

iWeb Group Inc.
Consolidated Financial Statements
September 30, 2009 and 2008

Management's Report	2
Auditors' Report	3
Financial Statements	
Consolidated Earnings and Comprehensive Income	4
Consolidated Retained Earnings	5
Consolidated Contributed Surplus	5
Consolidated Balance Sheets	6
Consolidated Cash Flows	7
Notes to Consolidated Financial Statements	8 - 32



Management's Report

The consolidated financial statements of iWeb Group Inc. and the other financial information included in this 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.

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
President, Products and Technologies

/S/ Philip Tousignant
Philip Tousignant
Chief Financial Officer

November 27, 2009



Raymond Chabot Grant Thornton

Auditors' Report

To the Shareholders of
iWeb Group Inc.

Raymond Chabot Grant Thornton LLP
Suite 2000
National Bank Tower
600 De La Gauchetière Street West
Montréal, Québec H3B 4L8

Telephone: 514-878-2691
Fax: 514-878-2127
www.rcgt.com

We have audited the consolidated balance sheets of iWeb Group Inc. as at September 30, 2009 and 2008 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, 2009 and 2008 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 LLP¹

Montréal, November 27, 2009

¹ Chartered accountant auditor permit no. 18510

iWeb Group Inc.

Consolidated Earnings and Comprehensive Income

Years ended September 30, 2009 and 2008

	2009	2008
	\$	\$
Revenues	<u>27,145,695</u>	<u>15,616,869</u>
Cost of services sold		
Network and direct costs	11,256,356	5,966,373
Amortization	<u>3,275,831</u>	<u>1,896,204</u>
	<u>14,532,187</u>	<u>7,862,577</u>
Gross profit	<u>12,613,508</u>	<u>7,754,292</u>
Other operating expenses		
Amortization	162,753	113,981
Selling expenses	4,473,600	2,761,085
Administrative expenses	<u>5,673,782</u>	<u>3,793,288</u>
	<u>10,310,135</u>	<u>6,668,354</u>
	<u>2,303,373</u>	<u>1,085,938</u>
Exchange losses (gains)		
Changes in the fair value of foreign exchange contracts	(865,995)	
Other exchange losses (gains)	190,204	(67,039)
Unrealized exchange loss on long-term debt	<u>123,000</u>	<u>151,864</u>
	<u>(552,791)</u>	<u>84,825</u>
Financial expenses		
Interest expenses (Note 6)	2,589,255	1,287,531
Loss on early repayment of long-term debt (Note 7)		<u>546,833</u>
	<u>2,589,255</u>	<u>1,834,364</u>
Earnings (loss) before income taxes	<u>266,909</u>	<u>(833,251)</u>
Income taxes (Note 18)		
Current	8,508	2,702
Future	<u>254,471</u>	<u>(134,529)</u>
	<u>262,979</u>	<u>(131,827)</u>
Net earnings (loss) and comprehensive income	<u>3,930</u>	<u>(701,424)</u>
Net earnings (loss) per share, basic (Note 22)	<u>0.0001</u>	<u>(0.0264)</u>
Net earnings (loss) per share, diluted (Note 22)	<u>0.0001</u>	<u>(0.0264)</u>

The accompanying notes are an integral part of the consolidated financial statements and Note 5 provides additional information on consolidated earnings.

iWeb Group Inc.
Consolidated Retained Earnings
Consolidated Contributed Surplus
 Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
	\$	\$
<i>CONSOLIDATED RETAINED EARNINGS</i>		
As previously reported	483,256	1,035,450
Accounting change (Note 2)	<u>(149,230)</u>	
As restated	334,026	1,035,450
Net earnings (loss)	<u>3,930</u>	<u>(701,424)</u>
Balance, end of year	<u><u>337,956</u></u>	<u><u>334,026</u></u>
<i>CONSOLIDATED CONTRIBUTED SURPLUS</i>		
Balance, beginning of year	482,343	173,860
Stock-based compensation (Note 17)	<u>365,475</u>	<u>308,483</u>
Balance, end of year	<u><u>847,818</u></u>	<u><u>482,343</u></u>

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

iWeb Group Inc.
Consolidated Balance Sheets

September 30, 2009 and 2008

	2009	2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	1,215,203	3,261,262
Term deposits (Note 8)	1,000,000	200,000
Trade and other accounts receivable	1,781,567	1,816,471
Foreign exchange contracts	347,500	
Prepaid expenses	310,879	109,112
	<u>4,655,149</u>	<u>5,386,845</u>
Investments (Note 9)		408,980
Tangible assets (Note 10)	26,660,927	22,134,542
Intangible assets (Note 11)	1,582,097	1,011,452
Future income taxes	91,437	202,703
	<u>32,989,610</u>	<u>29,144,522</u>
LIABILITIES		
Current liabilities		
Trade and other accounts payable	2,947,778	3,346,487
Deferred revenues	4,236,288	3,272,127
Instalments on long-term debt	1,830,104	1,127,339
	<u>9,014,170</u>	<u>7,745,953</u>
Deferred revenues	830,044	
Other accounts payable	543,939	381,648
Long-term debt (Note 13)	14,892,169	13,895,255
Derivative embedded in long-term debt	801,937	778,014
Future income taxes	542,628	370,834
	<u>26,624,887</u>	<u>23,171,704</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 14)	5,178,949	5,156,449
Contributed surplus	847,818	482,343
Retained earnings	337,956	334,026
	<u>6,364,723</u>	<u>5,972,818</u>
	<u>32,989,610</u>	<u>29,144,522</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, 2009 and 2008

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net earnings (loss)	3,930	(701,424)
Non-cash items		
Unrealized exchange loss on long-term debt	123,000	151,864
Loss on write-down of investment	50,000	
Unrealized gain on fair value of foreign exchange contracts	(347,500)	
Amortization of tangible and intangible assets	3,438,584	2,010,185
Services as consideration for share investment in a private company	(17,589)	(15,199)
Notional interest costs	180,997	186,688
Change in fair value of derivative embedded in long-term debt	23,923	149,157
Future income taxes	254,471	(134,529)
Stock-based compensation expense	365,475	308,483
Straight-line amortization of rental expense	162,291	381,648
Changes in working capital items (Note 16)	1,918,929	1,218,292
Cash flows from operating activities	<u>6,156,511</u>	<u>3,555,165</u>
INVESTING ACTIVITIES		
Term deposits	(1,000,000)	(317,970)
Receipt of short-term investments	584,064	
Business acquisition	(77,963)	
Tangible assets	(8,489,553)	(11,240,463)
Intangible assets	(612,799)	(273,956)
Cash flows from investing activities	<u>(9,596,251)</u>	<u>(11,832,389)</u>
FINANCING ACTIVITIES		
Proceeds on issue of long-term debt	2,619,187	13,108,730
Repayment of long-term debt	(1,259,256)	(6,069,331)
Long-term debt issue costs	(66,233)	(766,389)
Share issue costs		(535,293)
Share issue on long-term debt refinancing		1,000,000
Share issue on public offering		4,125,000
Shares issued on exercise of stock options	22,500	31,313
Cash flows from financing activities	<u>1,316,198</u>	<u>10,894,030</u>
Impact of exchange rate fluctuations on cash and cash equivalents	77,483	—
Changes in cash and cash equivalents	(2,046,059)	2,616,806
Cash and cash equivalents, beginning of year	<u>3,261,262</u>	<u>644,456</u>
Cash and cash equivalents, end of year	<u>1,215,203</u>	<u>3,261,262</u>

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

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

iWeb Group Inc, (hereafter the "Company") was incorporated under the Canada Business Corporations Act on November 26, 2002. The Company provides hosting solutions for Web applications.

2 - ACCOUNTING CHANGES

Recently adopted standards

Goodwill and intangible assets

On October 1, 2008, in accordance with the applicable transitional provisions, the Company applied the recommendations of new Section 3064, "Goodwill and Intangible Assets", of the *Canadian Institute of Chartered Accountants' Handbook (CICA Handbook)*. This new section, which is effective for fiscal years beginning on or after October 1, 2008, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. It clarifies the recognition of intangible assets and deals with the recognition of internally generated intangible assets. However, the standards relating to goodwill are identical to those in Section 3062, "Goodwill and Other Intangible Assets". Retrospective application of this section with restatement of prior years' figures did not have any impact on internally developed software and systems. However, retrospective application of this section with restatement of prior years' figures with respect to deferred expenses led to the following impacts on the consolidated statement of earnings and comprehensive income for the year ended September 30, 2008:

	As previously reported	Adjustment	As restated
	\$	\$	\$
Cost of services sold – Network and direct costs	5,779,908	186,465	5,966,373
Cost of services sold – Amortization	1,926,325	(30,121)	1,896,204
Administrative expenses	3,665,721	60,528	3,726,249
Operating income (loss)	1,302,810	(216,872)	1,085,938
Future income taxes	(66,887)	(67,642)	(134,529)
Net loss	(552,194)	(149,230)	(701,424)
Net loss per share – basic and diluted	(0.0208)	(0.0056)	(0.0264)
Deferred expenses (a)	216,872	(216,872)	
Future income tax liability	438,476	(67,642)	370,834
Retained earnings	483,256	(149,230)	334,026

(a) As at September 30, 2008, deferred expenses represent expenses related to the start up of the new data center on Nuns' Island.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

2 - ACCOUNTING CHANGES (Continued)

Fair value of financial assets and liabilities

On January 20, 2009, the CICA issued Abstract 173 (EIC-173), Credit Risk and the Fair value of Financial Assets and Financial Liabilities to clarify the fair value determination of financial assets and financial liabilities pursuant to Section 3855, entitled "Financial Instruments – Recognition and Measurement". EIC-173 stipulates that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. This recommendation is applicable retrospectively without restatement of prior periods, to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. For the Company, the effective date of this Abstract is October 1, 2008. The adoption of this Abstract did not have an impact on the consolidated financial statements.

Other long-term accounts payable

During the 2009 fiscal year, the Company changed its presentation of long-term rent payable from the straight-line amortization of the rental expense. In the previous year, the Company had recognized this liability under accounts payable and accrued liabilities. It is now recognized under other accounts payable in long-term liabilities. Management believes this presentation is a more reliable and relevant disclosure. This change has been presented retrospectively and the comparative consolidated balance sheet for 2008 has been restated. The effect of this change in 2008 is presented in the following table:

	\$
Impacts in 2008	
Increase in other long-term liabilities	381,648
Decrease in accounts payable and accrued liabilities	(381,648)

Future accounting standards

As at November 27, 2009, certain new primary sources of Canadian generally accepted accounting principles (hereafter "standards") have been published but are not yet in effect. The Company has not early adopted any of these standards. The new standards which could potentially impact the Company's financial statements are detailed as follows:

– *Business combinations*

In January 2009, the CICA published Section 1582, "Business Combinations", that replaces Section 1581 of the same title. On the same date, the CICA also published new Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests". These two new sections replace Section 1600, "Consolidated Financial Statements".

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

2 - ACCOUNTING CHANGES (Continued)

The objective of Section 1582 is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. Section 1601 establishes standards for the preparation of consolidated financial statements following a business combination that involves a purchase of an equity interest by one company in another. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

Section 1582 must be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, and Sections 1601 and 1602 are effective for fiscal years beginning on or after January 1, 2011. The Company will apply these new sections as of October 1, 2011. The Company's management is not able to measure the impact that the application of these new standards will have on the financial statements.

Financial instruments – disclosures

In June 2009, the CICA amended Section 3862 entitled "Financial Instruments – Disclosures". This Section was amended to include new requirements regarding financial disclosures, in particular, the fair value measurement of financial instruments and the entity's exposure to liquidity risk. The amendments of this Section are effective for annual financial statements relating to fiscal years ending after September 30, 2009. Accordingly, the Company will apply these new financial disclosure requirements during its fiscal period beginning on October 1, 2009. These new standards only address disclosures and will have no impact on the Company's financial results.

International Financial Reporting Standards (IFRSs)

In February 2008, the Accounting Standards Board of Canada announced that publicly accountable enterprises will be required to adopt IFRSs for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt these new standards as of the 2012 fiscal year and will present restated financial information in accordance with IFRSs for the prior year. IFRSs will require additional financial statement disclosures, and while IFRSs use a conceptual framework similar to GAAP, enterprises will have to take the differences in accounting principles into account.

Based on the current project status, it is impossible to quantify how the future transition to IFRSs will impact the consolidated financial statements and the notes thereto. Considering the current differences between GAAP and IFRSs, the impacts may be material. The Company is currently assessing the impact of adopting these new sections on the consolidated financial statements.

Other new standards have been published, but they should not have a significant impact on the Company's financial statements.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

3 - ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, the main one being iWeb Technologies Inc.

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. Items that require significant assumptions are the evaluation of the allowance for bad debts, intangible assets, the estimated useful lives of long-term assets, deferred charges, long-term debt and the derivative embedded in the long-term debt.

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 a held-for-trading financial asset and the term deposits, the deposit assigned as security of a creditor and the deposit with a supplier have 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. Changes in fair value recognized in consolidated earnings presented in interest expenses and other exchange loss (gains) include interest 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.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

3 - ACCOUNTING POLICIES (Continued)

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.

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.

Loans and receivables

Trade and other accounts receivable, other than commodity taxes which 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

Trade and other accounts payable, long-term debt, excluding obligations under capital leases, 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.

Stand-alone derivative

The Company uses foreign exchange contracts to manage market risk and protect itself against exchange rate volatility. Foreign exchange contracts are derivative instruments and the Company's policy is not to use derivative instruments for speculative purposes. The Company does not use hedge accounting. Derivative instruments are classified as held for trading and recognized at fair value, which is determined using exchange rates in effect on the measurement date. Changes in the fair value of derivatives instruments are recognized as a change in the fair value of foreign exchange contracts in consolidated earnings.

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. 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. Change in fair value of the derivatives embedded in long term debts are recognized as an interest expenses in consolidated earnings. As at September 30, 2009 and 2008, the Company does not have any hybrid instrument with an embedded derivative that should be separated, other than the following:

- The term loan 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 (EBITDA) for the 2007 to 2011 fiscal years, payable in a lump-sum payment on August 26, 2013.

iWeb Group Inc.
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

3 - ACCOUNTING POLICIES (Continued)

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 transaction occurs.

Cash and cash equivalents

Cash includes cash and demand deposits. Cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and mature within three months of the acquisition date.

As at September 30, 2009, cash and cash equivalents consist solely of cash. As at September 30, 2008, this item includes cash and a term deposit of \$1,854,825 (US\$1,750,000) bearing interest of 1.55% and maturing on October 6, 2008.

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. Deferred revenue related to contracts of more than twelve months is presented as long-term deferred revenue.

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.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

3 - ACCOUNTING POLICIES (Continued)

Tangible assets and amortization of tangible assets

Tangible assets are recognized at cost.

Tangible assets are amortized over their estimated useful lives according to the straight-line method at the following annual rates:

	<u>Rates</u>
Buildings	4%
Leasehold improvements	5%
Computer equipment	10% and 20%
Furniture, equipment and office improvements	15%
Equipment and improvements to data centers	5% to 10%
Colocation improvements	20% to 33%
Automotive equipment	20%

Costs, such as interest, directly incurred for the construction of a tangible asset, are capitalized and amortized over the useful life of the corresponding asset. Improvement projects for the data centers in progress and equipment are not amortized until the asset is put in service.

Intangible assets and amortization of intangible assets

Intangible assets are recognized at cost.

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>
Internally developed software and systems	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 its carrying amount may not be recoverable.

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, 2009 and 2008

3 - ACCOUNTING POLICIES (Continued)

Rental expense

The Company recognizes its rental expense according to the straight-line method, under which the total amount of rental expense and the lease incentive are spread equally over the lease term, thereby creating a portion of rent payable included in other long-term accounts payable.

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.

Share issue costs

Share issue costs are applied against the share issue proceeds, if any.

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 year. 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 17, 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 using an option pricing model and the compensation expense is recognized over the vesting period for employees and non-employees. 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 consolidated earnings and comprehensive income.

iWeb Group Inc.
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

4 - BUSINESS ACQUISITION

On April 1, 2009, the Company purchased all of the outstanding shares of a Web hosting solutions company. The total consideration for the acquisition was \$136,625, including acquisition costs, and are composed of an amount of \$99,125 paid in cash and a balance of purchase price of \$37,500. The acquisition cost has not been finalized, since the agreement includes a price adjustment clause based on a percentage of cumulative earnings, allocated over the next two years following the acquisition. Since the adjustment cannot be determined with absolute certainty, it has been excluded from the purchase price. Once the adjustment has been determined, its fair value will be recognized as an additional acquisition cost component.

Values attributed to net assets acquired are detailed as follows:

	<u>\$</u>
Cash	21,162
Trade accounts receivable and other assets	33,219
Client list	155,584
Trade account payable and other liabilities	<u>(73,340)</u>
	<u>136,625</u>

5 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	<u>2009</u>	<u>2008</u>
	\$	\$
Changes in the fair value of foreign exchange contracts		
Realized exchange loss on exchange contracts	(518,495)	
Unrealized gain on fair value of exchange contracts	<u>(347,500)</u>	
	(865,995)	-
Amortization of tangible assets	3,240,845	1,892,954
Amortization of intangible assets	197,739	117,231
Loss on investment write-down	50,000	

6 - FINANCIAL EXPENSES

	<u>2009</u>	<u>2008</u>
	\$	\$
Interest on long-term debt	2,492,846	1,150,859
Interest on obligations under capital leases	77,830	45,715
Interest income on term deposits	<u>(5,344)</u>	<u>(58,200)</u>
Interest expenses	2,565,332	1,138,374
Change in fair value of derivative embedded in long-term debt	<u>23,923</u>	<u>149,157</u>
	<u>2,589,255</u>	<u>1,287,531</u>

iWeb Group Inc.
Notes to Consolidated Financial Statements

September 30, 2009 and 2008

7 - LOSSES ON EARLY REPAYMENT OF LONG-TERM DEBT

Subsequent to the refinancing of its long-term debt during the year ended September 30, 2008 (see Note 13(a)), the Company incurred the following expenses:

	<u>2008</u>
	\$
Penalty on early repayment of long-term debts	376,961
Cost of early repayment of incentive bonus and reversal of long-term debt issue expenses	<u>169,872</u>
	<u>546,833</u>

8 - TERM DEPOSITS

	<u>2009</u>	<u>2008</u>
	\$	\$
Held-for-trading investments		
Term deposits, 1%, maturing in September 2010	1,000,000	
Term deposit, prime rate less 2.35%, i.e. 2.40% as at September 20, 2008		<u>200,000</u>
	<u>1,000,000</u>	<u>200,000</u>

9 - INVESTMENTS

	<u>2009</u>	<u>2008</u>
	\$	\$
Held-for-trading investments		
Deposit assigned as security of a creditor, nominal amount of US\$300,000, without interest		317,970
Available-for-sale investments		
Common shares of a private company, representing a 10% interest in voting shares (a)		50,000
Other		
Deposit with a supplier		<u>41,010</u>
	<u>—</u>	<u>408,980</u>

(a) The investment was fully written-down as at September 30, 2009.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

10 - TANGIBLE ASSETS

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	475,371		475,371
Buildings	2,959,430	387,772	2,571,658
Leasehold improvements	2,409,654	112,960	2,296,694
Computer equipment parts (a)	480,767		480,767
Computer equipment	15,382,638	5,022,224	10,360,414
Furniture, equipment and office improvements	389,088	191,791	197,297
Equipment and improvements to data centers and colocation spaces	10,171,945	1,300,121	8,871,824
Improvements to data centers in progress	147,428		147,428
Automotive equipment	54,704	8,207	46,497
Assets under capital leases			
Computer equipment	101,984	2,551	99,433
Data center equipment	1,279,121	165,577	1,113,544
	<u>33,852,130</u>	<u>7,191,203</u>	<u>26,660,927</u>
			2008
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	475,371		475,371
Buildings	2,956,161	268,291	2,687,870
Leasehold improvements	1,752,898	29,965	1,722,933
Computer equipment parts (a)	546,655		546,655
Computer equipment	10,405,108	2,693,663	7,711,445
Furniture, equipment and office improvements	304,275	76,773	227,502
Equipment and improvements to data centers (b)	6,246,379	755,653	5,490,726
Improvements to data centers in progress	2,023,167		2,023,167
Assets under capital leases			
Data center equipment	1,374,886	126,013	1,248,873
	<u>26,084,900</u>	<u>3,950,358</u>	<u>22,134,542</u>

(a) 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.

(b) During the year ended September 30, 2008, financial expenses of \$17,584 were capitalized to the cost of the equipment and improvements to data centers (nil as at September 30, 2009).

Trade and other accounts payable include \$471,761 relating to acquisitions of tangible assets (\$1,313,715 as at September 30, 2008).

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

11 - INTANGIBLE ASSETS

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Internally developed software and systems (a)	1,572,017	377,006	1,195,011
Client lists	418,578	137,349	281,229
Domain name	105,857		105,857
	<u>2,096,452</u>	<u>514,355</u>	<u>1,582,097</u>
	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Internally developed software and systems (a)	959,219	211,922	747,297
Client lists	262,993	104,695	158,298
Domain name	105,857		105,857
	<u>1,328,069</u>	<u>316,617</u>	<u>1,011,452</u>

(a) An amount of \$265,747 represents intangible assets in progress (\$276,334 as at September 30, 2008) for which no amortization has been calculated yet.

12 - CREDIT FACILITIES

The Company renewed its bank agreement with a Canadian chartered bank (the "Bank") in February 2009. The next scheduled renewal of this agreement is on February 13, 2010. Under the terms of the agreement, the Bank has granted the following facilities to the Company:

- A \$3,000,000 credit facility is available as term loans to finance the acquisition of computer equipment. As at September 30, 2009, an amount of \$2,271,714, after monthly instalments paid, of this facility is used (see Note 13(g)).
- A \$400,000 facility is available to issue letters of guarantee. An amount of \$241,010 is used as at September 30, 2009.
- An \$800,000 exchange contract facility is available and makes it possible to issue up to \$8,000,000 in exchange contracts. As at September 30, 2009, an amount of \$4,288,800 (US\$4,000,000) of this facility has been used.

iWeb Group Inc.**Notes to Consolidated Financial Statements**

September 30, 2009 and 2008

13 - LONG-TERM DEBT

	<u>2009</u>	<u>2008</u>
	\$	\$
Term loan, nominal amount of US\$10,000,000, secured by a movable hypothec on the universality of all present and future, movable and immovable, tangible and intangible properties, 16% interest payable monthly (effective rate 17.32%;17.41% in 2008)) repayable in a single payment on August 26, 2013 (a) (b) (c)	10,327,293	10,107,095
Term loan, nominal amount of \$2,500,000, secured by a movable hypothec on the universality of present and future, movable and immovable, tangible and intangible properties, 11% interest payable monthly, plus an annual performance premium of 2% and a bonus, payable in a lump-sum payment on August 26, 2013, including the performance premium and the bonus (effective rate of 18.68%; 18.68% in 2008) (as at September 30, 2009, the principal amount due was \$2,500,000 and the capitalized interest \$123,075) (a) (b) (d) (e)	2,144,187	2,034,962
Term loans, nominal amount of \$2,337,000, secured by movable hypothecs on computer equipment, prime rate plus 2.5% (4.75% as at September 30, 2009 (effective rate of 10.28%), payable in monthly instalments of \$55,643 plus interest, maturing on different dates between January and March 2013 (b) (g)	2,188,553	
Term loans, nominal amount of \$2,500,000, secured by movable hypothecs on computer equipment, prime rate plus 2.5% (4.75% as at September 30, 2009; 7.25% as at September 30, 2008), payable in monthly instalments of \$69,450 plus interest, maturing on different dates between March 2010 and July 2011 (f)	1,018,388	1,851,782
Term loans, nominal amount of \$192,000, secured by a movable hypothec on computer equipment, prime rate plus 3% (5.25% as at September 30, 2009; 7.75% as at September 30, 2008), payable in monthly instalments of \$3,200 plus interest, maturing in March 2010	14,200	52,600
Term loan, nominal amount of \$282,188, 9.05% (effective rate of 12.18%), payable in monthly instalments of \$8,982, principal and interest, maturing in February 2012	224,617	
Obligation under capital leases, nominal amount of \$744,026, 8.65%, payable in monthly instalments of \$15,912, principal and interest, maturing in April 2012	429,450	575,887
Obligation under a capital lease, nominal amount of \$308,450, 7.3%, payable in monthly instalments of \$6,114, principal and interest, maturing in November 2012	206,883	262,911
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	84,792	130,820

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

13 - LONG-TERM DEBT (Continued)

	<u>2009</u>	<u>2008</u>
	\$	\$
Obligation under a capital lease, nominal amount of \$101,984, 9.9%, payable in monthly instalments of \$2,580, principal and interest, maturing in November 2012	83,910	
Obligation under capital leases, 4.8%, nominal amount of \$95,715		<u>6,537</u>
	<u>16,722,273</u>	<u>15,022,594</u>
Instalments due within one year	<u>1,830,104</u>	<u>1,127,339</u>
	<u><u>14,892,169</u></u>	<u><u>13,895,255</u></u>

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

	Obligations under capital leases	Other loans
	\$	\$
2010	349,549	1,536,331
2011	331,456	1,020,953
2012	199,801	711,561
2013	<u>17,389</u>	<u>13,490,571</u>
Total minimum lease payments	<u>898,195</u>	
Interest included in minimum lease payments	<u>93,160</u>	
	<u><u>805,035</u></u>	

- (a) On August 26, 2008, the Company undertook refinancing comprised of US\$10,000,000 in long-term debt and a 769,231 share issue for an overall consideration of \$11,447,137. The debt was recognized at fair value and the residual amount of \$704,161 was applied to capital stock. The proceeds of this financing made it possible to repay three term loans (nominal amount of \$2,441,960, \$2,252,000 and \$500,000). The early repayment of these loans resulted in the recognition of a \$546,833 loss (see Note 7).

In connection with this refinancing, the Company renegotiated its term loan for a nominal amount of \$2,500,000 at a rate of 11%. The maturity date of the loan was changed from January 15, 2012 to August 26, 2013. The renegotiation did not have any impact on the Company's financial results.

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

- (c) Using a discounting rate of 17.54% (17.38% as at September 30, 2008), the fair value of the term loan is \$10,542,953 as at September 30, 2009 (\$10,106,809 as at September 30, 2008).

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

13 - LONG-TERM DEBT (Continued)

- (d) The fair value of the bonus of 3% to 6% of the Company's cumulative EBITDA for the 2007 to 2011 fiscal years was calculated to be \$579,056 on signing of the contract and accounted for separately under Derivative embedded in long-term debt on the consolidated balance sheet. The amount of the bonus will bear interest from January 15, 2012 at 16%, capitalized monthly, until payment on August 26, 2013. Using a discounting rate of 18.08% (19.43% as at September 30, 2008) the fair value of the embedded derivative is \$801,937 as at September 30, 2009 (\$778,014 as at September 30, 2008).
- (e) Using a discounting rate of 18.08% (21.49% as at September 30, 2008), the fair value of the term loan is \$2,171,447 as at September 30, 2009 (\$2,040,049 as at September 30, 2008).
- (f) Using a discounting rate of 10.28%, the fair value of the term loans is \$979,872 as at September 30, 2009. As at September 30, 2008, the fair value of the term loans corresponds to the carrying amount.
- (g) The credit facility is a revolving facility and is 70% secured by a third party. The costs of the guarantee are 3.5%, payable annually in January, on 70% of the loan at that date.

14 - CAPITAL STOCK

Authorized

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

	2009		2008	
	Number of shares	Amount \$	Number of shares	Amount \$
Issued and fully paid				
Balance, beginning of year	27,941,758	5,156,449	23,667,774	748,143
Issued following the filing of a short-form prospectus			3,300,000	3,672,832
Issued in connection with the refinancing of the Company's debt			769,231	704,161
Issued under the stock option plan	112,500	22,500	204,753	31,313
Balance, end of year	<u>28,054,258</u>	<u>5,178,949</u>	<u>27,941,758</u>	<u>5,156,449</u>

On August 26, 2008, in connection with the Company's debt refinancing (see Note 13(a)), the Company issued 769,231 shares for \$1.30 each. The premium on the shares compared to the market price of \$0.95 has been applied against the cost of this new debt. The amount recognized in capital stock for this issue is \$704,161, that is, net proceeds of \$961,987 after deducting financing costs (\$973,391, net of \$11,404 in related taxes), less the premium on shares of \$269,230.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

15 - CAPITAL DISCLOSURES

The Company defines its capital as the sum of the book value of its debts and its shareholders' equity. The debt includes the following balance sheet items: "instalments on long-term debt", "long-term debt" and "derivative embedded in long-term debt".

The Company's objectives in managing its capital are, amongst others, to maintain an adequate debt to equity ratio in order to have access to the financing necessary to maintain its growth, particularly through the creation of new data centers. In addition, the Company manages its capital in order to comply with its various financial covenants.

The Company manages its capital structure and brings about adjustments related to changes in the economic environment and the underlying risks of its assets. To preserve or modify its capital structure, the Company may issue additional shares, renegotiate its existing loans or negotiate new term loans.

The Company's financial objectives and strategy as described above have remained substantially unchanged over the last two completed fiscal years. These objectives are reviewed on an annual basis.

The Company is also committed under financial agreements relating to some loans. Details of these commitments are listed below, and the Company was in compliance with all of them throughout the year and as at September 30, 2008 and 2009.

The covenants of the term loan with a par value of US\$10,000,000 are:

- The interest coverage ratio, which corresponds to EBITDA over the adjusted interest expense payable (excluding the loss relating to the early repayment of long-term debt), for the four most recent quarters;
- The fixed expense coverage ratio, which corresponds to EBITDA over fixed expenses (total of adjusted interest expense payable, instalments on long-term debt, capital acquisitions and income taxes payable), for the four most recent quarters;
- The financial leverage ratio, which corresponds to long-term debt (including the derivative embedded in the long-term debt) over EBITDA for the four most recent quarters;
- Minimum EBITDA required for the four most recent quarters;
- The minimum balance of cash and cash equivalents required.

All of these clauses must be respected on a quarterly basis.

- Maximum tangible capital asset expenses, for the most recent fiscal year, cannot exceed a specified ceiling. This clause must be respected on an annual basis.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

15 - CAPITAL DISCLOSURES (Continued)

The covenants of the term loan with a par value of \$2,500,000, 11% are:

- The minimum available funds coverage ratio, which corresponds to the adjusted EBITDA (EBITDA before stock-based compensation) over instalments on long-term debt;
- The long-term debt to net tangible worth ratio, which corresponds to long-term debt, excluding term loans with a par value of US\$10,000,000 and a par value of \$2,500,000, 11%, over the net tangible worth (total of capital stock, retained earnings, term loans with a par value of US\$10,000,000 and a par value of \$2,500,000, 11%, less intangible assets (excluding client lists) and less future income taxes).

These two covenants must be respected on a quarterly basis.

The covenants of the term loan with a par value of \$2,337,000, prime rate plus 2.5% are:

- The ratio of the long-term debt less the debt with a par value of US\$10,000,000, less the term loan with a par value of \$2,500,000, 11%, less the derivative embedded in the long-term debt, over EBITDA;
- The ratio of the long-term debt and the derivative embedded in the long-term debt over EBITDA.

These two covenants must be respected on an annual basis.

16 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	<u>2009</u>	<u>2008</u>
	\$	\$
Trade and other accounts receivable	128,599	(1,123,530)
Prepaid expenses	(201,018)	(70,628)
Deposit with a supplier	41,010	(41,010)
Trade and other accounts payable	366,224	854,252
Deferred revenues	<u>1,584,114</u>	<u>1,599,208</u>
	<u>1,918,929</u>	<u>1,218,292</u>

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Interest paid	2,400,455	1,018,442
Income taxes paid	8,508	2,702

iWeb Group Inc.**Notes to Consolidated Financial Statements**September 30, 2009 and 2008

17 - 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 during the last 10 days when the Stock Exchange was opened for transactions before the award date of the option, taking into account that that price cannot be lower than the closing price quotation at the Stock Exchange, on 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, on the last trading day 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. Options were granted at the closing price quotation at the Stock Exchange on the last trading day at the Stock Exchange before the award date of the option.

iWeb Group Inc.
Notes to Consolidated Financial Statements

September 30, 2009 and 2008

17 - STOCK OPTION PLAN (Continued)

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

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of year	2,863,000	0.913	2,434,753	0.819
Issued	120,000	0.800	647,500	1.040
	<u>2,983,000</u>		<u>3,082,253</u>	
Cancelled/expired	48,000	1.075	14,500	1.486
Exercised	112,500	0.200	204,753	0.153
	<u>160,500</u>		<u>219,253</u>	
Balance, end of year	<u>2,822,500</u>	0.934	<u>2,863,000</u>	0.913
Exercisable options, end of year	<u>1,561,166</u>	0.856	<u>940,125</u>	0.679

Outstanding stock options as at September 30, 2009 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
			\$		\$
	237,500	11	0.200	237,500	0.200
	570,000	18	0.270	427,500	0.270
	390,000	27	0.400	195,000	0.400
	908,000	28	1.720	539,000	1.720
	597,000	45	1.040	162,166	1.040
	120,000	59	0.800		
	<u>2,822,500</u>	<u>29</u>	<u>0.934</u>	<u>1,561,166</u>	<u>0.856</u>

The unit fair value of stock options granted during the year of \$0.4287 (\$0.5315 as at September 30, 2008) was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	2009	2008
Expected dividend per share	Nil	Nil
Expected volatility	65% yearly	60% yearly
Risk-free interest rate	2.4%	3.02%
Expected life	4.5 years	4.5 years

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

17 - STOCK OPTION PLAN (Continued)

During the year, the Company recognized a stock-based compensation expense of \$365,475 (\$308,483 as at September 30, 2008). This amount includes \$353,178 in employee compensation (\$284,393 as at September 30, 2008).

18 - INCOME TAXES

	2009	2008
	\$	\$
Earnings (loss) before income taxes	266,909	(833,251)
Income taxes at the combined federal and provincial income tax rate in Canada of 30.91% (31.19% in 2008)	82,502	(259,891)
Change in tax rates	(13,431)	(42,796)
Stock-based compensation	112,968	96,216
Non-deductible financial expenses	15,039	27,720
Non-deductible exchange loss on long-term debt	19,010	23,683
Non-deductible and other items	46,891	23,241
	<u>262,979</u>	<u>(131,827)</u>

Future income tax assets and liabilities as at September 30, 2009 and 2008 are detailed as follows:

	2009	2008
	\$	\$
Future income tax assets		
Unused tax losses	5,774	25,801
Share issue costs	112,652	159,529
Other	(26,989)	17,373
	<u>91,437</u>	<u>202,703</u>
Future income tax liabilities		
Unused tax losses	1,523,856	732,360
Long-term debt financing costs	2,616	55,326
Deferred rent	146,320	85,067
Exchange contracts	(93,478)	
Other	81,663	37,023
Tangible and intangible assets	(2,203,605)	(1,280,610)
	<u>(542,628)</u>	<u>(370,834)</u>

19 - FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Company is exposed to various financial risks which result from its operations and investment activities. The Company's management manages financial risks, which consists in ensuring that the Company's short- and medium-term cash flows are sufficient, while minimizing the Company's exposure to capital markets.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

19 - FINANCIAL INSTRUMENTS

The Company is not actively involved in negotiating or acquiring financial assets for resale in the near term for speculative purposes.

Fair value

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

The carrying amount of certain financial instruments which mature in the short-term approximates the fair value. These financial instruments include trade accounts receivable and trade and other accounts payable.

The fair value of the common shares of a private company has not been determined since constraints of timeliness and cost make it not practicable to do so with sufficient reliability notably because this company's equity securities are not traded in a public market.

The fair value of the long-term debt and the derivative embedded in the long-term debt is determined essentially from the calculation of discounted cash flows or by using quoted market prices (see Note 13(c), (d), (e) and (f)). The discounting rates used are determined on the basis of risk-free rates for debt with similar maturities adjusted for the risk premium required by financial institutions for the Company's recent financing. The fair value calculated corresponds approximately to the amounts for which the financial instruments could be exchanged between willing parties, based on current market data for similar instruments. Accordingly, because it is an estimate, the fair value cannot be considered as being realizable in the event of an immediate settlement.

The following table indicates the fair value and the carrying amount of certain financial instruments as at September 30, 2009 and 2008.

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Other financial liabilities				
Long-term debt	16,722,273	16,926,677	15,022,594	15,027,394
Derivative embedded in the long-term debt	801,937	801,937	778,014	778,014

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

19 - FINANCIAL INSTRUMENTS (Continued)

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 and cash equivalents, trade and other accounts receivable and trade and other accounts payable and long-term debt denominated in U.S. dollars. As at September 30, 2009, assets denominated in U.S. dollars are cash and cash equivalents, trade and other accounts receivable totalling \$1,336,788 (US\$1,246,771 (\$3,708,643 (US\$3,499,050 as at September 30, 2008) and liabilities denominated in U.S. dollars are trade and other accounts payable and long-term debt totalling \$11,634,901 (US\$10,851,427) (\$11,603,092 (\$US10,947,346 as at September 30, 2008).

Moreover, the Company's exposure to foreign exchange risk is due to the fact that almost 80% of its revenues are generated from U.S. currency while its expenditures in U.S. dollars, mainly for purchasing computer equipment, publicity, software licenses and some of the interest expenses on the long-term debt, represent slightly more than 40% of revenues. Including changes in the exchange rate on the long-term debt in U.S. currency of \$10,722,000 (US\$10,000,000) and excluding the change in fair value of exchange contracts, each 5% increase or decrease in the Canadian dollar compared to the U.S. dollar would have an approximate impact of \$90,000 on earnings before income taxes for the year ended September 30, 2009 (\$30,000 as at September 30, 2008).

In order to hedge most of the exposure of its operating transactions to foreign exchange risk, the Company contracted forward foreign exchange contracts which will hedge foreign exchange variations between the U.S. and Canadian dollar.

As at September 30, 2009, the Company is a stakeholder in foreign exchange contracts under which it is committed to sell US\$4,000,000 (\$4,288,800 converted to the exchange rate as at September 30, 2009) during the period of October 2009 to January 2010, at rates varying between 1.1503 to 1.1570. The fair value of these contracts as at September 30, 2009 is \$347,500. Each 5% increase or decrease in the Canadian dollar compared to the U.S. dollar would have an approximate impact of about \$200,000 on earnings before income taxes for the year ended September 30, 2009 (nil as at September 30, 2008).

– Interest rate risk:

A significant portion of the Company's long-term debt bears interest at fixed rates and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

A 1% increase or decrease in interest rates would have resulted in a \$14,000 increase or decrease in the Company's earnings before income taxes for the year ended September 30, 2009 (\$55,000 as at September 30, 2008).

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

19 - FINANCIAL INSTRUMENTS (Continued)

– Credit risk:

Credit risk is the risk that a counterparty to a financial instrument fails to fulfil a commitment or obligation, thereby causing a financial loss for the Company. The Company's credit risk exposure is mainly from trade accounts receivable. The Company's policy is to make accounts receivable callable 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 and managed on an on-going basis. The allowance for doubtful accounts is at a sufficient level to absorb potential losses on accounts receivable.

The Company has deposited cash and cash equivalents and the term deposits primarily with one Canadian chartered bank.

The aging of trade accounts receivable as at September 30 is as follows:

	2009		2008	
	\$	%	\$	%
Current accounts	1,485,059	79%	1,081,590	64%
Due between 30 and 60 days	205,226	11%	228,390	14%
Due for more than 60 days	182,040	10%	374,631	22%
	<u>1,872,325</u>	<u>100%</u>	<u>1,684,611</u>	<u>100%</u>
Less: allowance for doubtful accounts	<u>(195,763)</u>		<u>(399,314)</u>	
Trade accounts receivable	<u>1,676,562</u>		<u>1,285,297</u>	

The continuity of the allowance for doubtful accounts is as follows:

	2009	2008
Balance, beginning of year	399,314	244,917
Increase	757,219	385,900
Write-off	<u>(960,770)</u>	<u>(231,503)</u>
Balance, end of year	<u>195,763</u>	<u>399,314</u>

– Liquidity risk:

Liquidity risk is the risk that the Company does not have the necessary funds to fulfil its current obligations. The Company manages this risk by taking its operating requirements into consideration and using various financing sources to maintain its flexibility. The Company establishes budget and cash estimates to ensure it has the necessary funds to fulfil its obligations. A portion of the Company's requirements are met through cash flows from operations. To finance significant planned expenditures for its infrastructures and thus finance its growth, the Company negotiates financing facilities that will allow it to fulfil its obligations as they become due. Details of the maturities of its financial liabilities are presented in Note 13.

iWeb Group Inc.

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

19 - FINANCIAL INSTRUMENTS (Continued)

- Other risk: risk relating to the value of the embedded derivative

One of the Company's long-term debts includes a bonus payable on maturity. The bonus will be calculated at a rate of 3% to 6% of the Company's cumulative EBITDA for the 2007 to 2011 years. A cumulative increase or decrease of \$1,000,000 of expected EBITDA would result in a \$25,000 increase or decrease in earnings before taxes, using the same bonus rate and after discounting as at September 30, 2009 (\$20,000 as at September 30, 2008).

20 - COMMITMENTS

The Company has entered into long-term lease agreements for the rental of premises, equipment and maintenance contracts which call for payments of \$13,461,664. The lease for premises expires in November 2027. Minimum lease payments for the next five years are \$787,532 in 2010, \$741,193 in 2011, \$642,002 in 2012, \$663,854 in 2013 and \$669,785 in 2014.

21 - SEGMENTED INFORMATION

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.

22 - EARNINGS (LOSS) PER SHARE

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

	2009		
	Earnings	Weighted average number of shares	Earnings per share
	\$		\$
Basic net earnings available to common shareholders	3,930	27,969,677	0.0001
Dilutive effect of stock options		781,627	
Diluted net earnings available to common shareholders	<u>3,930</u>	<u>28,751,304</u>	<u>0.0001</u>

Options for the purchase of 1,310,000 common shares at a weighted average price of \$0.29 per share that were outstanding as at September 30, 2009 were taken into account in the calculation of diluted earnings per share since the exercise price of the options was less than the average price of the common shares.

	2008		
	Loss	Weighted average number of shares	Loss per share
	\$		\$
Basic and diluted net loss attributable to common shareholders	<u>(701,424)</u>	<u>26,598,187</u>	<u>(0.0264)</u>

iWeb Group Inc.**Notes to Consolidated Financial Statements**September 30, 2009 and 2008

22 - EARNINGS (LOSS) PER SHARE (Continued)

Potential dilutive instruments, that is, the 1,310,000 stock options, were not included in the diluted net share calculation because of their anti-dilutive effect as a result of the loss for the year.

23 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.