

**IWEB GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FIRST QUARTER ENDED DECEMBER 31, 2005**

The following discussion and analysis should be read in conjunction with the audited financial statements of iWeb Group Inc. and notes thereto for the year ended September 30, 2005.

**Overview**

From its very modern data center built last year, the Company offers advanced hosting solutions for web sites such as dedicated hosting, shared hosting, server co-location and domain name registration.

Over the last twelve months, the growth of the Company has been outstanding and this trend is confirmed by the results of the first quarter of this year. The growth of the last year is exclusively the result of internal efforts of the Company and not the result of acquisitions. One consequence of this growth, is that the first data center will be too small to satisfy the new demand for the Company's services and management has started to put in place a second center. The first phase of the project is estimated at 1.5M\$ and includes the acquisition of a building, its improvements with amongst other things elevated floors and suspended ceilings, a new electrical entrance, a generator, a UPS (uninterruptible power supply), and air conditioning all of which to accommodate 2 000 servers. This first phase should be completed in May. The building has already been selected, its price negotiated and the transaction should be completed in the second quarter. When complete, this second center will accommodate 15 000 servers and 135 co-location cabinets.

**Results**

**Revenues**

In the first quarter ended December 31, 2005, compared to the same period last year, revenues increased by \$556 271 (95%) to a total of \$1 142 109. Management believes that this trend will continue through the year.

**Cost of services sold**

For the first quarter, cost of services sold increased from \$261 517 to \$509 937 but remained at 45% of sales.

## **Operating expenses**

Operating expenses increased slightly more than the sales growth from \$247 194 to \$ 526 964, an increase of 113%. Sales costs and particularly advertising were allowed more resources.

## **Net earnings**

Even though Earnings before future income taxes increased to \$105 208 (\$77 127 in 2004), an income tax charge of \$32 726 decreased Net earnings to \$72 482, lower than 2004 where past losses canceled tax expenses.

## **Cash Flows**

Earnings before interest, taxes, depreciation and amortization (EBITDA) was \$233 858 (\$131 776 in 2004). If the increase in deferred revenues is added to EBITDA, fund generated by operations totaled \$479 529 (\$216 812 in 2004).

To finance its new data center, the Company negotiated a first mortgage and a term loan for a total amount of \$1 525 000, to be finalized at the closing of the building. The mortgage will be repayable over 17 years and the term loan over 5.

In a second arrangement, the Company came to an understanding with a financial institution for a rotating credit of \$750 000 to be used for the purchase of its servers over the next 12 months. The disbursements will be monthly and repayments over 24 months. This agreement will be finalized in the second quarter.

In a third arrangement, the Company is negotiating a subordinated loan to improve its capital base. This loan would be repayable in five years with interest payable monthly. It should also be signed in the second quarter.

## **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 though 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**

Revenues almost doubled from 2004 to 2005, from \$1.5M to almost \$3.0M. Everything leads to believe that revenues will again double from 2005 to 2006 from \$3.0M to nearly \$6.0M.

The Company will again invest in sales through advertising on search engines for precise search words defining its products and by developing new account managers to better dialog with its clients. The emphasis will be on dedicated servers ie: servers owned by the Company and rented for the exclusive use of a customer in the secure environment of the Company's data center for a monthly fee under a monthly to a yearly lease. Management expects that dedicated server revenues will have a major impact on the results of the Company in 2006 and in the future.

## **FORWARD LOOKING STATEMENTS**

This discussion and analysis includes certain forward looking statements in respect to various issues including upcoming events. These include risks and uncertainties known and unknown which could substantially affect the future results of the Company. These risks and uncertainties include amongst other, uncertainties related to the business plan in the web hosting sector, competition, financial markets and access to such, as much as uncertainties tied to changes in the economic environment, the technology sector and society in general.

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

February 28, 2006

(signed) *Eric Chouinard*  
Éric Chouinard, director  
President and CEO

(signed) *Martin Leclair*  
Martin Leclair, director  
Vice-president and COO