

iWeb Group Inc.
Consolidated Interim Financial Statements
First Quarter Ended December 31, 2006

Financial Statements

Consolidated Earnings and Retained Earnings	2
Consolidated Balance Sheets	3
Consolidated Cash Flows	4
Notes to Consolidated Financial Statements	5 - 11

Notice: the consolidated interim financial statements have not been examined by the Company's external auditors.

2007-02-28

iWeb Group Inc.

Consolidated Earnings and Retained Earnings

For the quarters ended December 31, 2006 and 2005

(Unaudited)

	2006	2005
	\$	\$
Revenues	1 956 177	1 142 109
Cost of services sold		
Bandwidth and direct costs	705 326	441 498
Amortization of tangible assets	201 846	101 159
	907 172	542 657
Gross profit	1 049 005	599 452
Operating expenses		
Amortization of tangible assets and client lists	17 798	9 462
Selling expenses	363 982	235 877
Administrative expenses	421 105	218 084
Financial expenses	109 364	30 821
	912 249	494 244
Earnings before income taxes	136 756	105 208
Future income taxes	43 761	32 726
Net earnings	92 995	72 482
Retained earnings beginning	506 847	6 486
Change in accounting policy (Note 2)	16 046	
Retained earnings, beginning of year, as adjusted	522 893	6 486
Retained earning end	615 888	78 968
Net earnings per share, basic	0,0040	0,0031
Net earnings per share, diluted	0,0039	0,0031
Weighted average number of shares outstanding	23 355 021	23 355 021
Weighted average number of shares diluted	23 934 054	23 355 021

The accompanying notes are an integral part of the consolidated interim financial statements.

iWeb Group Inc.
Consolidated Balance Sheets

December 31 and September 30, 2006

	2006-12-31 Unaudited \$	2006-09-31 Audited \$
ASSETS		
Current assets		
Cash and cash equivalent		84 633
Term deposits	200 000	400 000
Trade and other accounts receivable	607 709	509 812
Prepaid expenses	59 534	50 024
Future income taxes	13 905	13 905
	<u>881 148</u>	<u>1 058 374</u>
Client lists	204 422	210 902
Tangible assets	6 437 244	5 793 477
Deferred financing expenses		46 835
Future income taxes	75 909	72 121
	<u>7 598 723</u>	<u>7 181 709</u>
LIABILITIES		
Current liabilities		
Bank overdraft	21 764	
Demand loans	306 286	204 744
Account payable and accrued liabilities	1 064 852	972 610
Deferred revenues	1 322 806	1 105 324
Instalments on long term debt	473 570	547 411
	<u>3 189 278</u>	<u>2 830 089</u>
Long-term debt (Note 3)	2 279 208	2 359 632
Subordinated debt (Note 4)	433 361	510 289
Derivative embedded in subordinated debt	44 375	
Future income taxes	280 625	236 864
	<u>6 226 847</u>	<u>5 936 874</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	695 230	695 230
Contributed surplus - stock option plan	60 758	42 758
Retained earnings	615 888	506 847
	<u>1 371 876</u>	<u>1 244 835</u>
	<u>7 598 723</u>	<u>7 181 709</u>

The accompanying notes are an integral part of the consolidated interim financial statements.

On behalf of the Board,

(signed) *Éric Chouinard*
 Director

(signed) *Martin Leclair*
 Director

iWeb Group Inc.
Consolidated Cash Flows

For the quarters ended December 31, 2006 and 2005
(Unaudited)

	<u>2006</u>	<u>2005</u>
	\$	\$
OPERATING ACTIVITIES		
Net earnings	92 995	72 482
Non-cash items		
Amortization of financial expenses	9 140	
Amortization of client lists	6 480	6 575
Amortization of tangible assets	213 164	104 046
Change in fair value of derivate embedded in subordinated debt	1 168	
Future income taxes	43 761	
Charge to stock-based compensation	18 000	4 500
Changes in working capital items	<u>192 769</u>	<u>154 740</u>
Cash flows from operating activities	<u>577 477</u>	<u>342 343</u>
INVESTING ACTIVITIES		
Receipt of term deposits	200 000	13 076
Tangible assets	<u>(847 383)</u>	<u>(304 592)</u>
Cash flows from investing activities	<u>(647 383)</u>	<u>(291 516)</u>
FINANCING ACTIVITIES		
Demand loans	132 730	
Repayment of demand loans	(28 101)	
Long-term debt		209 929
Repayment of loans	<u>(141 120)</u>	<u>(81 068)</u>
Cash flows from financing activities	<u>(36 491)</u>	<u>128 861</u>
Net increase (decrease) in cash and cash equivalents	<u>(106 397)</u>	<u>179 688</u>
Cash and cash equivalents, beginning of period	<u>84 633</u>	<u>42 933</u>
Cash and cash equivalents, end of period	<u><u>(21 764)</u></u>	<u><u>222 621</u></u>

The accompanying notes are an integral part of the consolidated interim financial statements.

iWeb Group Inc.

Notes to Consolidated Financial Statements

December 31, 2006
(unaudited)

1 - INTERIM FINANCIAL STATEMENTS

The interim financial statements for the three month periods ended December 31, 2006 and 2005 are unaudited but include all adjustments that management thought necessary for a fair presentation of the financial position of the Company, the results of its operations and its cash flows.

The unaudited financial statements do not include all the information and notes required according to Canadian generally accepted accounting principles for annual financial statements, and therefore should be read with the audited financial statements and notes of the Company for the year ended September 30, 2006. These unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles, applied in the same manner as the most recently audited financial statements.

2 - CHANGE IN ACCOUNTING POLICY

On October 1, 2006, in accordance with the applicable transitional provisions, the Company adopted, without restating prior periods, the new recommendations of the CICA Handbook in Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3865, *Hedges*, Section 1530, *Comprehensive Income* and Section 3861, *Financial Instruments - Disclosure and Presentation*. Sections 3855 and 3861 deal with the classification, recognition, measurement, presentation and disclosure of financial instruments, including derivatives, and non-financial derivatives in the financial statements. Section 3865 deals with the standards for when and how hedge accounting may be applied and Section 1530 deals with the presentation of comprehensive income and its components, including net income and components of comprehensive income.

Adoption of these new recommendations had the following impacts on the classification and measurement of the Company's financial instruments:

- Cash and cash equivalents and the term deposit are classified as held-for-trading financial assets. They are measured at fair value and changes in fair value are recognized in consolidated earnings. This classification had no impact at the time of adoption of the new recommendations.
- Trade accounts receivable are classified as loans and receivables. They are measured at amortized cost, which is generally the amount on initial recognition less an allowance for doubtful accounts. This classification had no impact at the time of initial adoption of the recommendations.
- Demand loans and accounts payable are classified as other financial liabilities. They are measured at amortized cost, which is the amount on initial recognition plus amortization of costs incurred at the time the demand loans were concluded. Opening retained earnings were increased by a \$4,109 (\$3,791, net of future income taxes) adjustment equivalent to the difference between the carrying amount and amortized cost.

iWeb Group Inc.

Notes to Consolidated Financial Statements

December 31, 2006
(unaudited)

2 - CHANGE IN ACCOUNTING POLICY (Continued)

- Long-term debt, excluding obligations under capital leases, and subordinated debt are classified as other financial liabilities. They are measured at amortized cost, which is the amount on initial recognition plus amortization of costs incurred at the time the debts were concluded. Any derivatives embedded in these debts are measured at fair value and changes in fair value are recognized in consolidated earnings. Previously, these debts were measured at cost. Opening retained earnings were increased or decreased by a \$54,984 (\$59,090 net of future income taxes) adjustment corresponding to the difference between the carrying amount and the amortized cost plus the fair value of embedded derivatives, if any.

	\$
Deferred financing costs	(46 835)
Demand loans	4 109
Future income tax assets	3 788
Long-term debt	13 554
Subordinated debt	41 430
Retained earnings	16 046

The Company also adopted the following accounting policies:

- Transaction costs of financial assets which are not classified as held for trading are added to the carrying amount of the related financial assets. Transaction costs relating to other financial liabilities are applied against the carrying amount of the related financial liabilities.
- The Company only recognizes as separate assets and liabilities derivatives embedded in hybrid instruments issued, acquired or substantially modified by the Company as of October 1, 2002, when the hybrid instruments are not recognized as held for trading and are still in effect as at October 1, 2006. Embedded derivatives that are not closely related to the host contract must be separated, classified as held-for-trading financial instruments and are therefore measured at fair value with changes in fair value recognized in consolidated earnings. The Company has not identified any embedded derivative that should be separated, other than the following:
 - Some of the Company's sales contracts include a foreign currency embedded derivative. In several contracts, the foreign currency in question corresponds to or is recognized as the currency of measurement of one of the parties to the contract. In these cases, the recommendations of Section 3855 state that it is not necessary to separate the foreign currency embedded instrument. In other contracts, the currency of measurement of the parties to the contract is different from that of the contract. In these cases, the Company is required to recognize the foreign currency derivatives separately and measure them at fair value. Adoption of this new accounting policy did not have any impact on recognition of these sales contracts.
 - The subordinated debt includes an embedded derivative which represents a payment indexed to the Company's shares. The payment will represent 0.5% of the market value as at March 26, 2011. The required adjustment to opening retained earnings is included in the adjustment of the host contract.

iWeb Group Inc.

Notes to Consolidated Financial Statements

December 31, 2006
(unaudited)

3 - LONG-TERM DEBT

	December 31 2006 Unaudited \$	September 30 2006 Audited \$
Mortgage loan, secured by land and building, base rate plus 0.5% (8.85) payable in monthly instalments of \$2,820 plus interest, maturing in March 2019	414 540	423 000
Mortgage loan, secured by land, a building and computer equipment, base rate plus 2.5% (effective rate of 10.74%), payable in monthly instalments of \$6,500, plus interest until August 2011, followed by monthly payments of \$5,500 plus interest, maturing in August 2023 (a) (b)	1 142 855	1 175 500
Term loans, secured by computer equipment, base rate plus 3% (9%) payable in monthly instalments of \$4,450 plus interest, maturing in August 2008 and March 2010 (a)	144 800	158 150
Term loans, secured by equipment, base rate and base rate plus 6% (8% and 14%, representing a combined rate of 11.87%) payable in monthly instalments of \$2,590 plus interest, maturing in January 2010	95 830	103 600
Term loan subject to partial present and future subordination, secured by the universality of present and future movable and immovable properties, base rate plus 2.5% (10.5%), payable in monthly instalments of \$6,250 plus interest, maturing in November 2010	302 500	312 500
Term loan subject to partial present and future subordination, secured by the universality of present and future movable and immovable properties, base rate plus 3% (11%), payable in monthly instalments of \$5,500 plus interest, maturing in July 2011 (a) (b)	293 750	319 000
Obligation under a capital lease, 4.8%, payable in monthly instalments of \$2,178, principal and interest, maturing in December	49 744	55 714
Obligations under capital leases, 11.95%, payable in monthly instalments of \$15,097, principal and interest, maturing on different dates between June and September 2007	105 224	146 412
Obligation under a capital lease, 7.5%, payable in monthly instalments of \$4,523, principal and interest, maturing in May 2011	203 535	213 167
	<u>2 752 778</u>	<u>2 907 043</u>
Instalments due within one year	473 570	547 411
	<u><u>3 226 348</u></u>	<u><u>3 454 454</u></u>

iWeb Group Inc.
Notes to Consolidated Financial Statements

December 31, 2006
(unaudited)

3 - LONG-TERM DEBT (Continued)

- (a) Under the terms of the credit agreements, the Company is subject to certain covenants.
- (b) As at September 30, 2006, certain covenants have not been respected. Subsequent to year end, the Company's creditors waived the existing defaults.

The instalments on long-term debt for the next years are as follows:

	Obligations under capital leases	Other loans
	\$	\$
2007	185 625	337 320
2008	80 412	332 320
2009	54 276	322 320
2010	54 276	260 030
2011	22 615	140 090
2012 and thereafter		1 006 633
Total minimum lease payments	<u>397 204</u>	
Interest included in minimum lease payments	<u>43 139</u>	
	<u><u>354 065</u></u>	

4 - SUBORDINATED DEBT

	December 31 2006 Unaudited	September 30 2006 Audited
	\$	\$
Term loan, face value of \$500,000, secured by the universality of the present and future movable and immovable properties, subject to present and future subordination, 10.9%, plus a performance premium of \$150,000 and a 0.5% bonus of the market capitalization of the Company, payable in a lump-sum payment on March 26, 2011 (effective rate of 19.30%)	<u>433 361</u>	<u>510 289</u>

Under the credit agreements, the Company is required to respect certain covenants. As at September 30, 2006, certain covenants have not been respected. Subsequent to year end, the Company's creditor waived the existing defaults.

5 - CAPITAL STOCK

Authorized

Unlimited number of voting and participating common shares, without par value

iWeb Group Inc.

Notes to Consolidated Financial Statements

December 31, 2006
(unaudited)

5 - CAPITAL STOCK (Continued)

	Number of shares	Amount \$
Issued and fully paid		
Balance as at December 31 and September 30, 2006	23 355 021	695 230

In accordance with the requirements of the TSX Venture Exchange, 5,557,321 issued common shares were withheld under the terms of a share escrow agreement. Half of the shares withheld as at December 31, 2006 will be released on March 28, 2007 and the balance on September 28, 2007.

6 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	2006 \$	2005 \$
Amortization of tangible assets	213 164	104 046
Amortization of client lists	6 480	6 575
Interest on long-term and subordinated debt	90 477	18 312
Interest on capital leases	7 772	8 717
Interest on demand loans	5 060	-
Accounts payable included in tangible assets	261 770	226 582

7 - FINANCIAL INSTRUMENTS

Financial risk objectives and policies

The Company is exposed to various financial risks which result from its operations and investment activities. Head office coordinates financial risk management in close cooperation with the Board of Directors with the prime focus being on actively securing short- and medium-term cash flows by minimizing the Company's exposure to capital markets.

The Company is not actively involved in negotiating or acquiring financial assets for resale in the near term for speculative purposes nor does it sell options. The main financial risks to which the Company is exposed are the following:

Exchange risk

The Company is exposed to exchange risk as a result of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities denominated in U.S. dollars. As at December 31, 2006, assets denominated in U.S. dollars are cash and cash equivalents and trade and other receivables totalling US\$308,078 (US\$260,290 as at September 30, 2006) and liabilities denominated in U.S. dollars are accounts payable and accrued liabilities totalling US\$38,516 (US\$16,678 as at September 30, 2006).

The Company does not enter into any agreements to hedge its exchange risk exposure.

iWeb Group Inc.

Notes to Consolidated Financial Statements

December 31, 2006
(unaudited)

7 - INSTRUMENTS FINANCIERS (Continued)

Interest rate risk

Fixed rate financial liabilities

The subordinated debt represents a market risk from changes in interest rates since this financial liability bears a fixed rate of interest.

Variable rate financial assets and liabilities

The term deposit, demand loans, mortgages and term loans present a cash flow risk from changes in interest rates because they bear variable rates of interest.

Financial assets and liabilities without interest rate risk

The Company's other financial assets and liabilities present no interest rate risk since they do not bear interest.

Credit risk

Generally, the carrying amount on the balance sheet of the Company's financial assets exposed to credit risk net of applicable provisions for losses, represents the amount exposed to credit risk. No additional information on credit risk is provided in the financial statements, unless the Company's maximum potential loss exposure for certain financial assets differs substantially from the carrying amount.

Trade accounts receivable

The Company's credit risk exposure is mainly from trade accounts receivable. The Company's policy is to collect accounts receivable before providing the service, which is why it does not require guarantees from its customers. The Company conducts a credit check of each customer. Moreover, the accounts receivable balance is monitored on an on-going basis and, accordingly, the Company's bad debt exposure is not significant.

Fair value

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments.

– Long-term debt and subordinated debt

As at December 31, 2006, the fair value of subordinated debt excluding the embedded derivative is \$467,250. This fair value was estimated using a valuation method and was determined by discounting future cash flows at a rate composed of the rate of same-term Canadian bonds plus the risk premium on the date of issue.

As at December 31, 2006, the fair value of the long-term debt is equivalent to its carrying amount.

iWeb Group Inc.

Notes to Consolidated Financial Statements

December 31, 2006
(unaudited)

7 - INSTRUMENTS FINANCIERS (Continued)

As at December 31, 2006, the fair value of the embedded derivative of the subordinated debt was determined using the Black-Scholes pricing model and the following assumptions:

Market price	\$0.38
Expected dividend	Nil
Expected volatility	113%
Risk free interest rate	3.99%
Expected life	5 years