

iWeb Group Inc.
Consolidated Financial Statements
September 30, 2007 and 2006

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Management's Report

The consolidated financial statements of iWeb Group Inc. and the other financial information included in the annual report are management's responsibility.

These consolidated financial statements and the other financial information have been prepared by management in accordance with Canadian generally accepted accounting principles. This responsibility includes the selection of appropriate accounting policies and methods in the circumstances, and the use of careful judgment in establishing reasonable accounting estimates.

Management maintains internal control systems designed, among other things, to provide reasonable assurance that the Company's assets are adequately safeguarded and that the accounting records are a reasonable basis to prepare relevant and reliable financial information.

The Audit Committee is composed of three directors, two of whom are external directors. This committee meets with the external auditors and management to discuss the matters relating to audit, internal control and financial information. The committee also reviews the annual consolidated financial statements.

These consolidated financial statements have been audited by Raymond Chabot Grant Thornton LLP, chartered accountants, whose report indicating the scope of their audit and their opinion on the consolidated financial statements is presented hereafter.

The Board of Directors has approved the Company's consolidated financial statements, on the recommendation of the Audit Committee.

/S/ Éric Chouinard
Éric Chouinard
President and Chief Executive Officer

/S/ Martin Leclair
Martin Leclair
Vice-President and Chief Operating Officer

/S/ Marc Guindon
Marc Guindon
Vice-President and Chief Financial Officer

December 14, 2007

Auditors' Report

To the Shareholders of
iWeb Group Inc.

We have audited the consolidated balance sheets of iWeb Group Inc. as at September 30, 2007 and 2006 and the consolidated statements of earnings and comprehensive income, retained earnings, contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/S/ Raymond Chabot Grant Thornton LLP

Chartered Accountants

Montréal
December 14, 2007

iWeb Group Inc.
Consolidated Earnings and Comprehensive Income

Years ended September 30, 2007 and 2006

	2007	2006
	\$	\$
Revenues	9,816,941	5,754,242
Cost of services sold		
Network and direct costs	3,138,313	2,128,470
Amortization of tangible and intangible assets	1,066,261	505,753
	4,204,574	2,634,223
Gross profit	5,612,367	3,120,019
Operating expenses		
Amortization of tangible and intangible assets	69,525	57,636
Selling expenses	1,770,100	920,831
Administrative expenses	2,203,944	1,281,451
Financial expenses (Note 5)	688,798	201,655
	4,732,367	2,461,573
Earnings before income taxes	880,000	658,446
Income taxes		
Current	6,643	7,247
Future	360,800	150,838
	367,443	158,085
Net earnings and comprehensive income	512,557	500,361
Net earnings per share, basic (Note 20)	0.0218	0.0214
Net earnings per share, diluted (Note 20)	0.0208	0.0211

The accompanying notes are an integral part of the consolidated financial statements and Note 4 provides additional information on consolidated earnings.

iWeb Group Inc.
Consolidated Retained Earnings
Consolidated Contributed Surplus

Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
<i>CONSOLIDATED RETAINED EARNINGS</i>		
Balance, beginning of year	506,847	6,486
As previously reported		
Changes in accounting policies (Note 2)	<u>16,046</u>	
As restated	522,893	6,486
Net earnings	<u>512,557</u>	<u>500,361</u>
Balance, end of year	<u><u>1,035,450</u></u>	<u><u>506,847</u></u>
<i>CONSOLIDATED CONTRIBUTED SURPLUS</i>		
Balance, beginning of year	42,758	
Stock-based compensation	<u>131,102</u>	<u>42,758</u>
Balance, end of year	<u><u>173,860</u></u>	<u><u>42,758</u></u>

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

iWeb Group Inc.

Consolidated Balance Sheets

September 30, 2007 and 2006

	2007	2006
	\$	\$
ASSETS		
Current assets		
Cash	644,456	84,633
Investments (Note 6)	200,000	400,000
Trade and other accounts receivable	692,941	509,812
Prepaid expenses	38,484	50,024
Future income taxes		13,905
	<u>1,575,881</u>	<u>1,058,374</u>
Investments (Note 6)	50,000	
Tangible assets (Note 7)	12,083,323	5,373,181
Intangible assets (Note 8)	876,591	631,198
Deferred financing expenses		46,835
Deferred share issue expenses	148,674	
Future income taxes	53,562	72,121
	<u>14,788,031</u>	<u>7,181,709</u>
LIABILITIES		
Current liabilities		
Credit facilities (Note 9)		204,744
Trade and other accounts payable	2,134,038	972,610
Deferred revenues	1,672,919	1,105,324
Instalments on long-term debt	807,980	547,411
	<u>4,614,937</u>	<u>2,830,089</u>
Long-term debt (Note 10)	4,675,746	2,359,632
Subordinated debt (Note 11)	2,349,626	510,289
Derivative embedded in subordinated debt	628,857	
Future income taxes	561,412	236,864
	<u>12,830,578</u>	<u>5,936,874</u>
SHAREHOLDERS' EQUITY		
Capital stock (Notes 12 and 21)	748,143	695,230
Contributed surplus	173,860	42,758
Retained earnings	1,035,450	506,847
	<u>1,957,453</u>	<u>1,244,835</u>
	<u>14,788,031</u>	<u>7,181,709</u>

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

On behalf of the Board,

/S/ Éric Chouinard
Éric Chouinard, Director

/S/ Daniel Leclair
Daniel Leclair, Director

iWeb Group Inc.

Consolidated Cash Flows

Years ended September 30, 2007 and 2006

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Net earnings	512,557	500,361
Non-cash items		
Commissions as consideration for note receivable		50,000
Amortization of deferred financing expenses		4,044
Amortization of tangible and intangible assets	1,135,786	563,389
Services as consideration for share investment in a private company	(17,212)	
Capitalized interest		10,289
Notional interest costs	71,820	
Change in fair value of derivative embedded in subordinated debt	138,258	
Future income taxes	360,800	150,838
Stock-based compensation expense	131,102	42,758
Changes in working capital items (Note 13)	855,644	337,033
Cash flows from operating activities	<u>3,188,755</u>	<u>1,658,712</u>
INVESTING ACTIVITIES		
Term deposit	200,000	(400,000)
Tangible assets	(7,070,256)	(3,129,486)
Intangible assets	(328,993)	(199,000)
Cash flows from investing activities	<u>(7,199,249)</u>	<u>(3,728,486)</u>
FINANCING ACTIVITIES		
Demand loans	275,596	224,804
Repayment of demand loans	(480,340)	(20,060)
Repayment of note payable		(34,731)
Proceeds on issue of long-term debt	3,015,833	1,900,025
Repayment of long-term debt	(427,490)	(407,685)
Proceeds on issue of subordinated debt	2,422,632	500,000
Long-term debt and subordinated debt issue expenses		(50,879)
Redemption of subordinated debt bonus clause	(140,153)	
Deferred share issue expenses	(148,674)	
Shares issued on exercise of stock options	52,913	
Cash flows from financing activities	<u>4,570,317</u>	<u>2,111,474</u>
Net increase in cash	<u>559,823</u>	<u>41,700</u>
Cash, beginning of year	84,633	42,933
Cash, end of year	<u>644,456</u>	<u>84,633</u>

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

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company was incorporated under the Canada Business Corporations Act on November 26, 2002. The Company provides hosting solutions for Web applications and is an intermediary in registering Web domain names.

2 - ACCOUNTING CHANGES

On October 1, 2006, in accordance with the applicable transitional provisions, the Company retroactively adopted, without restating prior years, the new recommendations in Sections 3855, "Financial Instruments - Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", and 3861, "Financial Instruments - Disclosure and Presentation" of the *Canadian Institute of Chartered Accountants' Handbook*. Sections 3855 and 3861 deal with the 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 and disclosure of comprehensive income.

Adoption of these new recommendations had the following impacts on the classification and measurement of the Company's financial instruments as at October 1, 2006:

- Cash is classified as held-for-trading financial asset and the term deposit has been designated by the Company as held-for-trading. They are measured at fair value and changes in fair value are recognized in consolidated earnings and comprehensive income. This change had no impact on the financial statements as at September 30, 2007;
- Trade accounts receivable are classified as loans and receivables. They are measured at amortized cost, which is generally the amount on initial recognition less any allowance for doubtful accounts. This change had no impact on the financial statements as at September 30, 2007;
- Demand loans and trade and other accounts payable are classified as other financial liabilities. They are measured at amortized cost, which is the amount on initial recognition plus any amortization of costs incurred at the time the demand loans were concluded. Opening consolidated 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;
- 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 any amortization of costs incurred at the time the debts were concluded using the effective interest method. Any derivatives embedded in these debts are measured at fair value and changes in fair value are recognized in consolidated earnings and comprehensive income. Previously, these debts were measured at cost. Opening consolidated retained earnings were increased or decreased by a \$54,984 (\$59,090, net of future income taxes) adjustment equivalent to the difference between the carrying amount and the amortized cost plus the fair value of embedded derivatives, if any.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

2 - ACCOUNTING CHANGES (Continued)

	\$
Deferred financing expenses	(46,835)
Future income tax asset	3,788
Demand loans	(4,109)
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 recognizes as separate financial assets and liabilities certain 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 and comprehensive income. The Company has not identified any hybrid instrument with an embedded derivative that should be separated from the host contract, other than the following:
 - The subordinated debt for a nominal amount of \$500,000 included an embedded derivative which represented a payment indexed to the Company's shares. The payment represented 0.5% of the estimated market value as at March 26, 2011. The required adjustment to opening retained earnings is included in the adjustment of the host contract as at October 1, 2006;
- 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 derivative. 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 elected not to recognize the foreign currency embedded derivative separately, since the contracts are not leveraged, they do not contain an option feature, and they are denominated in a currency that is routinely used in the economic environment where the commercial transactions occur. Adoption of this new accounting policy did not have any impact on recognition of these sales contracts.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

3 - ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared on a historical cost basis, with the exception of certain financial instruments which are recognized at fair value. No disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value.

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates.

Financial assets and liabilities

On initial recognition, all financial assets and liabilities are measured and recognized at fair value. Transaction costs of financial assets held for trading are recognized in consolidated earnings and comprehensive income under Administrative expenses. Transaction costs relating to financial assets classified as loans and receivables 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.

Held-for-trading financial assets and liabilities

Cash is classified as held-for-trading financial asset and the term deposit has been designated by the Company as held-for-trading. These financial assets are measured at fair value and changes in fair value are recognized in consolidated earnings and comprehensive income. Changes in fair value recognized in consolidated earnings and comprehensive income include interest and dividend income and any exchange gains or losses.

On initial recognition, certain financial assets and liabilities are designated by the Company as held-for-trading because the Company considers that the financial information provided from this classification is more relevant for decision-making and provides for a better valuation of the Company's performance.

Available-for-sale financial assets

The share investment in a private company is classified as an available-for-sale financial asset and is measured at cost. It is not practicable within constraints of timeliness or cost to determine with sufficient reliability the fair value of this investment, in particular because this company's securities are not publicly traded.

When the Company disposes of an investment or when there is an impairment in the value of an investment, the gain or loss is recognized in consolidated earnings and comprehensive income.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

3 - ACCOUNTING POLICIES (Continued)

Loans and receivables

Trade and other accounts receivable are classified as loans and receivables. They are measured at amortized cost, which is generally the amount on initial recognition less any allowance for doubtful accounts.

Other financial liabilities

Demand loans, trade and other accounts payable, long-term debt, excluding obligations under capital leases, and subordinated debt are classified as other financial liabilities. They are measured at amortized cost calculated using the effective interest method. Interest calculated using the effective interest method is included under Financial expenses in consolidated earnings and comprehensive income. The fair value of long-term debt, excluding obligations under capital leases, is equivalent to the carrying amount since it bears interest at variable rates. The fair value of subordinated debt is determined by discounting expected future cash flows using the rates of Canadian bonds with the same maturity plus the risk premium, calculated on the issue date.

Embedded derivatives

The Company recognizes as separate assets and liabilities certain 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 and comprehensive income. The transaction costs relating to these embedded derivatives are recognized under Administrative expenses in consolidated earnings and comprehensive income. As at September 30, 2007, the Company has not identified any hybrid instrument with an embedded derivative that should be separated, other than the following:

- The subordinated debt for a nominal amount of \$2,500,000 includes a bonus ranging from 3% to 6% of the Company's accumulated earnings before interest, taxes, depreciation and amortization for the 2007 to 2011 fiscal years, payable in a lump-sum payment on January 15, 2012. The fair value of the derivative embedded in subordinated debt has been determined by discounting expected future cash flows using the rates of Canadian bonds with the same maturity plus the risk premium, calculated on the issue date.

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 derivative. 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 elected not to recognize the foreign currency embedded derivative separately, since the contracts are not leveraged, they do not contain an option feature, and they are denominated in a currency that is routinely used in the economic environment where the commercial transactions occur.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

3 - ACCOUNTING POLICIES (Continued)

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, iWeb Technologies Inc.

Revenue recognition

Revenue is recognized once there is an agreement between the parties, the transaction amount is fixed and there is reasonable assurance of collection.

In addition to the general principles described above, the Company applies the following specific principles:

Hosting revenues

Hosting revenues are recognized on a straight-line basis over the period of the contract when service delivery has begun.

Revenues from domain name sales

Revenues from domain name sales are recognized net of the cost of purchase of domain names from the official registrar.

Tangible and intangible assets and amortization

The tangible and intangible assets are recognized at cost.

Tangible and intangible assets with a finite life are amortized over their estimated useful lives according to the straight-line method at the following annual rates:

	<u>Rates</u>
Buildings	4%
Computer equipment	15% and 33%
Internally developed software, furniture, equipment, office improvements and equipment and improvements to data centres	15%
Client lists	10%

The domain name is considered to be an intangible asset with an indefinite life and is not amortized. It is tested for impairment by comparing the carrying amount with its fair value, annually, or more frequently if events or changes in circumstances indicate that it is impaired.

Impairment of long-lived assets

Tangible and intangible assets with a finite life are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of a long-lived asset over its fair value.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

3 - ACCOUNTING POLICIES (Continued)

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company records a valuation allowance for future income tax assets if, based on available information, it is more likely than not that part or all of the future income tax assets will not be realized.

Earnings per share

Basic earnings per common share are computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the years. Diluted earnings per share are calculated giving effect to the potential dilution that could occur if securities or other contracts to issue common shares were exercised. The treasury stock method is used to determine the dilutive effect of stock options. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price during the period.

Stock-based compensation plan

The Company offers a stock option plan as described in Note 14, for which it uses the fair-value based method to recognize awards of stock options to employees and non-employees. The fair value of stock options awarded is determined on the award date using an option pricing model and the compensation expense is recognized over the vesting period. Any consideration paid by employees or non-employees on the exercise of options and any contributed surplus relating to an option are charged to capital stock.

Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenue and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of revenue and expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Gains and losses are included in the consolidated earnings and comprehensive income.

Deferred share issue expenses

Share issue expenses are deferred and will be applied against share issue proceeds.

4 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	2007	2006
	\$	\$
Amortization of tangible assets	1,030,322	501,201
Amortization of intangible assets	105,464	62,188
Exchange loss	116,642	8,457

iWeb Group Inc.
Notes to Consolidated Financial Statements

September 30, 2007 and 2006

5 - FINANCIAL EXPENSES

	2007	2006
	\$	\$
Interest on long-term debt and subordinated debt	522,684	163,161
Interest on obligations under capital leases	10,550	34,781
Interest on demand loans	17,306	3,713
Interest expenses	550,540	201,655
Change in fair value of derivatives embedded in subordinated debt	138,258	
	<u>688,798</u>	<u>201,655</u>

6 - INVESTMENTS

	2007	2006
	\$	\$
Held-for-trading investments		
Term deposit, prime rate minus 2.45%, i.e. 3.8% as at September 30, 2007 (prime rate minus 2.35%, i.e., 3.65% as at September 30, 2006), maturing in March 2008	200,000	400,000
Available-for-sale investments		
Shares of private company (a)	50,000	
	<u>250,000</u>	<u>400,000</u>
Current portion on investments	200,000	400,000
	<u>50,000</u>	<u>—</u>

(a) The parties agreed that the purchase price would be paid by providing hosting services. As at September 30, 2007, services valued at \$32,788 have not been provided and are presented with trade and other accounts payable.

7 - TANGIBLE ASSETS

	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	475,372		475,372
Buildings (a)	2,925,710	150,739	2,774,971
Computer equipment parts (b)	323,974		323,974
Computer equipment	5,371,466	1,364,357	4,007,109
Furniture, equipment and office improvements	146,334	45,621	100,713
Equipment and improvements to data centres (a)	4,575,010	418,998	4,156,012
Assets under capital leases			
Equipment for data centres	322,860	77,688	245,172
	<u>14,140,726</u>	<u>2,057,403</u>	<u>12,083,323</u>

iWeb Group Inc.
Notes to Consolidated Financial Statements

September 30, 2007 and 2006

7 - TANGIBLE ASSETS (Continued)

	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land (a)	475,372		475,372
Buildings (a)	1,615,036	72,384	1,542,652
Computer equipment parts (b)	114,717		114,717
Computer equipment	2,478,478	708,364	1,770,114
Furniture, equipment and office improvements	88,423	29,292	59,131
Equipment and improvements to data centres	981,310	128,869	852,441
Assets under capital leases			
Computer equipment	324,066	58,913	265,153
Equipment for data centres	322,860	29,259	293,601
	<u>6,400,262</u>	<u>1,027,081</u>	<u>5,373,181</u>

(a) During the year ended September 30, 2007, financial expenses of \$103,938 were capitalized to the cost of the buildings and the equipment and improvements to data centres, that is \$28,654 and \$75,284 respectively, of which \$23,070 is notional interest expense. For the year ended September 30, 2006, financial expenses of \$31,705 were capitalized to the cost of land and buildings, that is \$17,893 and \$13,812 respectively.

(b) Computer equipment parts are used in assembling servers for Web hosting and to maintain the service potential of current servers. The cost of computer equipment parts is capitalized when they are put into service as computer equipment.

Trade and other accounts payable include \$918,455 relating to acquisitions of tangible assets (\$271,317 in 2006).

During the year ended September 30, 2006, the Company acquired equipment for data centres for a total of \$227,145 by way of capital leases.

8 - INTANGIBLE ASSETS

	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Internally developed software	711,284	125,152	586,132
Client lists	262,993	78,391	184,602
Domain name	105,857		105,857
	<u>1,080,134</u>	<u>203,543</u>	<u>876,591</u>

iWeb Group Inc.
Notes to Consolidated Financial Statements

September 30, 2007 and 2006

8 - INTANGIBLE ASSETS (Continued)

	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Internally developed software	466,284	45,988	420,296
Client lists	262,993	52,091	210,902
	<u>729,277</u>	<u>98,079</u>	<u>631,198</u>

As at September 30, 2007, trade and other accounts payable include \$21,864 relating to acquisitions of intangible assets.

9 - CREDIT FACILITIES

The credit facilities are secured by the universality of the tangible and intangible movable property.

The credit facilities include an operating credit for an authorized amount of \$400,000 in direct advances or in the form of letters of guarantee, bearing interest at the prime rate plus 1% (7.25% as at September 30, 2007; 7% as at September 30, 2006) and renegotiable in June 2008.

As at September 30, 2007 and 2006, the operating credit has not been used, and a letter of guarantee was issued for \$34,010.

As at September 30, 2006, the credit facilities included demand loans for a total authorized amount of \$750,000 of which \$204,744 had been used and bore interest at the prime rate plus 2.5% (8.5%).

10 - LONG-TERM DEBT

	2007	2006
	\$	\$
Term loan, nominal amount of \$2,441,960, secured by land and buildings, base rate plus 0.75% (effective rate of 9.11% as at September 30, 2007), payable with a first instalment of \$16,510 plus interest in January 2008, followed by monthly instalments of \$13,550 plus interest, maturing in December 2022 (an amount of \$300,000 of the authorized loan remains unused as at September 30, 2007) (as at September 30, 2007, the principal balance is \$2,141,960) (a)	2,117,618	
Term loan, nominal amount of \$2,252,000, secured by equipment, base rate plus 1.5% (effective rate of 9.8% as at September 30, 2007), payable with a first instalment of \$27,600 plus interest in November 2007, followed by monthly instalments of \$26,800 plus interest, maturing in October 2014 (as at September 30, 2007, the principal balance is \$2,252,000) (a)	2,242,849	

iWeb Group Inc.
Notes to Consolidated Financial Statements
September 30, 2007 and 2006

10 - LONG-TERM DEBT (Continued)

	<u>2007</u>	<u>2006</u>
	\$	\$
Term loans, nominal amount of \$1,500,000, secured by computer equipment, prime rate plus 2.5% (8.75% as at September 30, 2007), payable in monthly instalments of \$24,517 plus interest, maturing on different dates between March and September 2010 (an amount of \$617,385 of the authorized loan remains unused as at September 30, 2007) (a)	813,266	
Term loans, nominal amount of \$267,000, secured by computer equipment, base rate plus 3% (9.25% as at September 30, 2007; 9% as at September 30, 2006), payable in monthly instalments of \$4,450 plus interest, maturing in August 2008 and March 2010 (a)	104,750	158,150
Obligation under a capital lease, nominal amount of \$95,715, 4.8%, payable in monthly instalments of \$2,178, principal and interest, maturing in December 2008	31,711	55,714
Obligation under a capital lease, nominal amount of \$227,145, 7.5%, payable in monthly instalments of \$4,523, principal and interest, maturing in May 2011	173,532	213,167
Obligations under capital leases, 11.95%		146,412
Mortgage loan, base rate plus 0.5% (8.5%)		423,000
Mortgage loan, base rate plus 2.5% (10.5%)		1,175,500
Term loans, base rate and base rate plus 6% (8% and 14%, representing a combined rate of 11.87%)		103,600
Term loan, base rate plus 2.5% (10.5%)		312,500
Term loan, base rate plus 3% (11%)		319,000
	<u>5,483,726</u>	<u>2,907,043</u>
Instalments due within one year	<u>807,980</u>	<u>547,411</u>
	<u>4,675,746</u>	<u>2,359,632</u>

(a) Under the terms of the credit agreements, the Company is subject to certain covenants.

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10 - LONG-TERM DEBT (Continued)

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

	Obligations under capital leases	Other loans
	\$	\$
2008	80,415	740,063
2009	60,813	816,803
2010	54,279	723,262
2011	36,186	484,200
2012		484,200
2013 and thereafter		2,063,448
Total minimum lease payments	<u>231,693</u>	
Interest included in minimum lease payments	<u>26,450</u>	
	<u>205,243</u>	

11 - SUBORDINATED DEBT

	2007	2006
	\$	\$
Term loan, nominal amount of \$500,000, secured by the universality of present and future, tangible and intangible, movable and immovable property, subject to present and future subordination, 10.9%, plus a performance premium of \$150,000, payable in a lump-sum payment on March 26, 2011 (effective rate of 19.93%; 16.98% as at September 30, 2006) (as at September 30, 2007, the principal balance is \$500,000) (a) (b) (c)	458,911	510,289
Term loan, nominal amount of \$2,500,000, secured by the universality of present and future, tangible and intangible, movable and immovable property, subject to present and future subordination, 11% payable monthly, plus an annual performance premium of 2% and a bonus, payable in a lump-sum payment on January 15, 2012, including the performance premium and the bonus (effective rate of 21.17%) (as at September 30, 2007, the principal balance and capitalized interest are \$2,500,000 and \$18,925 respectively) (a) (d) (e)	<u>1,890,715</u>	
	<u>2,349,626</u>	<u>510,289</u>

(a) Under the terms of the credit agreements, the Company is subject to certain covenants.

(b) The subordinated debt included a bonus designated as an embedded derivative. The bonus represented 0.5% of the estimated market capitalization of the Company as at March 26, 2011 and was evaluated to be \$52,549 at the signing of the contract. During the 2007 fiscal year, the Company came to an agreement with the creditor to repurchase and eliminate the bonus clause for the amount of \$140,154. A \$96,946 charge, corresponding to the change in fair value during the year, was recognized under Financial expenses in consolidated earnings and comprehensive income.

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11 - SUBORDINATED DEBT (Continued)

- (c) Using a discounting rate of 20% (16.98% as at September 30, 2006), the fair value of the term loan is \$465,584 as at September 30, 2007 (\$510,289 as at September 30, 2006).
- (d) The fair value of the bonus of 3% to 6% of the Company's cumulative earnings before interest, taxes and amortization for the 2007 to 2011 fiscal years was calculated to be \$579,056 at the signing of the contract and presented separately under Derivative embedded in subordinated debt on the consolidated balance sheet. Using a discounting rate of 20.6%, the fair value of the embedded derivative is \$628,857 as at September 30, 2007.
- (e) Using a discounting rate of 22.7%, the fair value of the term loan is \$1,828,569 as at September 30, 2007.

12 - CAPITAL STOCK

Authorized

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

	2007		2006	
	Number of shares	Amount \$	Number of shares	Amount \$
Issued and fully paid				
Balance, beginning of year	23,355,021	695,230	23,355,021	695,230
Issued under the stock option plan	312,753	52,913		
Balance, end of year	<u>23,667,774</u>	<u>748,143</u>	<u>23,355,021</u>	<u>695,230</u>

In accordance with the requirements of the TSX Venture Exchange, the balance of the shares withheld under the terms of the share escrow agreement were released on April 25, 2007 further to the change of the Company's tier classification on the TSX Venture Exchange from Tier 2 to Tier 1.

13 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	2007 \$	2006 \$
Trade and other accounts receivable	(183,129)	(247,844)
Prepaid expenses	11,540	(3,401)
Trade and other accounts payable	459,638	147,433
Deferred revenues	567,595	440,845
	<u>855,644</u>	<u>337,033</u>

iWeb Group Inc.
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13 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS (Continued)

Cash flows relating to interest and income taxes on operating activities are detailed as follows:

	2007	2006
	\$	\$
Interest paid	536,983	172,179
Income taxes paid	6,643	

14 - STOCK OPTION PLAN

On June 25, 2004, the Company approved the "2004 Stock Option Plan" (hereafter the "2004 Plan"), which offers stock options to the Company's directors, employees and service providers. The exercise price is equal to the market value of the shares on the award date, with a minimal exercise price of \$0.20. All options granted under the 2004 Plan can be exercised within a maximum period of five years from the award date at the rate of 25% per year from the first anniversary of the award. The maximum number of common shares issuable under the 2004 Plan is 20% of outstanding common shares and the maximum number of options that can be granted to one recipient is 5% of the total number of outstanding common shares. The maximum number of options that can be granted to a consultant or a person who carries on activities relating to investors is 2% of the total number of outstanding common shares.

On March 26, 2007, the Company approved various amendments to the 2004 Plan. The adjusted plan (hereafter the "2007 Plan") became effective on April 25, 2007, following the final approval of the TSX Venture Exchange (hereafter the "Stock Exchange"). The 2007 Plan offers stock options to the Company's directors, employees and service providers. The exercise price is equal to a) the weighted average price on the stock volume at the Stock Exchange of the last 10 days when the Stock Exchange was opened for transactions before the award date of the option, taking in account that that price cannot be lower than the closing price quotation at the Stock Exchange, of the last trading day at the Stock Exchange, before the award date of the option; or b) the closing price quotation at the Stock Exchange, before the award date of the option. All options granted under the 2007 Plan can be exercised within a maximum period of 10 years from the award date at the rate determined by the Board of Directors of the Company or at the rate of 25% per year from the first anniversary of the award. The maximum number of common shares issuable under the 2007 Plan is 20% of outstanding common shares and the maximum number of options that can be granted to one recipient is 5% of the total number of outstanding common shares. The maximum number of options that can be granted to a consultant or a person who carries on activities relating to investors is 2% of the total number of outstanding common shares.

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14 - STOCK OPTION PLAN (Continued)

Changes in the number of stock options outstanding are as follows:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of year	1,495,332	0.212	925,332	0.176
Issued	1,310,000	1.327	570,000	0.270
Expired	57,826	0.150		
Exercised	312,753	0.169		
Balance, end of year	<u>2,434,753</u>	0.819	<u>1,495,332</u>	0.212
Exercisable options, end of year	<u>547,253</u>	0.201	<u>684,832</u>	0.168

Outstanding stock options as at September 30, 2007 are as follows:

	Options outstanding			Exercisable options	
	Number of options	Weighted average remaining contractual life (months)	Weighted average exercise price	Number of options	Weighted average exercise price
			\$		\$
	192,753	6	0.150	192,753	0.150
	362,000	31	0.200	212,000	0.200
	570,000	42	0.270	142,500	0.270
	390,000	51	0.400		
	920,000	52	1.720		
	<u>2,434,753</u>	43	0.819	<u>547,253</u>	0.201

The fair value of stock options granted during the year was determined using the Black-Scholes option pricing model. The following assumptions were used:

	2007		2006	
Number of options issued	390,000	750,000	170,000	570,000
Expected dividend per share	Nil	Nil	Nil	Nil
Expected volatility	113% yearly	70% yearly	70% yearly	133% yearly
Risk-free interest rate	3.89%	4.62%	4.65%	4.02%
Expected life	4.5 years	4.5 years	2.5 years	4.5 years
Calculated fair value of stock option	\$0.3110	\$0.9809	\$0.7509	\$0.2310

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Notes to Consolidated Financial Statements

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14 - STOCK OPTION PLAN (Continued)

The 390,000 stock options issued in January 2007 and the 750,000 stock options issued in June 2007 vest at a rate of 25% per year as of the first anniversary of the grant and the 170,000 stock options issued in June 2007 vest at a rate of 50% per year as of the first anniversary of the grant.

15 - INCOME TAXES

	<u>2007</u>	<u>2006</u>
	\$	\$
Earnings before income taxes	<u>880,000</u>	<u>658,446</u>
Income taxes at the combined federal and provincial income tax rate in Canada of 32.02% (31.77% in 2006)	281,776	209,189
Change in tax rates	(8,517)	(9,483)
Stock-based compensation	41,979	13,584
Non-deductible financial expenses	23,643	
Non-deductible items and others	28,562	34,653
Deductible temporary differences recognized during the year	<u>(367,443)</u>	<u>(89,858)</u>
	<u>367,443</u>	<u>158,085</u>

Net future income tax liabilities of \$507,850 as at September 30, 2007 and of \$150,838 as at September 30, 2006 are as follows:

	<u>2007</u>	<u>2006</u>
	\$	\$
Future income tax assets (liabilities)		
Unused tax losses	106,260	39,636
Share issue expenses	15,230	38,180
Other	12,195	23,008
Tangible and intangible assets	<u>(641,535)</u>	<u>(251,662)</u>
	<u>(507,850)</u>	<u>(150,838)</u>

16 - RELATED PARTY TRANSACTIONS

	<u>2007</u>	<u>2006</u>
	\$	\$
Transactions concluded in the normal course of business, at the exchange amount		
Professional fees paid to a company controlled by a director of the Company		
Professional fees (a)	53,496	36,750
Trade and other accounts payable	33,378	2,321

(a) As at September 30, 2007, \$21,864 was capitalized as intangible assets.

iWeb Group Inc.

Notes to Consolidated Financial Statements

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17 - FINANCIAL RISK OBJECTIVES AND POLICIES, AND FINANCIAL RISKS

Financial risk objectives and policies

The Company is exposed to various financial risks which result from its operations and investment activities. Management coordinates financial risk management in close cooperation with the Board of Directors and focuses on 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.

Financial risks

The main financial risks to which the Company is exposed are as follows:

– Foreign exchange risk:

The Company is exposed to foreign exchange risk due to cash, trade and other accounts receivable and trade and other accounts payable denominated in U.S. dollars. As at September 30, 2007, assets denominated in U.S. dollars are cash and trade and other accounts receivable totalling US\$1,044,617 (US\$260,290 as at September 30, 2006) and liabilities denominated in U.S. dollars are trade and other accounts payable totalling US\$223,557 (US\$16,678 as at September 30, 2006).

The Company does not enter into arrangements to hedge its foreign exchange risk.

– 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 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;

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

17 - FINANCIAL RISK OBJECTIVES AND POLICIES, AND FINANCIAL RISKS (Continued)

– 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 maximum amount of credit risk exposure. 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 make callable 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 trade accounts receivable balance is monitored on an on-going basis and, accordingly, the Company's bad debt exposure is not significant;

– Liquidity risk:

Liquidity risk management consists in maintaining sufficient cash and term deposits to ensure that the Company has adequate authorized amounts of financing by way of bank loans. The Company prepares budget and cash forecasts to ensure that it has sufficient funds to meet its obligations.

18 - COMMITMENTS

The Company has entered into long-term lease and maintenance agreements which call for payments of \$54,488. The minimum payments for the next years are \$38,511 in 2008, \$10,179 in 2009, \$3,025 in 2010 and \$2,773 in 2011.

In July 2007, the Company accepted two financing offers as obligations under capital leases for a total amount of \$954,000. The first loan, for \$646,000, is payable over 48 months and will bear interest based on 30-day banker's acceptances plus 3.97% (8.83%). The second loan, for \$308,000, is payable over 60 months and will bear interest at a fixed rate of 7.3%. These loans will be used to finance acquisition of equipment for the upcoming expansion of one of the data centres.

19 - SEGMENTED INFORMATION

The Company offers Web application hosting solutions and is an intermediary for registering domain names. These two activities are complementary and constitute a single business segment. Since the Company's establishments are in Canada, the Company attributes all of its revenues to its country of domicile rather than to that of its customers.

iWeb Group Inc.
Notes to Consolidated Financial Statements

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20 - EARNINGS PER SHARE

The table below presents a reconciliation of basic and diluted earnings.

	2007		
	Earnings	Weighted average number of shares	Earnings per share
	\$		\$
Basic earnings			
Net earnings	512,557		
Earnings available to common shareholders	512,557	23,483,080	0.0218
Diluted earnings			
Effect of dilutive securities			
Stock options		1,115,525	
Earnings available to common shareholders	512,557	24,598,605	0.0208
			2006
	Earnings	Weighted average number of shares	Earnings per share
	\$		\$
Basic earnings			
Net earnings	500,361		
Earnings available to common shareholders	500,361	23,355,021	0.0214
Diluted earnings			
Effect of dilutive securities			
Stock options		406,215	
Earnings available to common shareholders	500,361	23,761,236	0.0211

Options for the acquisition of 1,514,753 common shares at a weighted average price of \$0.271 per share outstanding as at September 30, 2007 were taken into account in the calculation of diluted earnings per share since the exercise price of the options was lower than the average price of the common shares.

Options for the acquisition of 1,495,332 common shares at a weighted average price of \$0.212 per share outstanding as at September 30, 2006 were taken into account in the calculation of diluted earnings per share since the exercise price of the options was lower than the average price of the common shares.

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21 - SUBSEQUENT EVENTS

On October 1, 2007, the Company accepted a lease offer for a 29,187 square-foot data centre and office space, at a base rate of \$14 per square foot plus expenses valued at \$10.86 per square foot for a two-year period, followed by a three-year renewal period, followed by five five-year renewal periods at base rates of \$15, \$17, \$19, \$22 and \$25 per square foot. No rent or expense is payable for the first twelve months of occupancy starting on December 1, 2007. The Company's commitment over the two-year period is \$725,589. A \$15 per square foot allowance for leasehold improvements will be paid to the lessor. A purchase option can be exercised every five years.

On November 30, 2007, following the filing of a short form prospectus and an underwriting agreement, the Company issued 3,300,000 common shares at a price of \$1.25 each, for net proceeds of approximately \$3,500,000, after the underwriters' commissions and other related expenses.