763,647)	(1,652,378)	(747,436)
Interest Expense	485,110	451,349	936,459	441,900
Accreted Interest	277,505	-	277,505	402,410
Amortization - fixed assets	906,438	692,260	1,598,698	646,246
Amortization - startup costs	9,684	-	9,684	-
Amortization - loan origination fees	55,743	425,643	481,386	-
Amortization - acquisition costs	-	28,155	28,155	-
Amortization - licence fees	-	479,048	479,048	-
Taxes	7,714	21,608	29,322	-
Stock-based compensation expense	72,633	-	72,633	-
Unrealized FX gains/losses	-	(207,434)	(207,434)	-
EBITDA	926,096	1,126,982	2,053,078	743,120
Integration Costs	-	346,447	346,447	-
Normalized EBITDA	926,096	1,473,429	2,399,525	743,120

Overall Performance

Selected Measures of Financial Position	March 2005	June 2004	June 2003
Cash (including restricted cash)	\$1,094,623	\$976,848	\$650,907
Total Assets	\$23,308,931	\$9,517,460	\$6,494,277
Working Capital	\$-13,701,207	\$-1,188,031	\$-1,562,265
Long Term Financial Liabilities	\$3,201,557	\$3,319,312	\$3,235,074
Share Capital	\$11,245,992	\$9,914,432	\$6,779,922
Shareholders' Equity	\$1,189,363	\$1,437,548	\$-511,783

Cash balances were bolstered by funds from a \$1.33 million private placement received just before the end of the quarter. Approximately \$500,000 of the cash is unavailable for general use, as it is held as security for letters of credit required for operating purposes.

As noted in the previous quarter, the large increase in total assets from the previous fiscal year end is a result of the acquisition of ServerBeach Ltd. The company continues to invest in assets for the Peer 1 Network operating companies as well as for Server Beach. A new colocation facility was added in Herndon, Virginia to accommodate ServerBeach eastern USA operations as well as to serve Peer 1 colocation and bandwidth customers and further expansion is underway in New York, Toronto and Seattle. This, as well as organic growth at Server Beach has resulted in additional fixed asset investment during the quarter.

During the quarter, the company reassessed the role it was playing in the operation of the VOIP (voice over internet protocol) company Symmetric Broadband Inc. It was determined that the management effort required to continue to operate this company as a joint venture was not commensurate with the expected returns. Peer 1 no longer provides joint management over the operation, and is no longer committed to funding the operation equally with the other joint venturer. As a result, the financial position and results of operation no longer include those of Symmetric Broadband on a proportionate consolidation basis – the investment is now accounted for as an equity investment.

As noted in the previous quarter, the increase in long term financial liabilities is a result of the financing of the ServerBeach purchase price, which was US\$7.5 million. Peer 1 arranged bridge financing for the full purchase price from a company related to one of its Directors on commercially reasonable terms and due on June 30, 2005 with certain renewal provisions thereafter. The loan carries an interest rate of 6% per annum through December 31, 2004 and thereafter at 15% per annum. Interest payments are made monthly. During the third quarter, the loan agreement was amended to add US\$500,000 to the outstanding principal. This amount was identified in the original loan agreement as a transaction fee payable to the lender, and had been included in accounts payable. The US\$500,000 fee is being amortized over an eight month period from November 2004 to June 2005, coincidental with the term of the loan. The bridge loan is reflected on the financial statements as a current liability, in accordance with generally accepted accounting principles. The company is in negotiations to refinance the bridge loan prior to its expiration, and fully expects to complete the refinancing prior to year end. In the event that the refinancing is unable to complete in time, the company still retains the option to extend the bridge loan under the existing terms. If the bridge loan were to be classified as non-current, the working capital deficit would decrease to \$3.95 million.

Selected Measures of Operations	YTD Q3 2005	YTD Q3 2004	YTD Q3 2003
Total Revenue	\$16,642,656	\$9,920,624	\$7,090,460
Gross Margin	38.4%	37.4%	20.1%
Net Loss	\$1,652,378	\$747,436	\$2,616,634

Revenues as of the end of the third quarter were 68% higher than for the same period last year, which in turn was 40% higher than that for the preceding year. Peer 1 Network

alone grew by over 25%, with the operations of Server Beach accounting for the rest of the growth.

The increase in revenue has not been matched by the increase in gross margin. This is due to capacity addition during the last year (which affects colocation gross margins), as well as lower margins on bandwidth revenues. Additional information is provided in the section titled "Gross Profit" below.

The net loss this quarter reflects several factors: the company has recorded stock based compensation costs (in accordance with CICS Handbook section 3870) for the entire year during this quarter; interest charges for the bridge financing have increased from 6% to 15%, and also include three months of the transaction fee amortization, compared to the previous quarter where only two months of amortization were included; \$350,000 of integration costs were incurred to move the Server Beach operations from a facility operated by their former owners to a Peer 1 facility; foreign exchange rate fluctuations have resulted in an unrealized loss this quarter of approximately \$260,000.

RESULTS OF OPERATIONS

With the decision to refocus management efforts onto the two principal business segments, the provision of colocation & bandwidth services and the rental of dedicated servers, this quarter's operating results do not include any revenues or costs related to Symmetric Broadband Inc. The company's share of the loss incurred by Symmetric Broadband this quarter is included on the income statement as a separate line item.

The colocation and bandwidth segment is the area of business that Peer 1 has historically provided services in. The ServerBeach acquisition has facilitated entry into the dedicated server segment.

Revenues

63% of the revenue this quarter was generated from colocation and bandwidth sales, with revenues from dedicated servers accounting for the balance. This is down from 73% in the previous quarter, since ServerBeach was acquired part way through the second quarter.

Colocation and Bandwidth

Colocation revenues increased from \$1.2 million in the third quarter of FY2004 to \$1.8 million in the third quarter of FY2005 (55% growth). The increase from the previous quarter in FY2005 was \$0.2 million (11%). The increase is directly attributable to growth in the customer base - the number of colocation customers grew from 579 at the end of the third quarter of FY2004 to 778 by the end of the current quarter. This translated into a 55% increase in the number of units sold each month (the increase from the end of the previous quarter was 7%). The average selling price per customer has increased by about 15%, while the per-unit price has decreased slightly from FY2004. This is likely a result of customers purchasing larger bandwidth bundles with their colocation space.

For the second consecutive quarter, bandwidth revenues showed quarter over quarter growth (9%). Although the trend of falling bandwidth prices resulting from a highly competitive market continued this quarter, traffic was 30% higher this quarter than last,

thereby offsetting the downward pressure on revenues. The ratio of colocation to bandwidth revenues is now 44%:56% (substantially the same as last quarter), compared to 36%:64% at the end of the third quarter of FY2004.

Year to date, 82% of revenues earned were from the company's three Canadian sites, compared to 89% at the end of the third quarter of FY2004 and 83% in the immediately preceding quarter. Sales at the US locations continue to grow, with Seattle and New York recording the majority of the increase. Management expects that the US locations will continue their sales growth, as Peer 1 brand recognition increases.

The company continues to monitor capacity utilization closely, in order to ensure that anticipated growth is not adversely affected by a lack of available space. Space has been added in Toronto and New York, the two locations where capacity utilization has been higher than the company target. Additional space is also being considered in other US locations.

Dedicated Servers

Revenue this quarter amounted to \$2.7 million, up from \$1.5 million in the previous quarter (as this was the quarter during which ServerBeach was acquired, the comparative numbers include only two months of revenue compared to three months for the current quarter). Since acquisition the number of dedicated servers has increased by about 11%, with the average revenue per server increasing over time.

Gross Profit

Gross profit margins have changed only slightly from last fiscal year to this, due to a continuation of bandwidth margins being negatively impacted by falling prices, and the net increase in the total amount of colocation space. In past quarters, Peer 1's cost of acquiring high quality bandwidth was also falling rapidly, however the rate of decline has now slowed. However, the lower prices have resulted in volume growth, with the result that in dollar terms, gross profit at the end of the second quarter in FY2005 is 29% higher than it was at the end of the same quarter in FY2004.

Colocation space has been added in Toronto, New York and Herndon, VA which has resulted in an increase in the cost of sales. As space is sold in these expanded facilities, each dollar of revenue earned improves the gross margin, since colocation costs are largely fixed and do not vary much with increased sales volumes.

The ServerBeach gross margin for the quarter was 43%, compared to 37% in the previous quarter. This results from two primary factors: last quarter's revenues were lower than usual as the results for the quarter reflected a partial month of revenue; the cost of the Peer 1 facility is lower than that for the facility operated by the previous owner.

Operating Expenses

Colocation and Bandwidth

The largest component of operating expenses is salaries and wages which, year to date, comprise approximately 57% of the total (53% for the same period in FY2004). The higher proportion is attributable to an increase in the number of sales people on staff (sales staff were added to the new US locations) as well as higher sales commissions that are a result of the increase in revenues. It is expected that this component will continue to increase relative to other operating expenses as sales continue to increase.

Rent and administration costs make up the next most significant component at 22% of total operating costs down from 26% in FY2004. Management continues to focus on administration costs to ensure that operations are as efficient as possible. No major changes are anticipated for the costs in this category.

Travel costs are 12% of total operating expenses, unchanged from FY2004. With the addition of a POP in London, and the investigation of market opportunities in Europe and other locations in the USA, this component is expected to be of greater significance in the coming year.

Professional fees account for 9% of total costs this quarter, unchanged from FY2004. No major changes are anticipated for the costs in this category.

SUMMARY OF QUARTERLY RESULTS

	Quarter Ended							
	June 30 2003	September 30 2003	December 31 2003	March 31 2004	June 30 2004	September 30 2004	December 31 2004	March 31 2005
Revenue	3,023,564	3,113,210	3,407,164	3,400,250	3,667,290	3,780,131	5,693,401	7,169,124
Operating Profit (Loss)	(452,534)	(196,463)	66,585	156,654	(64,459)	(57,966)	(296,341)	379,076
Net Income (Loss)	(664,701)	(504,767)	(248,638)	5,969	(244,914)	(311,669)	(178,709)	(1,162,000)
Pro forma basic and fully diluted income (loss) per share	(0.02)	(0.01)	(0.01)	0.00	(0.01)	(0.01)	(0.00)	(0.03)
EBITDA	(206,386)	44,078	277,177	421,865	124,530	213,285	653,734	1,532,506

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2005 the company had a cash and cash equivalents balance of \$1.1 million. As noted in a previous section, this includes US\$400,000 of restricted funds which have been set aside as security for letters of credit.

The company had a working capital deficit of \$13.7 million at the end of the quarter and each of the previous two quarters (\$3.8 million after the second quarter of FY2005 and \$2.3 million at the end of the first quarter). Included in this amount are the current portion of long term debt, as well as short term shareholder notes and the accrued interest thereon. If these items are excluded from the calculation, on the assumption that shareholders would be unlikely to impact liquidity in a negative manner (most of the

long term debt is held by related parties), the working capital deficit is reduced to \$0.6 million.

Operating Activities

Operating activities, prior to consideration of the change in working capital balances, in the second quarter of FY2005 generated almost three times more cash than in the same quarter last year. This is primarily because the increase in revenues was greater than the commensurate increase in cash based expenses. Future revenue growth is also expected to follow this trend, with the result that cash flows are anticipated to continue from operations in the coming year.

Investing Activities

Investing activities during the quarter reflect the ongoing capital investment required in a rapidly growing business. Continued investment in equipment and facilities for the colocation and bandwidth segment of the business, and for equipment for the dedicated server segment will be required to the end of the fiscal year.

Financing Activities

The company financed its activities during the current quarter by way of a \$1.33 million private placement and shareholder debt of \$0.1 million. Additional financing by way of share issuance or debt will be required in the next quarter in order to sustain the continued growth plan and to pay down the accumulated accounts payable balance. There are no assurances that the company will be able to obtain the necessary financing.

OFF-BALANCE SHEET ARRANGEMENTS

The company has provided two letters of credit totaling US\$400,000 as security for a facility lease and for a major supplier. The letters of credit are secured by way of term deposits which are included in the reported cash balance. The year end financial statements will classify the term deposits as restricted cash.

TRANSACTIONS WITH RELATED PARTIES

During the year 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.

At the end of the third quarter, amounts due to and from related parties were as follows:

	FY2005	FY2004
Included in accounts receivable	\$147,380	\$167,286
Included in accounts payable and accrued liabilities	\$4,494	2,996

During the period, transactions with related parties were as follows:

	FY2005	FY2004
Revenues earned	\$127,860	\$328,235
Interest expensed	\$919,423	\$346,707
Other expenses incurred	\$98,165	5,504

These transactions are in the normal course of operations and are measured at their exchange amounts. Included in other expenses incurred is \$84,000 in accounts receivable from related parties that was written off.

SUBSEQUENT EVENTS AND PROPOSED TRANSACTIONS

The Board has approved letters of intent for two acquisition targets, one in Europe and one in the USA. Both targets are in a similar business segment, and would enhance Peer 1's market presence and network infrastructure. The due diligence process will be undertaken in the next quarter, prior to any further decisions being made by the Board.

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 is in the range of 2-2.5% of annual revenues.

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

The likelihood of M&A projects being completed are based on the facts involved in each particular case.

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 principals generally acceptable in Canada. All accounting policies have been applied on a basis consistent with that of the previous year.

During the year, as part of its growth strategy, the company undertook a process of identifying and pursuing organizations for potential acquisition. As a result, costs directly related to acquisitions continue to be incurred. The company has adopted a policy of deferring such costs for proposed transactions where completion is considered to be more likely than not. These deferred costs will be added to the cost of purchase upon completion. Should the status of a project change to become unlikely to complete, the costs associated with that project are expensed. As of the end of the second quarter, \$213,000 of costs had been deferred (\$180,000 at the end of the preceding quarter).

This quarter's results include the cost of stock based compensation, in accordance with generally accepted accounting principles. The company has chosen to apply the accounting treatment retroactively, without restatement of prior years' balances. Accordingly, a \$329,723 adjustment to opening retained earnings has been made, representing the costs applicable to prior years, and a further \$72,600 has been charged to income in the current quarter for all of the current fiscal year's costs. If the prior year amounts had been restated, the impact on FY2003 would have been \$72,799 and that on FY2004 \$256,924.

Non-GAAP Measures

The company reports Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), which is an approximate measure of operating cash flow based on financial data from the company's income statement. EBITDA is not a recognized accounting measure nor is it defined by generally accepted accounting principles. This non-GAAP measure may not be an identical presentation when compared with other company reports, as the nature of amounts included in amortization varies. The disclosure of EBITDA is strictly presented for informational purposes and is not intended to replace financial results presented from operations or cash flow.

An EBITDA reconciliation is included in a previous section so that the components are clearly disclosed. It should be noted that the measure has been amended to reflect the impact of unrealized foreign exchange gains and losses. The EBITDA numbers in the quarterly information trend section have been amended accordingly.

OUTLOOK AND RISKS

Outlook

The demand for high-speed, IP-based network services is growing rapidly, as both businesses and individual users place greater reliance on web-based information and applications. As a result, the industry segment that Peer 1 operates in is expected to continue along an upward growth trend as the demand for the outsourcing of secure internet infrastructure also grows.

Revenues are expected to continue their growth trend, though the growth rate is likely to fall because of the larger base. Current results have been impacted by rapidly declining internet bandwidth pricing. It is expected that prices will stabilize during FY2005, as a result of increased demand. Management has targeted \$16 million in revenues for 2005

from the colocation and bandwidth segment, and \$6 million in revenues from the dedicated server segment.

Costs of sales are expected to be higher in the fourth quarter as a result of the addition of space in the Toronto and New York colocation facilities. Until this additional capacity begins to generate sufficient revenues to break even, the outlook is for net losses in the fourth quarter. A net loss of just under \$3 million is projected for the year. However, EBITDA is expected to be over \$2 million, significantly higher than the \$0.9 million in the previous fiscal year.

Risks

The company is subject to a number of business risks inherent in the industry, including competitive pressures, credit risk, foreign exchange risk and technological change.

Peer 1 operates in a competitive market. The company has differentiated itself from the competition by the high level of customer service we provide and the quality of the products we offer. Management intends to keep Peer 1's product offerings focused, so as to continue to deliver the high level of quality at a competitive price that the company has become known for. Our customer retention rate is one of the highest in the industry because of this customer and quality focus.

The company's bad debt rate has been reduced to 2-2.5% in the most recent fiscal year as a result of more sophisticated credit and collections procedures. This, together with the company's high retention rate of customers mitigates credit risk.

The company currently operates in Canada and the USA, and has recently established a POP in the UK, and is thereby subject to risks typical of an international business including, but not limited to, differing economic conditions, differing tax structures, other regulations and restrictions and foreign exchange rate volatility. The company has evaluated its exposure to these risks, and has determined that its only significant exposure is to exchange rate risk with respect to the US dollar. At this time, costs denominated in US dollars exceed US denominated revenues. The company does not engage in hedging transactions, but anticipates that revenue growth in Peer 1's US locations, together with ServerBeach operations, will offset the exchange rate risk to a greater extent in 2005.

Technology is evolving rapidly, with the result that a major shift in communications technology away from the current IP based system could have a significant impact on all companies in the industry.

OTHER INFORMATION

Additional information relating to the company is available on SEDAR at www.sedar.com.