



iWeb is a global provider of Internet hosting services and IT infrastructure.

Management's Discussion & Analysis
Fiscal Year ended September 30, 2009



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**iWEB GROUP INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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, 2009. All amounts are in Canadian dollars (except otherwise mentioned).

Overview

iWeb is today one of the leading Canadian provider of Internet hosting services and IT Infrastructure, either through dedicated servers, shared hosting or co-location in three state-of-the-art data centers totaling over 48,000 square feet. Dedicated servers services include the rental of servers owned by the Company, located in its data centers and made available exclusively to specific clients. Shared hosting consists of 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 center 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 almost 20,000 clients from 145 countries worldwide.

Over the last financial years, the Company has experienced exceptional growth. This growth results exclusively from the Company's efforts and has not been achieved through major acquisitions. In September 2009, iWeb monthly revenues reached \$2.4 million, or almost the equivalent of \$29 million on an annual basis. For the last 12 months ending September 30, 2009, revenues were \$27.1 million and adjusted EBITDA, \$6.6 million.

Company's revenues are more than 95% recurring. Recurring revenues are revenues than are recorded on a monthly basis, for the same customers and for the same services. Over the 2009 financial year, the Company generated \$500,000 in new net recurring revenues ("NNRR"), or \$6 million on an annual basis. The NNRR decreased in 2009 as for the year ended September 30, 2008, NNRR were \$700,000, or \$8.4 million on an annual basis. The slow down started in February 2009. The churn rate on the Company's revenues was 4.2% on an annual basis for the year ended September 30, 2009. The rate was 3.1% for the year ended September 30, 2008.

The decrease in NNRR and the increase in churn rate for the year ending September 30, 2009 are the result of the economic situation: customers are downsizing their service level, while other customers are lost due to the vulnerability of their financial situation. However, the level of new gross recurring revenues (before churn) ("NGRR") increased by 62% for 2009 compared to 2008.

Data centers

The Company's three data centers are located in Montreal.

The first data center on Hochelaga Street (iWeb-HD) with 1,800 servers and 42 co-location cabinets, has reached full capacity since 2006.

The second center is located on Couture Street (iWeb-CL), and began accommodating its first customers and servers towards the end of June 2006. This 20,000 square foot data center has been developed in five phases requiring investments of \$12.1 million so far. As at September 30, 2009, the fifth and last phase was completed.

This second data center has a capacity of 12,000 servers on which 10,000 were already in operation at the end of September 2009 and 122 co-location cabinets on which only 15 are still available at this date. Equipments include a 6,000 amps electrical entrance, three generators for a total of 3,500 KVA, three water towers for a cooling capacity of 1,000 tons and five UPS (uninterruptible power supply) of a capacity of 2,375 kVA. With the current trend, this data center will reach full capacity in the spring 2010.

The third data center, where the head office of the Company is located, is used exclusively for co-location. Located on Nuns' Island in Montreal (iWeb-CO), this 43,700 square foot installation, including 20,000 square feet of office space, counts 850 co-location cabinet equivalents and is equipped with UPS, back-up diesel generators and an equivalent-power air conditioning system. All systems in this center will attain N+1 redundancy (a redundancy standard related to data centers). The lease could reach a period of 30 years with options to purchase at regular intervals. Phase 1 of the upgrade of the installations in order to be consistent with the Company's stringent operating standards was completed in May 2008. iWeb installed its first customers in the beginning of May 2008. The utilization rate as at September 30, 2009 was 25%. Monthly revenues coming from that data center were almost \$100,000 as at September 30, 2009.

The unused capacity of the Company's data centers as at September 30, 2009 is detailed as follows:

<u>Data center</u>	<u>Service</u>	<u>Capacity</u>	<u>Utilization rate</u>	<u>Available capacity</u>
iWeb-HD	Dedicated/Shared	1,800	100%	–
	Co-location	42	100%	–
iWeb-CL	Dedicated/Shared	12,000	83%	2,000
	Co-location	122	88%	15
iWeb-CO	Dedicated/Shared	–	–	–
	Co-location	<u>850</u>	<u>25%</u>	<u>640</u>
Total	Dedicated/Shared	13,800	86%	2,000
	Co-location	1,014	35%	655

In order to guarantee the required capacity for the expected growth of its customer base for dedicated servers, the Company is currently planning a fourth data center.

Financial highlights for financial year 2009

- Growth in revenues of 74%, reaching \$27.1 million for the year ending September 30, 2009, compared to \$15.6 million for the same period in 2008
- Adjusted EBITDA of \$6.6 million for 2009, i.e. 24.3% of revenues
- Operating income of \$390,000, compared to an operating loss of \$134,000 for preceding year
- Cash flows generated from operations of \$6.2M
- Additional financing facility of \$3M in order to finance servers and other IT equipments for the Company's data centers

Results

SELECTED FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Revenues	27,146	15,617	9,817
Adjusted EBITDA	6,598	3,853	2,836
Operating income (loss)	390	(134)	880
Net income (loss)	4	(701)	513
Earnings (loss) per share, basic	0.0001	(0.0264)	0.0218
Cash flow from operating activities	6,157	3,555	3,189
Total assets	32,990	29,145	14,788
Long-term debt and embedded derivative	17,524	15,801	8,462
Shareholders' equity	6,365	5,973	1,957

The Company determined its operating income and its adjusted EBITDA (earnings before financial expenses, income taxes, amortization, stock-based compensation, unrealized exchange gain/loss and straight-line amortization of rental expense) as follows:

(in thousands of dollars)	<u>2009</u>	<u>2008</u>	<u>2007</u>
	\$	\$	\$
Net income (loss)	4	(701)	513
Plus: Income taxes	263	(132)	367
Plus: Unrealized exchange loss on long-term debt	123	152	-
Plus: Loss related to the early retirement of long-term debts	-	547	-
Operating income (loss)	390	(134)	880
Plus: Financial expenses - Interest expenses	2,589	1,288	689
Plus: Unrealized gain on fair market value of exchange contracts	(347)	-	-
Plus: Amortization - Operating expenses	163	114	70
Plus: Amortization - Cost of services sold	3,276	1,896	1,066
Plus: Straight-line amortization of rental expense	162	381	-
Plus: Stock-based compensation	365	308	131
Adjusted EBITDA	6,598	3,853	2,836

REVENUES

Revenues for the year ended September 30, 2009 were \$27.1M, an increase of \$11.5M or 74% compared to 2008 revenues of \$15.6M.

The current revenue distribution for financial year of 2009 financial year is as follows: 85% for dedicated servers and 9% for co-location and 6% for shared Web hosting. 78% of iWeb revenues for the year were generated in U.S. dollars, a significant advantage for the Company during financial year 2009, as the impact of the decrease in value of the Canadian dollar against the U.S. dollar had a positive impact of \$3 million on revenues, compared to the same period last year. Without taking into account this foreign exchange variation, revenues would have still increased by 55% compared to the financial year 2008.

GROSS PROFIT

Gross profit was 46% of revenues for financial year of 2009 compared to 50% for the same period of the previous year. The favourable impact of the variation of Canada/U.S. exchange rates on gross profit margin for the last 12-month period was more than compensated by higher payroll expenses in order to support the sustained high growth of the Company's operations. An important reorganization of the customer service function, in particular by the creation of three groups of support services (informative, application and technical) and by the introduction of a 24/7 presence in these three groups had an impact on the payroll expenses of that department.

OPERATING EXPENSES

Selling expenses decreased from 17.7% to 16.5% of revenues for the year ended September 30, 2009. This improvement is explained mainly by the favourable impacts of exchange rates on revenues and by better yield on advertising expenses.

Administrative expenses decreased from 24.3% to 20.9% of revenues for the year ended September 30, 2009. The improvement is also mainly explained by the favourable impact of the exchange rates on revenues and by some administrative expenses remaining stable in spite of the increase in revenues.

EXCHANGE LOSS (GAIN)

The Corporation enters into forward foreign exchange contracts to hedge foreign exchange fluctuations between the U.S. and the Canadian dollars. A major portion of the last three quarters exposure to currency fluctuations was converted at favorable exchange rates (1.2366). The effect of the realized foreign exchange contracts was a gain of \$518,000 for the year ended September 30, 2009.

Forward foreign exchange contracts, maturing from October 2009 to January 2010, for an amount of \$4 million US, will enable the Company to buy Canadian dollars at rates between 1.1503 and 1.1570. Fair market value of these exchange contracts resulted in an unrealized gain of \$348,000 as at September 30, 2009.

The Company must book an unrealized foreign exchange gain or a loss on the long-term debt of a nominal amount of US\$10 million. Conversion rate at date of closing of that debt was 1.045 (in August 2008). The Company did not hedge its foreign exchange exposure to that debt. A 1 cent variation in the Canada/U.S. exchange rate would generate an unrealized exchange gain or loss on long-term debt of \$100,000. Such a gain or loss must be accounted for in the year where the exchange rate variation is observed even though the gain or loss is not realized and may never be. At the end of financial year ended September 30, 2009, the Canada/U.S. exchange rate was 1.07, compared to 1.06 for the beginning of the year, explaining the unrealized loss of \$123,000. This unrealized loss was \$152,000 for financial year ending September 30, 2008.

FINANCIAL EXPENSES

Interest expenses increased from 8.2% to 9.5% of revenues in 2009 due to the increase in long-term debt incurred to support the additions to the infrastructures of the Company, the greater part of which carry interest in U.S. currency (debt issued in August 2008).

In its financial year 2008, the Company recorded a loss related to the early retirement of long-term debt of \$547,000. In August 2008, the Company came to an agreement with Goldman Sachs where it borrowed US\$10 million. When receiving these proceeds, the Company reimbursed loans of \$4.8 million to free liens on its assets given as collateral to Goldman Sachs. These premature reimbursements caused penalties and other charges of \$547,000.

NET EARNINGS

Operating income

The operating income of the Company (see table on page 5) was \$390,000 for the year ended September 30, 2009, compared to an operating loss of \$134,000 for the previous year.

Income taxes

On the income before income taxes of 2009 of \$267,000, future income taxes of \$254,000 were recorded, for an effective rate of almost 100%, due to non tax deductible/taxable items, mainly the Stock-based compensation expense. The statutory rate of iWeb is 30.9% (31.2% in 2008).

Net income (loss)

The Company recorded a net income of \$4,000 for the year ended September 30, 2009, compared to a net loss of \$701,000 for 2008 financial year.

Cash flow and financing

Adjusted EBITDA (see table on page 5) was \$6.6 million (24.3% of revenues) for 2009 compared to \$3.9 million (24.7% of revenues) in 2008.

Cash flows generated from operations for the year ending September 30, 2009 were \$6.2 million compared to \$3.6 million for the preceding year.

During the last year, The Company acquired tangible and intangible assets for a total amount of \$9.1 million. These investments were related mostly to the purchase of computer equipment (including servers for data centers) for an amount of \$5.1 million and on work done to finalize the iWeb-CL (\$2.2 million) and to add infrastructure in iWeb-CO (\$0.9 million). Disbursements related to the capitalized development costs (internally developed software and applications) sum up the acquisitions of the year.

In order to finance its future investments in computer equipment, the Company concluded a \$3 million financing agreement with its major Canadian banking partner. The financing, finalized in July 2009, will cover 70% of the cost of servers for data centers assembled since July 2008. As of today, an amount of \$2.4 million has been disbursed for servers acquired from July 2008 to April 2009.

In addition, in order to finance expenses related to its future data center, the Company is working actively in setting an additional financing facility.

Following the financial results for the year ended September 30, 2009, the Company complies with the different restrictive clauses related to its present financing commitments.

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

	<u>2009</u>			
	<u>Quarter ending</u>			
	<u>September</u> <u>30</u>	<u>June 30</u>	<u>March 31</u>	<u>December</u> <u>31</u>
	\$	\$	\$	\$
Revenues	6,959	7,179	6,933	6,075
Adjusted EBITDA	1,295	1,837	1,657	1,809
Operating profit (loss)	(402)	261	282	249
Net income (loss)	475	1,023	(246)	(1,248)
Net earnings (loss) per share	0.0193	0.0366	(0.0088)	(0.0470)
Cash flows from operating activities	1,415	2,066	1,339	1,337
	<u>2008</u>			
	<u>Quarter ending</u>			
	<u>September</u> <u>30</u>	<u>June 30</u>	<u>March 31</u>	<u>December</u> <u>31</u>
	\$	\$	\$	\$
Revenues	4,762	4,108	3,575	3,172
Adjusted EBITDA	1,490	881	765	717
Operating profit (loss)	(223)	23	34	31
Net income (loss)	(751)	13	19	18
Net earnings (loss) per share	(0.0283)	0.0005	0.0007	0.0007
Cash flows from operating activities	180	1,693	922	760

Data on shares issued at September 30, 2009

Common shares: 27,941,758
Share option: 2,863,000

Share price for the year:

High: \$1.17
Low: \$0.60
Closing: \$1.00

Change in accounting policies

Goodwill and intangible assets

In February 2008, the CICA published the new Section 3064 - "Goodwill and intangible assets" replacing Section 3062 "Goodwill and other intangible assets". The publication of this new section caused the withdrawal of Section 3450 "Research and development costs" and other changes to certain recommended practices of the CICA handbook. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. These new standards will apply to annual financial statements relating to fiscal years beginning October 1, 2008 and the Company will apply them from that date. Following the application of this new standard, the Company expensed pre-operational cost of \$217,000 before income taxes (\$149,000 after income taxes), retroactively to when these costs were incurred in the year ended September 30, 2008.

Future accounting changes

International Financial Reporting Standards (IFRS)

The CICA has announced that the GAAP applicable to public companies will be replaced by the International Financial Reporting Standards (IFRS) through a transition period up to 2011. The Company will start producing its financial statements following IFRS for its financial year beginning October 1st, 2011. Even though the Company has started planning its conversion to IFRS, it has not yet determined the effect of such a conversion its consolidated financial statements.

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 September 30, 2009, 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, some controls need to be improved in order to follow the Company's important growth. The planned additions in headcount will enable to realize these adjustments.

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. An important part of its long-term debt is denominated in U.S. dollars (US \$10M). At the date of closing of that US \$10M financing, the conversion rate was 1.045. The Company did not hedge this debt. A 1 cent variation in the Canada/U.S. exchange rate would generate an unrealised exchange gain or loss on long-term debt of \$100,000. Such a gain or loss must be accounted for in the year where the exchange rate variation is observed even though the gain or loss is not realized and may never be. In addition, revenues, invoiced and collected in U.S. dollars, represent almost 78% of the Company's total revenues. Expenses in U.S. dollars, mainly for the purchase of electronic components, publicity, software licenses and for interest expenses represent 40% of revenues. A 1 cent variation in the Canada/U.S. exchange rate would generate an operational gain or loss of \$100,000 on an annual basis.

In order to manage its exposure on its current operating transactions to fluctuations in foreign currency exchange rates, the Company contracted forward foreign exchange contracts to hedge foreign exchange variation between the U.S. and the Canadian dollar. As at September 30, 2009, the Company contracted foreign exchange contracts maturing from October 2009 to January 2010, for a total amount of US\$4 million. Subsequently to year end, additional exchange contracts of US\$2 million were added with maturity dates from February to March of 2010. All these exchange contracts will enable the Company to buy Canadian dollars at rates from 1.0654 to 1.1570.

For more details on the various risks of the Company, please see Note 19 of the audited consolidated financial statements as at September 30, 2009.

Outlook

In recent years, the Company's revenues have grown significantly from \$1.6 million in 2004 to \$27.1 million in 2009, an annualized growth of more than 75%.

Management believes that revenues generated from dedicated servers, which are almost all recurrent, will continue to have a major impact on the results of the Company in the next and future years. Vigorous efforts are deployed towards dedicated servers services consisting of the rental of servers owned by the Company, located in its secured data centers and made available exclusively to specific clients. These servers generate monthly rentals under agreements, generally for one month, and automatically renewable at maturity. The Company actively works to set up various new marketing activities in order to support these revenues, in spite of a difficult context.

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 21, 2009, 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 as well as on the Company's web site at www.iweb.com.

December 21, 2009

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

(Signed) *Philip Tousignant*
Philip Tousignant
Chief Financial Officer