



NETWORK | CO-LOCATION | DEDICATED HOSTING

Quarterly Report
March 31, 2007



Peer 1 Network Enterprises, Inc.
Consolidated Balance Sheet
As At March 31, 2007
(unaudited - prepared by management)

	March	June
	2007	2006
	US\$	US\$
Assets		
Current:		
Cash and cash equivalents	6,714,658	5,666,477
Restricted Cash	505,000	505,000
Accounts receivable	3,625,510	5,241,027
Future income tax asset	82,019	-
Prepaid expenses	777,725	719,547
	<hr/>	<hr/>
	11,704,912	12,132,051
Other assets	3,997,549	3,951,004
Future income tax asset	278,517	-
Property, plant and equipment	25,842,689	24,523,659
Goodwill, licences and other intangibles	6,310,212	7,676,380
	<hr/>	<hr/>
	48,133,879	48,283,094
Liabilities		
Current:		
Accounts payable and accrued liabilities	7,280,424	10,038,981
Deferred revenue	4,066,470	3,748,932
Current portion of deferred gain	78,816	-
Current portion of deferred lease inducements	140,717	84,184
Current portion of notes payable	3,652,548	3,664,375
Income taxes payable	202,443	401,679
	<hr/>	<hr/>
	15,421,418	17,938,151
Deferred gain	669,913	-
Deferred lease inducements	974,474	423,446
Notes payable	14,953,332	17,387,783
Long Term Debt	9,209,919	8,087,469
	<hr/>	<hr/>
	41,229,056	43,836,849
Shareholders' Equity		
Common Shares	15,236,273	14,326,836
Warrants	1,060,865	1,060,865
Contributed Surplus	998,711	777,574
Deficit	(10,379,725)	(11,707,729)
Cumulative Translation Adjustment	(11,301)	(11,301)
	<hr/>	<hr/>
	6,904,823	4,446,245
	<hr/>	<hr/>
	48,133,879	48,283,094

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

	Three Months Ended March 2007 US\$	Three Months Ended March 2006 US\$	Nine Months Ended March 2007 US\$	Nine Months Ended March 2006 US\$
Revenue	18,812,108	17,626,782	54,429,496	43,591,761
Cost of Sales	11,747,092	11,092,270	33,711,409	27,110,969
Gross Profit	7,065,016	6,534,512	20,718,087	16,480,792
Operating expenses	5,092,622	5,311,064	14,689,971	13,087,747
Operating Income before other items	1,972,394	1,223,448	6,028,116	3,393,045
Other Items:				
Amortization of preferred share discount	389,013	341,683	1,120,367	746,475
Interest expense - long term	803,062	628,804	2,464,551	2,662,679
Interest expense - short term	-	1,848	-	36,702
Interest accretion on notes payable	53,261	76,649	163,692	618,109
Integration costs	90,650	405,467	608,192	838,155
Foreign exchange loss (gain)	13,819	123,907	(23,950)	332,383
Loss on disposal of fixed assets	81,409	-	127,540	-
Loss from equity accounted investment	-	-	-	13,114
Income (Loss) before income taxes	541,180	(354,910)	1,567,724	(1,854,572)
Future income tax expense (recovery)	266,120	-	(358,799)	-
Current Income tax expense	45,358	-	598,519	-
Income tax expense	311,478	-	239,720	-
Income (Loss) for the period	229,702	(354,910)	1,328,004	(1,854,572)
Deficit, beginning of period	(10,609,427)	(10,019,911)	(11,707,729)	(8,520,249)
Deficit, end of period	(10,379,725)	(10,374,821)	(10,379,725)	(10,374,821)
Basic earnings (loss) per share	0.00	(0.01)	0.02	(0.03)
Diluted earnings (loss) per share	0.00	(0.01)	0.02	(0.03)

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

	Three Months Ended March 2007 US\$	Three Months Ended March 2006 US\$	Nine Months Ended March 2007 US\$	Nine Months Ended March 2006 US\$
Cash flows from operating activities				
Income (Loss) for the period	229,702	(354,910)	1,328,004	(1,854,572)
Amortization	2,713,422	2,327,584	7,990,573	6,116,080
Amortization of preferred share discount	389,013	341,683	1,120,367	746,475
Stock-based compensation included in income (loss) for period	149,914	77,025	316,137	256,729
Increase (decrease) in deferred lease inducements	(10,413)	(16,909)	607,561	145,435
Settlement of loan renewal fee	-	-	-	400,000
Bad debt expense (recovery)	(23,345)	459,037	401,084	874,204
Loss on disposal of property and equipment	81,409	-	127,540	-
Amortization of deferred gain	(29,555)	-	(39,407)	-
Amortization of deferred loan origination fees	247,980	201,772	729,767	524,627
Future income tax expense (recovery)	266,120	-	(358,799)	-
Increase in accrued interest and accretion on notes payable	50,480	(746,093)	147,805	1,864,096
	4,064,727	2,289,189	12,370,632	9,073,074
Change in non-cash working capital items				
(Increase) decrease in accounts receivable	(48,287)	(205,448)	1,214,433	(2,416,165)
(Increase) decrease in prepaid expenses	157,651	(442,260)	(58,178)	(1,434,060)
Increase (decrease) in accounts payable and accrued liabilities	873,741	1,456,309	(4,057,919)	3,342,367
Decrease in income taxes payable	(415,665)	-	(199,236)	-
Increase in deferred revenue	77,857	180,717	317,538	2,137,263
	4,710,024	3,278,507	9,587,270	10,702,479
Cash flows from investing activities				
Decrease in restricted cash	-	50,000	-	50,000
Acquisition of property and equipment	(2,430,206)	(2,367,993)	(7,051,703)	(18,172,598)
Investment in goodwill, licences and other intangibles	(205,795)	2,066	(733,790)	(3,575,397)
Proceeds on disposition of equipment	29,475	-	50,093	-
Investment in other assets	(93,867)	164,296	(776,312)	(2,727,136)
	(2,700,393)	(2,151,631)	(8,511,712)	(24,425,131)
Cash flows from financing activities				
Proceeds from (repayment of) notes payable and long term debt	(864,000)	(622,015)	(2,592,000)	19,678,700
Share capital issued	734,902	151,527	814,437	393,158
Net proceeds on sale leaseback	-	-	1,750,186	-
	(129,098)	(470,488)	(27,377)	20,071,858
Increase in cash and cash equivalents	1,880,533	656,388	1,048,181	6,349,206
Cash and cash equivalents - beginning of period	4,834,125	5,984,889	5,666,477	292,071
Cash and cash equivalents - end of period	6,714,658	6,641,277	6,714,658	6,641,277

Notes to Unaudited Consolidated Financial Statements

1. 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. 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 data centres 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.

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 nine month period 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, 2006. The annual financial statements should be referenced in conjunction with this interim report. All amounts are presented in United States Dollars unless otherwise noted. Certain comparative amounts have been reclassified to correspond to the presentation in the current period.

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 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. 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, 2006	77,325,913	\$ 14,326,836
Stock Options Exercised	<u>16,000</u>	<u>8,349</u>
Balance, September 30, 2006	77,341,913	\$ 14,335,185
Stock Options Exercised	<u>200,000</u>	<u>102,259</u>
Balance, December 31, 2006	77,541,913	\$ 14,437,444
Stock Options Exercised	<u>1,982,250</u>	<u>798,829</u>
Balance, March 31, 2007	<u>79,524,163</u>	<u>\$ 15,236,273</u>

c) Warrants Outstanding

The following non-transferable share purchase warrants are outstanding:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Outstanding 6/30/2006</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 3/31/2007</i>
Jul 18, 2007	Cdn\$0.40	3,100,000	-	-	3,100,000
Sept 2, 2010	US\$0.23	2,306,571	-	-	2,306,571
Jan 31, 2011	Cdn\$0.40	833,333	-	-	833,333
		<u>6,239,904</u>	-	-	<u>6,239,904</u>

d) Contributed Surplus:

	Amount
Balance, June 30, 2006	\$ 777,574
Stock options exercised	(2,902)
Stock based compensation	<u>54,758</u>
Balance, September 30, 2006	\$ 829,430
Stock options exercised	(28,171)
Stock based compensation	<u>111,465</u>
Balance, December 31, 2006	\$ 912,724
Stock options exercised	(63,593)
Stock based compensation	<u>149,580</u>
Balance, March 31, 2007	<u>\$ 998,711</u>

e) Shares held in escrow:

As of March 31, 2007, 5,524,201 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 6/30/2006</i>	<i>Issued</i>	<i>Expired/ Exercised</i>	<i>Outstanding 3/31/2007</i>
Feb 28, 2012	Cdn\$1.29	-	40,000		40,000
May 30, 2011	Cdn\$0.75	75,000			75,000
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	-	760,000		760,000
Sept 6, 2011	Cdn\$0.63	-	2,973,100		2,973,100
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	15,000		5,000	10,000
July 24, 2007	Cdn\$0.45	2,128,250		1,706,250	422,000
Nov 7, 2007	Cdn\$0.45	300,000			300,000
June 30, 2009	Cdn\$0.45	15,000		5,000	10,000
Sept 30, 2010	Cdn\$0.45	2,500			2,500
March 8, 2009	Cdn\$0.44	300,000		100,000	200,000
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
Nov 7, 2007	Cdn\$0.39	100,000		100,000	-
July 29, 2010	Cdn\$0.39	110,000		100,000	10,000
Oct 20, 2009	Cdn\$0.38	175,000		20,000	155,000
Aug 31, 2010	Cdn\$0.36	7,500			7,500
May 31, 2010	Cdn\$0.35	35,000		5,000	30,000
Sept 9, 2008	Cdn\$0.32	332,000		167,000	165,000
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			10,000
Apr 30, 2010	Cdn\$0.30	20,000		10,000	10,000
Nov 30, 2009	Cdn\$0.28	12,000			12,000
Dec 31, 2009	Cdn\$0.28	10,000		5,000	5,000
Jan 31, 2010	Cdn\$0.24	15,000			15,000
		5,024,750	3,873,100	2,223,250	6,674,600

4. 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:

	FY2007	FY2006
Revenue earned	\$72,669	\$76,739
Interest expensed	-	\$334,287
Other expenses	\$360,698	\$224,314

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. Included in other expenses is \$342,973 of management and consulting fees (\$224,314 in FY2006) and \$12,869 (\$139 in FY2006) in accounts receivable that has been written off.

	FY2007	FY2006
Balances at March 31 -		
Accounts receivable from related companies	\$8,538	\$80,391
Accounts payable to a related party	\$11,186	\$30,477

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

5. 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 not yet delivered a response to the Writ and Statement of Claim. 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.

6. Segmented Information

Following the acquisition of ServerBeach assets on October 20, 2004 and commencement of the provision of dedicated servers, two reporting segments are now in operation.

	<i>Three months ended March 31, 2007</i>			<i>Three months ended March 31, 2006</i>		
	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>
Revenue	\$5,401,550	\$13,410,558	\$18,812,108	\$4,853,788	\$12,772,994	\$17,626,782
Income (loss)	\$(409,878)	\$639,580	\$229,702	\$(518,746)	\$163,836	\$(354,910)

	<i>Nine months ended March 31, 2007</i>			<i>Nine months ended March 31, 2006</i>		
	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>	<i>Colocation & Bandwidth</i>	<i>Dedicated Servers</i>	<i>Total</i>
Revenue	\$15,501,038	\$38,928,458	\$54,429,496	\$13,404,300	\$30,187,461	\$43,591,761
Income (loss)	\$(1,462,304)	\$2,790,308	\$1,328,004	\$(2,710,694)	\$856,122	\$(1,854,572)
Total Assets	\$18,090,812	\$30,043,067	\$48,133,879	\$20,030,204	\$27,182,079	\$47,212,283

The Company operates in two geographic segments, USA and Canada.

	<i>Three months ended March 31, 2007</i>			<i>Three months ended March 31, 2006</i>		
	<i>USA</i>	<i>Canada</i>	<i>Total</i>	<i>USA</i>	<i>Canada</i>	<i>Total</i>
Revenue	\$14,884,646	\$3,927,462	\$18,812,108	\$13,858,832	\$3,767,950	\$17,626,782
Income (loss)	\$(418,105)	\$647,807	\$229,702	\$(347,666)	\$(7,244)	\$(354,910)

	<i>Nine months ended March 31, 2007</i>			<i>Nine months ended March 31, 2006</i>		
	<i>USA</i>	<i>Canada</i>	<i>Total</i>	<i>USA</i>	<i>Canada</i>	<i>Total</i>
Revenue	\$42,949,558	\$11,479,938	\$54,429,496	\$33,270,450	\$10,321,311	\$43,591,761
Income (loss)	\$(677,351)	\$2,005,355	\$1,328,004	\$(1,816,719)	\$(37,853)	\$(1,854,572)
Total Assets	\$36,847,271	\$11,286,608	\$48,133,879	\$35,252,197	\$11,960,086	\$47,212,283