

iWEB GROUP INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FIRST QUARTER ENDED DECEMBER 31, 2007

This management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of iWeb Group Inc. (the "Company" or "iWeb") and notes thereto for the quarter ended December 31, 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 co-location in three state-of-the-art data centers totaling over 52,000 square feet. Dedicated servers services consist of the rental of servers owned by the Company, located in its data centers and made available exclusively to specific clients. Shared hosting means the rental of space on the specialized servers of the Company providing computer and web infrastructure to clients. Co-location 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 in Montreal with 1,800 servers and 42 co-location 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 in July 2007. This phase includes a 4,000-square-foot expansion to accommodate a 6000-amp electrical entrance, water-cooled air conditioning units, 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 last 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 co-location cabinets will be added. The cost for this additional phase will be \$2.4 million.

The fourth and final phase will start in spring 2008. 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 Nuns' 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.

The available unused and planned capacity is expected to allow the Company to meet growing customer demand for hosting services, as described in the table below:

<u>Data center</u>	<u>Service</u>	<u>Current capacity</u> ⁽¹⁾	<u>Utilization rate</u> ⁽²⁾	<u>Planned new capacity</u>	<u>Total</u>
Hochelaga	Dedicated	1,800	100 %	–	1,800
	Co-location	42	100 %	–	42
Couture ⁽³⁾	Dedicated	7,200	63 %	4,800	12,000
	Co-location	122	41 %	–	122
Nuns' Island ⁽⁴⁾	Dedicated	–	–	–	–
	Co-location	–	–	850	850
Total	Dedicated	9,000	–	4,800	13,800
	Co-location	164	–	850	1,014

Notes:

(1) Number of servers for dedicated services and number of cabinets equivalent for co-location services

(2) Utilization rate represents the space that is used up on the available servers and cabinets (as at January 31, 2008).

(3) Total new capacity should be available in mid 2008.

(4) Estimated total capacity that would be available partially in early 2008 and as required further on.

Management estimates that the Company will have a total potential capacity of over 13,000 dedicated servers and over 1,000 co-location cabinets at the end of 2008.

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 of \$3.5 million will be used to implement and finalize phase 3 and will be used to start the implementation of 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 quarter

- **Growth in revenues of 62% to \$3.2 million for the quarter ended December 31, 2007, compared with revenues of \$2.0 million for the same period in 2006**
- **Adjusted EBITDA of \$790,003 for 2007, i.e. 24.9% of revenues, an increase of 65% over 2006.**
- **Issuance of 3.3 million of shares for a net proceed of \$3.5 million**
- **Increase of \$1 million in the \$2.5 million credit facility for IT equipment financing**

Earnings

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

	<u>2007</u> \$	<u>2006</u> \$
Revenues	3,172	1,956
Adjusted EBITDA	790	478
Net earnings	18	93
Earnings per share, basic	0,0007	0,0040
Total assets	20,525	7,599
Long-term debt and subordinated debt, including derivative embedded in subordinated debt	9,988	3 231

REVENUES

Revenues for the quarter ended December 31, 2007 rose by \$1.2 million or 62%, compared with the same period in 2006, reaching \$3.2 million. The current revenue distribution is as follows: 80% for dedicated servers and 10% each for shared Web hosting and co-location. Since more than 70% of iWeb revenues are generated in U.S. dollars, the decrease of that currency against the Canadian dollar in the last quarter had a negative impact on the revenue level compared to the previous quarter (Q4-2007) and to the same 3-month period of last year.

EXPENSES

Cost of services sold

Cost of services sold stood at 46% of revenues for the quarter ended December 31, 2007, at the same level as the same period in 2006. Gross profit was therefore 54% of revenues for the last quarter. Positive impact from a tight operating cost control was offset by the decrease in value of the U.S. dollar against the Canadian dollar, since most of the cost of services sold are expensed in Canadian dollars.

Operating expenses

Operating expenses rose from 47% of revenues in 2006 to 53% in 2007. This increase is explained by higher administrative and financial expenses. Administrative expenses increase results from higher overhead expenses to support the expected strong growth in the Company's operations and from the increase in stock-based compensation expense, resulting from a higher stock price in the last year.

NET EARNINGS

For the quarter ended December 31, 2007, net earnings were \$18,026 compared to \$92,995 for the same period of the previous fiscal year. As explained before, net earnings for the last quarter were impacted by a stronger Canadian dollar against the U.S. dollar, by higher overhead costs in order to support the Company's growth, and by a higher non-deductible share-based compensation expenses which have also a negative impact on the Company's effective tax rate, which reached 42%, from a 32% rate, one year-ago.

Regarding the impact of the increase of the Canadian dollar over the U.S. dollar on the Company's operations, iWeb took some actions in the last months in order to mitigate the effect on future results: improved pricing on revenue sources in both currencies, increase in U.S. dollar purchases of equipment and licenses in order to get better prices on the U.S. market; financing of equipment in U.S. dollars. These measures will help the Company to improve its natural hedging on exchange risk.

CASH FLOWS AND FINANCING

Earnings before interest, taxes, depreciation and amortization, and stock-based compensation (adjusted EBITDA) were \$790,003 (24.9% of revenues) for the last quarter, compared to \$477,709 in 2006 (24.4% of revenues), a 65% increase year-over-year.

During the quarter ended December 31, 2007, an amount of \$1.4 million was spent for phase 3 of the work on the Couture data center, which started in October 2007. In order to finance certain equipment for this phase, the Company contracted two obligations under capital leases for a total amount of \$954,000. The first loan, for \$646,000, of which \$479,838 was advanced as at December 31, 2007, is payable over 47 months, and bears interest at a floating rate based on 30-day banker's acceptances plus 3.97% (8.48% as at December 31, 2007). The second loan, for \$308,000, payable over 60 months, will bear interest at fixed rate of 7.3%. Phase three will be completed in the second quarter of the current fiscal year.

Most of the other acquisitions of tangible assets are the result of purchases of servers and IT infrastructure necessary for the expansion of the Company's dedicated hosting service. 75% of the cost of those servers is financed through a credit facility from the Bank of Montreal. This facility increased by \$1 million in the last quarter, to a total credit of \$2.5 million. As at December 31, 2007, an amount of \$1.1 million remains available on this credit facility.

On November 30, 2007, the Company issued 3,300,000 shares at \$1.25 per share. The net proceeds of this issue were \$3.5 million, after underwriters' commission and issue expenses. 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

million before the offering, the Company has an improved financial position and management is currently working on the additional loans to support the growth of operations.

Changes in accounting policies

As at October 1, 2007, in accordance with application of transitional provisions, the Company adopted the recommendations of the new section of the Canadian Institute of the Chartered Accountants on “Accounting changes” (Section 1506).

For the new sections on “Financial Instruments – Disclosure and Presentation” (Sections 3862 and 3863) and on “Capital Disclosures” (Section 1535), these new standards had no impact on the financial results of the Company, since they only address additional disclosure to be included. The Company is presently evaluating the impact of the application of these new standards on the presentation of its consolidated financial statements.

Change in accounting estimates

As at October 1st, 2007, the Company modified some of the amortization rates of its tangible assets, pursuant to a revision of useful lives of certain assets categories. Accordingly, the annual rates of computer equipment and of equipment and improvements to data centres were modified in order to correspond to a useful live more specific to the nature of each asset. The Company considers the impact of these changes on the financial results of the last quarter to be immaterial.

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.

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 December 31, 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.

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.

The Company is exposed to foreign exchange risk since some of the Balance Sheet items are denominated in U.S. dollars. In addition, revenues, invoiced and collected in U.S. dollars, represent more than 70% of the Company's total revenues. Expenses in U.S. dollars represent only a portion of revenues generated in that currency. The Company does not enter into arrangements to hedge its foreign exchange risk.

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 exchange 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 rental agreements 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.

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 February 12, 2008, 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.

February 12, 2008

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

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