

**iWEB GROUP INC.**  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

January 30, 2006

This management discussion & analysis comments on the financial position of iWeb Group Inc. (the Company). This report, prepared in accordance with Rule 51-102 on the continuous information obligations, should be read in conjunction with the audited annual consolidated financial statements for the year ended September 30, 2005 and the notes thereto. The reader must remember that past results are no guarantee of the future.

All amounts are expressed in Canadian dollars.

## **OVERVIEW**

Through a very modern and up to date data center, the Company offers its clients advanced hosting solutions be it shared hosting, dedicated servers, collocation of protected space for servers and registration of domain names

We cannot overestimate the importance of the data center which was the main axis for the growth of the Company over the last year. The center made it possible to strongly market the use of dedicated servers to clients and dedicated servers accounted for 55% of the increase in sales of the Company. This trend should continue in the future.

2005 was a year of considerable growth in most segments of the Company: revenues increased by 88%, net earnings by 191%, fixed assets by 85%, long term debt by 104% and EBITDA by 250%.

Net recurrent revenues increased an average of \$13 000 (new contracts less terminations) per month throughout the year for a cumulative monthly increase of \$156 000 in September and a total increase of \$894 000 for the whole year.

Management believes that the Company will have used to full capacity its present data center in the second financial quarter of this year and is planning a second more important center. (see additional information under "*New data center and financing*" below.)

## **Results**

### **Chosen annual information**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>'000\$</u>	<u>'000\$</u>	<u>'000\$</u>
Revenues	2 935	1 556	1 384
Total assets	3 213	1 884	567
Long term debt	1 187	580	116
Net earnings	201	69	99
Earnings per share, basic and diluted	0,0086	0,0038	0,057

Increases in revenues, total assets and long term debt are all tied to the data center project which was started in 2004 thus causing increases in assets and debt but not in revenues in that year. The addition of approximately 1000 servers and adjacent equipments caused the increase in assets, debt and revenues in 2005.

Net earnings and earnings per share indicate a break-even for most of the period with an improvement in 2005. Future increases in revenues should translate in increased earnings.

## Operating results

For the year ended September 30, 2005, revenues reached \$2 935 235, an increase of \$1 378 930 or 88% over the \$1 556 305 of 2004. This increase is principally due to the dedicated servers and related services. The Company maintained its prices for the registration of domain names in a market where prices were reduced but managed to keep its volume of business. The increase in value of the Canadian dollar has reduced the amount booked as revenue on US dollar operations by approximately \$150 000 and had a direct effect on net earnings.

Gross profit was maintained around 50%.

The increase in selling expenses shows the creation of a marketing program where advertisements are booked with certain search engines. These allow for the Company's sites to appear first when a request for information is similar to one of its products. The increase in revenues is an indication of the success of this program.

## Quarterly results

	2005			
	Quarter ended			
	September 30	June 30	march 31	December 31
Revenues (\$)	906 373	777 484	665 540	585 838
Net earnings (\$)	53 493	45 371	25 381	77 127
Earnings per share	.002	.002	.001	.003

The quarterly revenues show an increase throughout the year. This was generated by recurring revenues from dedicated servers accumulating from month to month and generated by the above mentioned marketing program started in the fall of 2004.

## Cash Flows

Earnings before interest, taxes, depreciation and amortization (EBITDA) was \$531 969 in 2005. In the particular case of the Company, the increase in deferred revenues of \$278 556 must be added to the funds generated for a total of \$810 525. These amounts were \$213 902, \$193 780 and \$407 682 in 2004. The company allows a discount of up to 10% of the amount invoiced to a client if it is prepaid for 6 to 12 months. Numerous clients make use of this arrangement and any amount prepaid is credited to deferred revenues. In addition, the

company recognises revenues as it is earned on a daily basis so that of a monthly invoice issued on the 15 of a month, 50% will be recognise as income and 50% as deferred revenue. Deferred revenues amounted to \$664 479 as of September 30, 2005 and was principally prepayments by clients.

As indicated by its EBITDA and the increase in its deferred income, the Company presently generates enough cash to fulfill all its financial obligations and acquire the new servers its clients may require, given the present rate of growth of \$20 000 new recurring revenue per month.

The long term commitments of the Company are as follows:

	Debt \$	Obligations under capital leases \$
2006	170 312	212 871
2007	166 553	180 994
2008	155 552	23 136
2009	132 738	6 534
2010	80 659	
2011 and thereafter	377 040	

## **New data center and financing**

The Company has initiated the process of building a second data center 6 to 7 times larger than the present one. The first phase of the project is budgeted at \$1 500 000 and financing has been agreed upon for the same amount. The financing is subject to certain conditions which the Company expects to fulfill. The first phase includes, in addition to a building, a generator, a UPS, an electrical entrance with external transformer, air conditioning and other installations necessary to operate 2 000 servers. Once completed, this new data center should operate with 15 000 servers.

## **Accounting estimates**

The only accounting estimates used by the Company are the rates of amortization of its tangible assets and clients lists and its allowance for doubtful accounts. In the case of rates of amortization, they must reflect the estimated useful life of the underlying asset as determined by the best judgement of management. The allowance for doubtful accounts amounts to the sum of all accounts given to a collection agency, usually when an account is delinquent for more than sixty days.

## **Risks and uncertainties**

The company is subject to a number of business risks inherent in its industry, including competitive pressure, technological changes and foreign exchange. The market of the Company is highly competitive. It offers a high level of customer service and the highest quality of product available at what it believes is competitive prices. Even tough customer retention rates are very high, competition may force the Company to reduce prices and thus

profitability. The Company operates in a technological environment that evolves rapidly. A major shift in communications technology may affect the whole industry in ways that are impossible to foresee at the present.

About 40% of the Company's revenues are denominated in US currency.

## **Outlook**

The data center presently used by the Company will be fully utilised by April or May 2006. Steps have already been taken to build a second center.

The Company receives more than \$20 000 per month of new recurrent revenues (net of terminations) since October, the start of its new financial year. If this trend continues, new recurrent revenues will total over \$1 600 000 for the year which will be added to the \$ 3 600 000 already booked at September 2005. Thus, revenues of the Company should again almost double for the year ending September 30, 2006 and funds generated should reach \$1000 000 (including the increase in deferred revenues).

## **Securities outstanding**

Type of security

Common shares	23 355 012
Warrants for common shares	Nil
Share options	925 332

## **Forward-Looking Statements**

This report contains certain forward-looking statements. When used in this report, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements. Such statements reflect the statement maker's current views, as of January 26, 2006, with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Corporation and its management do not intend, and do not assume any obligation, to update these forward-looking statements.

Additional information On iWeb Group Inc. can be found on the web site of SEDAR at [www.sedar.com](http://www.sedar.com).

Signed *Éric Chouinard*

Eric Chouinard, director

President and chief executive officer

Signed *Martin Leclair*

Martin Leclair, director

Vice-president and chief operating officer