



## MEDIA RELEASE

### Q9 Networks Reports Fourth Quarter and Full Year 2006 Results

- FY 2006 revenue of \$46.5 million, a 23% increase over FY 2005
- Fourth quarter revenue of \$12.5 million, a 13% increase over the same quarter, 2005 and a 4% increase over the previous quarter
- Fourth quarter EBITDA of \$3.4 million, a 3% decrease from the same quarter 2005 and a 9% increase over the previous quarter
- Fourth quarter net income of \$8.5 million, including a non-cash tax benefit of \$7.1 million due to the reversal of a valuation allowance
- FY 2006 EPS of \$0.53 basic and \$0.52 diluted; excluding the non-cash tax benefit of \$7.1 million, basic and diluted EPS of \$0.18
- Announced plans to build a second Calgary data centre and expand its Brampton data centre
- Subsequent to year end, announced a \$20 million contract with an existing customer who will be an anchor tenant in the new Calgary data centre
- Subsequent to year end, announced a reseller agreement with IBM Canada Ltd. where IBM has the right to resell Q9 services
- Toronto expansion substantially complete

Toronto, ON – December 12, 2006 – Q9 Networks Inc. (TSX:Q), a leading Canadian provider of outsourced data centre infrastructure for organizations with mission-critical IT operations, today announced its quarterly and fiscal year-end results for the period ending October 31, 2006.

Revenue for the fourth quarter 2006 was \$12.5 million, a 13% increase over fourth quarter 2005 revenue of \$11.0 million and an increase of 4% from third quarter 2006 revenue of \$12.0 million (all figures expressed in Canadian dollars).

Co-location revenue for the fourth quarter 2006 was \$6.3 million, managed services revenue was \$4.2 million and managed bandwidth revenue was \$1.7 million.

EBITDA for the fourth quarter 2006 was \$3.4 million, down 3% from the fourth quarter 2005 and up 9% or \$0.3 million over the previous quarter. Please see the attached schedules for the Company's EBITDA definition and reconciliation.

Net income for the fourth quarter 2006 was \$8.5 million, compared to net income of \$1.4 million for the fourth quarter 2005 and net income of \$0.9 million for the third quarter 2006. Net income for the fourth quarter 2006 was positively affected by a non-cash tax benefit of \$7.1 million due to the reversal of a valuation allowance. Basic and diluted earnings per share for the fourth quarter 2006 were \$0.42 and \$0.41, respectively, compared to basic and diluted earnings per share of \$0.07 in the same quarter 2005 and basic and diluted earnings per share of \$0.05 and \$0.04, respectively in the third quarter 2006.



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Cash flow generated from operations for the fourth quarter, 2006 was \$4.7 million. The Company ended the quarter with cash, cash equivalents and short-term investments of \$67.6 million, a decrease of \$8.3 million over the year. The decrease is a result of Q9's investment in data centre expansions. Other than \$0.4 million in notes payable to an equipment supplier, the Company had no debt outstanding.

Revenue for the 12 months ended October 31, 2006 was \$46.5 million, a 23% increase over the previous year. Co-location, managed services and managed bandwidth revenue increased by 40%, 14% and 1% respectively. EBITDA was \$12.2 million, compared to \$10.8 million in the previous year. Net income for the 12 months ended October 31, 2006 was \$10.8 million, or \$0.53 per basic share and \$0.52 per diluted share. Excluding the tax benefit of \$7.1 million, net income was \$3.7 million or \$0.18 per basic and diluted share, compared to \$2.0 million or \$0.10 per basic and diluted share for 2005.

In September 2005, Q9 announced a Normal Course Issuer Bid (NCIB) for up to 1,015,000 of its common shares, representing five per cent of the approximately 20.3 million shares outstanding as of September 20, 2005. During the quarter, Q9 repurchased and cancelled 29,500 shares at an average cost of \$10.40 per share. For the year, Q9 repurchased and cancelled 255,200 shares at a total cost of \$2,550,892. In October 2006, Q9 renewed its NCIB to enable it to purchase up to 1,012,870 of its common shares, representing approximately five per cent of the 20,257,416 common shares outstanding as of October 27, 2006.

"It's been another strong year for Q9, with growth across all service offerings coming from both new and existing customers," said Osama Arafat, CEO, Q9 Networks. "Over the quarter and year, we focused on execution while at the same time, investing for the future. With our large customer base, our breadth of services and our expansions nearing completion or well underway, Q9 has the momentum to extend even further, its leadership position in the outsourced data centre infrastructure market."

### **Corporate Developments**

In 2006, Q9 announced that it would build a new Calgary, Alberta data centre and expand its existing Brampton, Ontario facility. Including the expansion of its Toronto facilities, announced in 2005, Q9 is investing \$65 million to add 3,200 cabinet equivalents to its existing capacity of 4,530 cabinet equivalents. The Toronto data centre is now substantially complete with customers expected to begin installing in January.

Subsequent to year end, Q9 announced a \$20 million outsourcing contract with an existing customer. In addition to extending the term of its current installation at Q9's downtown Calgary facility, the customer will outsource additional infrastructure currently hosted in-house and become an anchor tenant of Q9's new Calgary facility.

Subsequent to year end, the Company announced a reseller agreement with IBM Canada Ltd. where IBM will have the right to sell under its own brand, all of Q9's data centre services.

### **Conference Call Information**

The Company will host a conference call to discuss its results at 5:00 PM today. The conference call will be available over the Internet through the Investor Relations section of the Company's Web site at [www.Q9.com](http://www.Q9.com) or by telephone at 416-644-3415 and 1-800-796-7558. A replay will be available until December 19, 2006, following the conference call and can be accessed by dialing 416-640-1917, pass code 21209117#.

## **Non-GAAP Measures**

The Company reports EBITDA because it is a key measure used by management to evaluate the Company's performance. The Company believes that EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and other non-cash expenses. EBITDA is not a recognized measure under Canadian GAAP, and accordingly investors are cautioned that EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with Canadian GAAP as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows. The Company's method of calculating EBITDA differs from other issuers and, accordingly, EBITDA may not be comparable to similar measures presented by other issuers. Please see the schedule below that sets out the Company's EBITDA calculations.

## **About Q9 Networks:**

Q9 Networks is a leading Canadian provider of outsourced data centre infrastructure for organizations with mission-critical IT operations. Q9's data centres and network are backed by an industry leading SLA which guarantees 100 per cent network and power availability. Q9 managed services, including: bandwidth, dedicated servers, firewalls, load balancing, virtual private networking (VPN) and back-up/restore, enable the rapid provisioning and scalability of client infrastructure.

## **For Further Information, Please Contact:**

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# Q9 NETWORKS INC.

Balance Sheets  
(In thousands)  
(Unaudited)

October 31, 2006 and 2005

	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,961	\$ 7,843
Short-term investments	61,448	67,610
Accounts receivable	4,330	3,208
Unbilled revenue	345	752
Future tax asset	667	-
Prepaid expenses	866	676
	<u>73,617</u>	<u>80,089</u>
Restricted cash	230	410
Other assets	766	801
Future tax asset	6,393	-
Property and equipment	58,592	36,757
	<u>\$ 139,598</u>	<u>\$ 118,057</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,830	\$ 3,041
Deferred revenue	4,731	3,912
Notes payable	434	542
	<u>16,995</u>	<u>7,495</u>
Deferred revenue	755	646
Deferred gain on sale of property	1,128	1,207
Leasehold inducements	1,378	1,099
Asset retirement obligation	930	631
Other long-term liabilities	1,158	701
Shareholders' equity:		
Common shares	139,427	139,276
Contributed surplus	3,949	3,092
Deficit	<u>(26,122)</u>	<u>(36,090)</u>
	<u>117,254</u>	<u>106,278</u>
	<u>\$ 139,598</u>	<u>\$ 118,057</u>

# Q9 NETWORKS INC.

## Statements of Operations and Deficit (In thousands, except per share amounts) (Unaudited)

	Three months ended October 31,		Fiscal Year ended October 31,	
	2006	2005	2006	2005
Revenue:				
Co-location	\$ 6,328	\$ 5,175	\$ 22,779	\$ 16,296
Managed services	4,151	3,818	15,868	13,917
Managed bandwidth	1,700	1,697	6,651	6,591
Set-up fees	274	300	1,169	1,025
	12,453	10,990	46,467	37,829
Cost of revenue	8,010	7,209	31,199	25,840
Gross margin	4,443	3,781	15,268	11,989
Expenses:				
Sales and marketing	1,315	987	4,766	4,007
General and administrative	2,142	1,795	8,322	7,156
Amortization of property and equipment	246	126	1,008	535
	3,703	2,908	14,096	11,698
Income from operations	740	873	1,172	291
Interest income, net	721	445	2,543	1,670
Income before income taxes	1,461	1,318	3,715	1,961
Income tax expense (benefit):				
Current	2	(41)	11	—
Future	(7,060)	—	(7,060)	—
Net income	8,519	1,359	10,764	1,961
Deficit, beginning of period	(34,536)	(37,226)	(36,090)	(77,103)
Reduction of deficit	—	—	—	39,275
Repurchase of shares	(105)	(223)	(796)	(223)
Deficit, end of period	\$ (26,122)	\$ (36,090)	\$ (26,122)	\$ (36,090)
Earnings per share:				
Basic	\$ 0.42	\$ 0.07	\$ 0.53	\$ 0.10
Diluted	0.41	0.07	0.52	0.10
Weighted average number of shares outstanding:				
Basic	20,260	20,293	20,299	20,204
Diluted	20,887	20,892	20,887	20,556

# Q9 NETWORKS INC.

## Statements of Cash Flows

(In thousands)

(Unaudited)

	Three months ended October 31,		Fiscal Year ended October 31,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Net income	\$ 8,519	\$ 1,359	\$ 10,764	\$ 1,961
Items not involving cash:				
Amortization of property and equipment	2,149	2,062	9,112	8,294
Amortization of other assets	11	9	46	32
Gain on sale of property	(20)	(20)	(79)	(79)
Accretion expense	9	18	65	68
Net non-cash rent expense	179	153	736	471
Stock-based compensation expense	568	572	2,153	2,244
Future income taxes	(7,060)	—	(7,060)	—
Change in non-cash operating working capital	389	(871)	1,318	(1,250)
	4,744	3,282	17,055	11,741
Financing activities:				
Issuance of notes payable	257	280	830	951
Repayment of notes payable	(223)	(223)	(938)	(1,198)
Repurchase of shares	(318)	(585)	(2,691)	(585)
Issuance of shares	80	108	610	1,002
	(204)	(420)	(2,189)	170
Investing activities:				
Purchase of property and equipment	(12,066)	(1,335)	(23,145)	(6,639)
Purchase of short-term investments	(69,809)	(7,216)	(243,776)	(107,845)
Sale of short-term investments	78,772	7,316	250,004	104,384
Increase in other assets	—	(72)	(11)	(833)
Decrease in restricted cash	—	—	180	730
	(3,103)	(1,307)	(16,748)	(10,203)
Increase (decrease) in cash and cash equivalents	1,437	1,555	(1,882)	1,708
Cash and cash equivalents, beginning of period	4,524	6,288	7,843	6,135
Cash and cash equivalents, end of period	\$ 5,961	\$ 7,843	\$ 5,961	\$ 7,843
Supplemental cash flow information:				
Interest received	\$ 461	\$ 150	\$ 2,506	\$ 1,544
Income taxes (received) paid	1	—	10	(77)
Supplemental disclosure of non-cash financing and investing activities:				
Effect of acquisition of property and equipment in accounts payable and accrued liabilities	(3,171)	42	(7,568)	121
Effect of repurchase of shares in accounts payable and accrued liabilities	10	(140)	140	(140)
Reduction of share capital	—	—	—	39,275

# Q9 NETWORKS INC.

## EBITDA<sup>1</sup> Reconciliation

(In thousands)

(Unaudited)

	Three months ended October 31,		Fiscal Year ended October 31,	
	2006	2005	2006	2005
Net Income for the period	\$ 8,519	\$ 1,359	\$ 10,764	\$ 1,961
Income taxes	(7,058)	(41)	(7,049)	—
Accretion expense	9	18	65	68
Interest income, net	(721)	(445)	(2,543)	(1,670)
Amortization	2,140	2,051	9,079	8,247
EBITDA before the under-noted Stock-based compensation <sup>2</sup>	2,889	2,942	10,316	8,606
Stock-based compensation <sup>2</sup>	494	533	1,897	2,174
EBITDA	\$ 3,383	\$ 3,475	\$ 12,213	\$ 10,780

Note:

1. EBITDA means earnings before interest, income taxes, amortization, accretion expense and stock-based compensation.
2. Stock-based compensation expense included above is related solely to the nominal exercise price options, which were awarded to employees immediately prior to the Company's Initial Public Offering (IPO). Stock-based compensation expense related to all other options is not added back to net income for the period in calculating EBITDA.