

**iWEB GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of iWeb Group Inc. (the "Company" or "iWeb") and notes thereto for the year ended September 30, 2007. All amounts are in Canadian dollars.

**Overview**

iWeb is today one of the leading Canadian providers of IP hosting services, either through dedicated servers, shared hosting or colocation in three state-of-the-art data centres totaling over 52,000 square feet. Dedicated servers services consist of the rental of servers owned by the Company, located in its data centres and made available exclusively to specific clients. Shared hosting means the rental of space on the specialized servers of the Company providing a computer and web infrastructure to clients. Colocation services consist of the rental of secured space in a data centre where electrical, air conditioning and communication equipments are redundant and where a client can install and use its own servers. The Company provides advanced Web hosting services to clients in more than 130 countries worldwide.

Over the last three financial years, the Company has experienced exceptional growth, with income increasing from \$2.9 million to \$9.8 million. This growth results exclusively from the Company's efforts and has not been achieved through acquisitions.

The Company's first data centre on Hochelaga Street, with 1,800 servers and 42 colocation cabinets, has reached full capacity.

The second centre is located on Couture street in Montreal and began accommodating its first customers and servers towards the end of June 2006. This data centre will be developed in four phases. The first, at a cost of almost \$2 million, involved acquisition and upgrading of a building to include elevated floors and suspended ceilings, a new electrical entrance, a generator, a UPS (uninterruptible power supply) and an air conditioning system, in order to initially accommodate 2,000 servers.

The second phase of the project, at a cost of almost \$5 million, was completed at the start of the fourth quarter of the current year. This phase includes a 4,000-square-foot expansion to accommodate a 6000-amp electrical entrance, a water-cooled air conditioning unit, a 1500 kVA generator, two UPSs of 500 kVA each and all the necessary equipment to accommodate 2,700 additional servers.

Work on phase 3 started this fall. A 1500 kVA generator, one 500 kVA UPS, one water tower, four air conditioning units for a total capacity of 131 tons, and electrical and communication facilities for an additional 2,500 servers and 60 colocation cabinets will be added. The cost for this additional phase will be \$2.4 million.

The fourth and final phase will start in early 2009. Once all four phases have been completed, the second data centre will house 12,000 servers and 122 co-location cabinets.

In October 2007, the Company announced it would open a third data centre, exclusively for co-location. Located on Nun's Island in Montréal, this new 29,200-square-foot installation will accommodate 850 co-location cabinets equivalent and will be equipped with a UPS, back-up diesel generators and an equivalent-power air conditioning system. All systems in this centre will attain N+1 redundancy. Since the installations had previously been used as a data centre, the basic infrastructure to operate a co-location centre is already in place. In the coming months, iWeb will upgrade the installations so they are consistent with the Company's stringent operating standards. Phase 1 of this installation will be operational early in 2008. The lease could reach a period of up to 30 years with options to purchase at regular intervals.

On November 30, 2007, the Company announced the closing of an offering of 3,300,000 common shares at a price of \$1.25 per common share, for gross proceeds of \$4,125,000. The net proceeds of the offering (about \$3.5 million, net of issue expenses) will be used to implement and finalize phase 3 and advance phase 4 of the installation of its second data centre. The offering increases the number of outstanding common shares to 26,967,774.

### Financial Highlights for the Year

- **Over 70% growth in revenues to \$9.8 million for the year ended September 30, 2007, compared with revenues of \$5.8 million for the same period in 2006**
- **Adjusted EBITDA of \$2.8 million for 2007, i.e. 29% of revenues**
- **Net earnings of \$512,557 for the year ended September 30, 2007**

### Earnings

SELECTED ANNUAL INFORMATION (in thousands of dollars, except per share amounts)

	2007	2006	2005
	\$	\$	\$
Revenues	9,817	5,754	2,935
Adjusted EBITDA	2,836	1,466	549
Net earnings	513	500	201
Basic earnings per share	0.0218	0.0214	0.0086
Total assets	14,788	7,182	3,214
Long-term debt and subordinated debt	8,462	3,417	1,188

## REVENUES

Revenues for the year ended September 30, 2007 rose by \$4.1 million or 71%, compared with the same period in 2006. Revenues for the year totalled \$9.8 million (\$5.8 million in 2006). The increase in recurring monthly revenues combined with the enhanced service offering, lead management to believe that the Company will continue to experience strong revenue growth in the coming year. Over the past year, revenues were allocated as follows: almost 80% for dedicated servers and 10% for shared Web hosting and co-location respectively.

## EXPENSES

### *Cost of services sold*

Cost of services sold decreased by 3% to 43% of revenues for the year ended September 30, 2007, compared with the same period in 2006. The improvement is attributable to the volume increase and to tight expense control, especially over bandwidth usage costs. Gross profit was therefore 57% of revenues for the year (54% for the year ended September 30, 2006).

### *Operating expenses*

Operating expenses rose from 43% of revenues in 2006 to 48% in 2007. This increase is explained by higher selling expenses resulting from an increase in advertising expenses in order to expand the Company's share of its targeted dedicated servers market. Moreover, financial expenses were up pursuant to the additional financing facilities.

### *Income taxes*

The Company's effective tax rate reaches almost 42% for the past year, which is higher than the statutory rate, resulting especially from higher stock-based compensation expense which is not deductible from income for tax purposes. The Company benefits from capital expenditures subject to amortization at higher rates for tax purposes which results in only a small portion of the income tax expense being payable in the current year.

## NET EARNINGS

Net earnings remained virtually unchanged at \$512,557 for the year ended September 30, 2007 compared with \$500,361 in the previous year. Net earnings for the year include a charge of almost \$100,000 attributable to the change in the fair value of the derivative embedded in the subordinated debt of \$500,000. Moreover, last year's results were impacted positively by lower income taxes of approximately \$115,000 due mainly to the recognition of future income tax assets. These impacts were partly offset by improved gross margins for the year ended September 30, 2007.

Net earnings per share for the year ended September 30, 2007 were \$0.0218 per share, compared with \$0.0214 per share for the same period in 2006. Diluted earnings per share were \$0.0208, compared with \$0.0211 for the previous year.

QUARTERLY RESULTS (in thousands of dollars, except per share amounts)

	2007			
	Quarter ended			
	September 30	June 30	March 31	December 31
Revenues	2,956	2,614	2,291	1,956
Net earnings	197	201	22	93
Basic earnings per share	0.0084	0.0085	0.0009	0.0040

	2006			
	Quarter ended			
	September 30	June 30	March 31	December 31
Revenues	1,695	1,539	1,378	1,142
Net earnings	97	142	189	72
Basic earnings per share	0.0041	0.0061	0.0081	0.0031

CASH FLOWS AND FINANCING

Earnings before interest, taxes, depreciation and amortization, and stock-based compensation (adjusted EBITDA) were \$2.8 million (28.9% of revenues) for the last year, compared with \$1.5 million in 2006 (25.5% of revenues).

During the year, the Company acquired \$7.4 million in tangible and intangible assets. These investments were primarily for phase 2 of the work on the Couture data centre (almost \$5 million). IT equipment purchases, such as servers for the data centres, account for a major portion of the balance.

The Company obtained the financing needed for these acquisitions as follows: during the second quarter of the current fiscal year, the Company undertook a major consolidation of its current debt, and negotiated new loans totalling \$4.5 million. This additional debt includes two components. The first is a \$2.5 million subordinated loan bearing interest of 11% payable monthly, plus 2% supplementary interest and a bonus equivalent to a percentage of EBITDA varying from 3% to 6% for the next five years. The capital, supplementary interest and bonus are payable in a lump-sum payment in January 2012. The second component of \$2 million has been consolidated with existing debt into two loans. The first loan, for \$2,441,960, bears interest at the Business Development Bank of Canada's (BDC) base rate plus 0.75% (9%) and is payable over 15 years and the second loan, for \$2,252,000, bears interest at the BDC base rate plus 1.5% (9.75%), and is payable over seven years. As at September 30, 2007, a balance of \$300,000 of the \$2,441,960 loan was still receivable and was received during November 2007. Capital instalments on these two loans will commence in January 2008 and November 2007 respectively. The balance of the financing received (about \$1 million) was provided from a term loan at the prime rate plus 2.5% (8.75%) to finance IT equipment purchases. Other capital expenditures were financed from the Company's cash flows.

Phase 3 of the Couture data centre improvement project started in October 2007. In July 2007, in order to finance certain equipment for this phase, the Company accepted financing offers for obligations under capital leases for an amount of \$954,000. The first loan, for \$646,000, payable over 48 months, will bear interest at a floating rate based on 30-day banker's acceptances plus 3.97% (8.83%). The second loan, for \$308,000, payable over 60 months, will bear interest at fixed rate of 7.3%.

On November 30, 2007, the Company issued 3,300,000 shares at \$1.25 per share. The proceeds of this issue, net of the underwriters' commission and issue expenses, totalled about \$3.5 million. These funds and future loans will be used to complete phases 3 and 4 of the Couture data centre. With current capital of \$5.5 million compared with \$2.2 million before the offering, management believes it will be able to conclude the necessary loans quickly.

### **Changes in accounting policies**

Among others, at the start of the current year, the Company applied the new recommendations of the CICA Handbook relating to financial instruments. See note 2 to the audited consolidated financial statements as at September 30, 2007.

### **Controls and procedures**

The application of Act 198 and its regulations represents a continuous improvement process, which has prompted the Company to formalize existing processes and control measures and introduce new ones.

During the year, the Company retained the services of a firm of consultants specialized in documenting internal control procedures and financial information disclosure, which has issued its report.

The President and Chief Executive Officer and the Chief Financial Officer evaluated the design and effectiveness of the Company's disclosure controls and procedures and design of internal controls over financial reporting as at September 30, 2007, and concluded that the disclosure controls and procedures over financial reporting were adequate and effective to ensure that information relating to the Company is complete and reliable. However, as mentioned in the report described above, certain weaknesses were identified in the design of internal controls over financial reporting.

The Company and its Audit Committee have not introduced a complaints policy as required by Regulation 52-110, part 2, paragraph 7. The implementation of such policy is currently under review.

Due to the limited number of employees in the Information Technology department, there is a lack of segregation of duties between the personnel which develops the systems, puts the changes in production, and manages access to production systems; software could be modified without authorization and network access restrictions and the standards applied to limit such access could be insufficient to protect the systems, data and strategic information. The Company plans to hire a person in charge of quality and a network controller in order to improve internal controls. However, in such a limited Information Technology department, the segregation of duties may never be satisfactory.

## **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 variation.

The Company operates in a highly-competitive market. It offers a high level of customer service and the highest quality product available at what it believes to be very competitive prices. Even though customer retention levels are very high, competition could require the Company to reduce prices and thus profitability.

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

About 70% of the Company's revenues are denominated in U.S. currency.

See Note 17 of the audited consolidated financial statements as at September 30, 2007.

## **Outlook**

In recent years, the Company's revenues have grown significantly from \$1.6 million in 2004 to \$9.8 million in 2007, an annualized growth of over 80%.

The Company continues to invest in sales efforts through targeted advertising using search engines and by developing new account managers to speak with its customers. The emphasis will be on dedicated servers, i.e. servers owned by the Company and rented for the exclusive use of a customer in the secure environment of the Company's data centre for a monthly fee under leases of up to 12 months. Management expects that dedicated server revenues will continue to have a major impact on the Company's results in the current and future fiscal years.

## **Outstanding securities (as at September 30, 2007)**

Common shares	23,667,774
Stock options	2,434,753
Share prices during the year	
High	\$1.86
Low	\$0.30
Closing	\$1.35

## **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 Company or its management, are intended to identify forward-looking statements. Such statements reflect the authors' current views, as of December 14, 2007, 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, estimated or expected. These risks and uncertainties include among others, uncertainties related to the business model in the Web hosting sector, competition, financial markets and access to capital, as well as uncertainties related to changes in the economic environment and the technology sector in general. The Company 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 SEDAR Web site at [www.sedar.com](http://www.sedar.com).

December 14, 2007

(Signed) *Éric Chouinard*  
Éric Chouinard, Director  
President and Chief Executive Officer

(Signed) *Marc Guindon*  
Marc Guindon  
Vice-President and Chief Financial Officer