

annual report 2000

www.cyberplex.com

Total Revenue 1995 - 2000

As one of North America's top 30 Internet consultancies, we are in the business of providing our clients with Internet Solutions that combine our expertise in business strategy, software development and integration, and user-interface design. Our clients, blue chip companies like 3M, Handspring and Royal Bank, work with us on both an end-to-end basis, as well as leveraging one of our three specific skill sets. Our staff are some of the most talented, and experienced professionals in the industry.

1995 \$0.3 Million

1996 \$1.1 Million

1997 \$3.1 Million

1998 \$9.5 Million

1999 \$21.1 Million

2000 \$46.7 Million

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Letter to shareholders

As we looked back over 2000 we realized that, while it was a year of contrasts, we have a lot to be proud of as a company. In our 4th year as a public company, and our 6th year in business, we achieved a number of significant milestones. We more than doubled our revenue from 1999 to over \$46.7 million; 81% of this revenue came from outside of Canada, up from barely 30% in 1999. \$1.1 million of this revenue was generated by ProCure.com, an exciting new growth opportunity for CX; our gross margins remained over 51%; we increased our team to 343 from 240 talented professionals. On top of this success, we were recognized by Forrester Research, one of the most respected industry observers, as one of the Top 40 firms in our industry, and the only Canadian company that they chose for this distinguished list.

In 2000 we set out to accomplish a number of objectives. Many of these we met with flying colors: We were able to expand our business extensively into the US market with offices in Boston, Austin, San Francisco and Los Angeles making up over 80% of our revenue. We strengthened our professional services offering with the strategic acquisition of i-Socket in San Francisco early in the year; we built an incredibly strong team of professionals; and we began a pursuit of complementary revenue models with the acquisition of ProCure.com.

Despite this impressive performance, during the second half of the year our whole world changed. With the economy slowing, our clients' businesses coming under pressure, and dot-coms disappearing along with the incentive they created to build e-businesses, the demand for our expertise waned significantly. This was further compounded by the fact that the talent that had long been in short supply, was now in abundance allowing our clients to hire experienced staff instead of outsourcing their work to firms like ours. Almost overnight, our industry went from high-growth to over-built, and highly competitive. Sales cycles increased from three days to three months or even longer. Clients cancelled projects or stretched them out over much longer time frames. Rates started to come under significant scrutiny.

We responded to this new environment, along with many of our peers, by restructuring our business around a much lower cost structure and a much more conservative set of revenue expectations. This new approach to business will allow us to remain one of the companies that survives 2001, which we believe will go down in history as the year that weeded out the successful companies from those wired for failure.

Our acquisition of ProCure.com anticipated a slowing of growth rates in the internet professional services business. It leverages our core expertise in internet-enabled systems, and is an application service provider (ASP) which can generate very rapid revenue growth with limited new capital or resources. Although the services revenue declined faster than expected, we believe that the potential ProCure holds is substantial, and more than compensates. Focusing on the critical problem of cost-effectively connecting suppliers to the plethora of electronic exchanges and inputs, ProCure's business model generates revenue from the volume of transactions conducted over its network. The team and technology that has been assembled there is receiving recognition from customers and the industry alike.

Our strategy for 2001 is simple: emerge as one of the strongest surviving Internet Professional Services firms in North America and accelerate ProCure.com to become one of the dominant players in its sector.

We have some very unique strengths as a professional services firm, of which to take advantage, that form the back-bone of our strategy. Specifically:

1. Leverage our distributed business model. We will take even more advantage of our remote development model to differentiate our pricing and yet protect higher margins than our competitors, something that remains unique in the industry. We intend to differentiate our methodology by taking advantage of our user-focused design process that is already yielding superior business results for our clients
2. Create competitive advantage in our selling ability. We are focusing our selling efforts on the Financial Services vertical in which we have a strong base of clients, deeply experienced practice leadership, and strong technology credentials. Furthermore, we are defining specific service offerings tailored to the Financial Services market that allow us to package our capabilities and experience in a way that is easier to sell.
3. Innovate our people practices. As great people are the engine of our business, we intend to further invest in unique programs that attract, develop and retain the top talent in our industry. We are particularly focused on leadership and our unique approach to distributed management and accountability that makes us more agile and better able to compete.

Over the past several months we have invested a lot of energy in our current customers to protect these relationships, and to better understand how we can be helpful. We were pleased to discover that we have some deep and lasting clients who believe in our value, and who we believe are prepared to be our clients for as long as we can serve them well. They have confirmed our belief that the work that we do is important to helping their businesses become more competitive. They see Internet-based software as an important part of their ability to meet the needs of their customers and trading partners, and often do not have the internal resources to keep up with the pace or complexity of the solutions they need to put in place. We believe that the outlook for our sector over the longer term remains positive, as the work that we do remains important to our customers.

We also believe in the significant potential of ProCure.com, as it is targeted at the core issue of B2B today and is a leader in its space. Our strategy for ProCure.com is simple: We intend to prove the business model for the company by securing the mandate of large companies to drive large numbers of their suppliers onto



the Integrated Supplier Network. We have an aggressive sales program underway focused on securing the mandates of these buyers, as well as a partnership program to work with the primary buy-side technologies (Ariba, CommerceOne, PurchasePro etc...) as a channel for business. Both of these are already yielding results for the company.

2001 will be a challenging year for CX, and for our industry, as we adjust to the new realities of the economy, a more competitive landscape, and more informed customers. We are well prepared and ready for the challenges ahead, and convinced we have the team and business model to thrive in these new conditions.

If it were not for the tireless efforts of the people that make up Cyberplex, who have earned our respect with their passion and talent; for their families who have given them the support and encouragement necessary to keep focused and fresh; for the sense of partnership that our clients have afforded us by placing enormous trust and confidence in our capabilities; and, for the guidance and stewardship offered by our Board of Directors, we could not have achieved nearly what we did. Finally, we would like to thank our shareholders for your support, encouragement, and confidence as we head forward into another exciting year.

Sincerely,

Vernon Lobo &

Dean Hopkins



Management Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of Cyberplex Inc. (which is also known and referred to as "Cyberplex") should be read in conjunction with the Company's consolidated financial statements (including notes) that appear later in this document.

The following discussion contains forward looking statements about matters that involve risks and uncertainties, such as statements of Cyberplex's plans, objectives, expectations and intentions, as well as financial trends. The discussion also includes cautionary statements about these matters. You should read the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this document. Factors that could cause or contribute to such differences include those discussed in "Risk Factors," as well as those discussed elsewhere herein.



Overview

Cyberplex is an Internet professional services firm that combines strategic consulting with application development and interface design to build Internet-based solutions that deliver business results for fortune 1000 clients. Our consultants work to acquire the information needed to understand our clients' businesses, the competitive environment, and the opportunities available. With this information, our business architects, technology experts, and design teams identify areas where Internet technology and creative marketing can improve our clients' existing businesses. We then offer a comprehensive range of services to deliver these solutions, which includes project management, user-centered interface design, application development, systems integration, application maintenance, and audience development.

Since our creation in 1994, we have consistently been able to grow and expand our offering every year, from both a revenue, skill set and a global perspective. At December 31, 2000 we employed over 340 professionals from a variety of disciplines, maintained offices throughout North America including facilities in Toronto, Oakville, Waterloo, Halifax, Boston, Austin, and San Francisco, and have developed various relationships overseas.

Cyberplex Year in Review

2000 was quite turbulent for most technology companies and we were no exception. The year began with an aggressive push into new markets and a concerted effort to expand the scale and scope of our offerings and then ended with a shift in strategy to account for the reduction in technology spending across many of our fortune 1000 clients.

In February 2000, we completed our fourth acquisition and solidified our position in the California market by acquiring i-Socket Web Creative Inc. ("i-Socket"). The transaction was a performance based deal in which the principals and employees of i-Socket could earn up to 2.5 million common shares of Cyberplex based on meeting certain revenue thresholds. This acquisition enabled the company to target additional clients in the California market and further enhanced the relationships, skills and expertise throughout the organization.

Also in February 2000, holders of special warrants issued in 1998 exercised their right to purchase 875,000 common shares of the company for proceeds of \$1,965,545. These warrants were the result of a strategic financing that was completed in 1998 and were set to expire at the end of February if not exercised.

In March 2000, we completed our fifth acquisition and added a new dimension to Cyberplex. By acquiring ProCure.com ("ProCure"), we added to the existing professional services business by including an ASP based application to our business offering and to our revenue mix. This transaction was a \$26 million acquisition in which we paid \$3 million cash, 472,440 Cyberplex common shares, and entered into a \$15 million promissory note payable in September 2001. This promissory note has been subsequently renegotiated and the revised terms leaves Cyberplex with no short-term debt. Details of the revised terms are disclosed in the attached financial statements.

In the latter part of 2000, our business experienced a slowdown resulting from reduced budget allocations from a number of our clients and the overall economic slow down. As a result, in December we underwent an internal restructuring that involved the lay-offs of 90 staff, approximately 20% of our work force. This initiative was taken in response to changing market conditions and was one that we felt was essential in order to retain our leadership position in the industry and our economic model.

Sources of Revenue and Revenue Recognition

Our revenues are derived primarily from fees for Internet professional services. The clients we service in this capacity tend to hire us on a project-by-project basis, but in some cases, we are appointed as the agency of record for all of their Internet services. We believe that building partnership-type relationships with our clients has been a key component of our success. However, a client may terminate our services on fairly short notice. Since a significant amount of our costs are fixed, a material variation in the number of significant engagements in a period, or early termination of an account on short notice, can cause significant variations in operating results from quarter to quarter.

Most of our projects are priced on a fee-for-services basis. However, as the industry shifts to larger more complex engagements, we may enter into more fixed price engagements consistent with market demands. At the beginning of any fixed-fee engagement, we will estimate the total cost of the project and recognize revenue on a percentage of completion basis. We will then review the revenue recognized on a quarterly basis and, to the extent that we discover any inaccuracies in the estimates or cost overrun due to unforeseen requirements, adjustments will be made in that period.

In the past we have also entered into selective engagements where we take an equity interest in a client as part of our compensation. In these situations, equity instruments received from customers are recorded at the fair value of the services provided or the equity instruments received, whichever is more clearly determinable.

In 2000, our largest client accounted for approximately 13% of revenue. No other client exceeded 10%, and our top 10 clients accounted for just over 74% of our revenue. In the future, it is possible that a few accounts could comprise a significant portion of our revenue, and therefore, any cancellation or variation in the number of accounts could have an adverse affect on our financial results.

Classification of Costs

Direct costs include salaries, bonuses, benefits, payroll taxes, and other costs associated with the generation of revenue. General and administrative expenses include the costs of leasing our sales and production facilities as well as the costs of managing and operating those locations. This category of expenses also includes all of the other costs associated with running an international organization, including travel, accommodation, training, recruiting, finance and legal. Sales and marketing expense relate to all costs associated with building our brand and reputation. Interest on long-term debt and capital leases results primarily from costs incurred from capital leases during the year.

Year ended December 31, 2000 compared to year ended December 31, 1999

As a result of the ProCure acquisition, we have separated the financial results of our managed services division from those of our professional services business. The revenue model for ProCure and its ASP business is significantly different from that of our core professional services and therefore the two must be analyzed and compared separately. Consequently, we have separated these two components of our business for the purpose of this management discussion and analysis.

Revenue - Professional Services

Revenue for the year ended December 31, 2000 increased to \$45.6 million, up \$25 million, or 121%, from \$20.6 million for the year ended December 31, 1999. This revenue growth was facilitated by both the growth of our billable resources at our existing production facilities, as well as the addition of a fifth production facility in February 2000 with the acquisition of i-Socket.

The overall increase in revenue was a result of a number of factors: substantial growth in international revenue, primarily stemming from the U.S. which accounted for approximately 81% of our total revenue; an

ability to capitalize on the demand for our services by increasing our billable rates; and an overall increase in both the size and scope of projects worked on. Furthermore, the i-Socket acquisition resulted in a new production team and an immediate presence on the west coast with existing clients that were able to generate revenue immediately.

Revenue – Managed Services

The ProCure acquisition discussed above resulted in an entirely new stream of revenue. ProCure's revenue, which is comprised primarily of installation, transaction and licensing fees, represents the new managed services division of Cyberplex. This business unit was still in its development stage when it was acquired and as a result, only represents a small amount of Cyberplex's total revenue. Managed service's revenue for the year totaled \$1.1 million.

Direct Costs – Professional Services

Direct costs increased substantially during the year, up from \$10.4 million in 1999 to \$22.2 million in 2000. This increase in absolute dollars of \$11.8 million, or 113%, is primarily a function of the additional people employed by the company which in turn resulted in the additional professional services revenue in 2000 compared with 1999. As a percentage of revenue, direct costs decreased slightly from 50% in 1999 to 49% in 2000. This slight improvement over 1999 was achieved as a result of the higher gross margins generated on U.S. revenue that is achieved through higher billings rates and our strategy of remote Canadian production.

Direct Costs – Managed Services

Managed services direct costs of \$0.9 million represented 78% of current year managed services revenue. As with many growing businesses, it is essential for ProCure to hire and train resources ahead of demand and continue to evolve their software offering. Consequently, this gross margin is indicative of the growth stage that this business is presently in, and is not reflective of management's expectations for this business as it matures.

Sales & Marketing – Professional Services

Sales & marketing expenses increased by \$2.8 million, or 78%, from \$3.6 million in 1999 to \$6.4 million in 2000. This increase was largely a result of further growth of our client development teams, both organically and through acquisition. Additionally, a further investment in branding initiatives in the U.S. contributed to increased spending in this area, through a combination of increased public relations and advertising.

General & Administrative – Professional Services

General & administrative expenses increased by \$10.6 million, or 163%, from \$6.5 million in 1999 to \$17.1 million in 2000. This increase was due to a number of factors, most notably the addition of several new facilities added to keep pace with our growing business. A new corporate head office was added in Toronto, as well as new facilities in Waterloo, Halifax and San Francisco. We continued to add depth to our management group and infrastructure in an effort to ensure that we have adequate resources in place to allow us to properly grow and manage our business.

Operating Expenses - Managed Services

Managed services operating expenses are comprised of sales and marketing expenses of \$1.0 million, general and administrative expenses of \$1.5 million, and research and development expenses of \$2.4 million. They represent amounts spent to develop and build the brand, infrastructure, and technology of this part of our business.

Other Expenses

Costs totaling \$0.7 million, comprised largely of professional fees, were incurred over the course of the year as we pursued a U.S. public offering on the Nasdaq Stock Exchange. Given the weakened state of the public markets at the end of 2000, and particularly the demand for technology related offerings, we were of the opinion that a U.S. listing was not an initiative we were going to pursue in the near term and as a result expensed these costs in the current year.

Restructuring Charge

The \$1.7 million restructuring charge is comprised primarily of severance and other costs relating to the termination of approximately 90 employees at the end of the year. Also included in this amount are costs associated with exiting certain leases for facilities that were deemed to be excessive after our restructuring.

Net Loss

For the year ended December 31, 2000, we recorded a net loss of \$30.8 million. On an operating basis however, before the write-down of Nasdaq fees, restructuring charge, amortization, and write-downs we recorded a loss of \$240,000 for our professional services business. This loss however, was a result of the poor business environment in the fourth quarter and is not representative of the entire year. The loss from operation for our managed service business for the year was \$4.6 million. Management believes that our history of strong gross margins, our continued attention to cost control and the economic advantages of our remote production model will continue to position us as a leader.

Amortization

Amortization expense is related to our capital assets and goodwill, and also includes write-downs of these assets that have been recorded in the current year.

Goodwill amortization totaled \$16 million, of which \$4.9 related to the current year's amortization expense. The remaining \$11.1 million represented write-downs, relating \$2 million to Saper Media Group, \$3.1 million to Webworks, and \$6 million to ProCure.

Capital asset amortization totaled \$11.8 million, of which \$4.5 million related to the current year's expense. This is up 463%, or \$3.7 million, from the 1999 expense of \$0.8 million. This increase is directly correlated to the growth in our capital assets, as we added additional facilities and computer equipment to keep pace with our growing headcount, as well as acquiring a significant amount of ASP software through the acquisition of ProCure. Capital asset amortization includes a \$0.7 million write-down of tangible capital assets that were left unutilized and non-performing following our restructuring. Also included in capital asset amortization is a \$6.6 million write-down of ASP software relating to ProCure.

Balance Sheet

Our balance sheet, which has historically been very strong, is one of the key factors that has allowed us to emerge from our restructuring in formidable shape. Though our holdings of cash, cash equivalents, and short-term investments of \$19 million is down \$7.7 million from the \$26.7 million at the end of 1999,

this decrease is primarily the result of funds having been used for strategic purposes, rather than operations. Specifically, \$8 million was consumed between the acquisition of ProCure and subsequent advances made to fund ProCure's working capital. Consequently, our professional services business was relatively break-even on a cash flow basis for the 2000 year. Accounts receivable increased slightly during the year, though not as quickly as revenue, demonstrating our continued diligence in the area of cash management. Prepaid expenses also increased, resulting from the prepaid rental balances for our new facilities and certain deposits required for new technology leases.

Accounts payable was up \$6.4 million to \$10.8 million, compared with \$4.4M in 1999. The increase relates to the overall increase in our business during the year and accruals in connection to the restructuring discussed above. Capital leases are used to acquire most of our technology and the current portion identifies the amount that will come due over the next twelve-month period. Unearned revenue relates to invoices sent out prior to work being performed. The note payable represents part of the consideration provided on the acquisition of ProCure, and comes due at the end of the third quarter of 2001 to that company's former majority shareholder.

Liquidity and Capital Resources

Examination of our statement of cash flows for 2000 shows that the net loss for the year was not reflective of our cash flows for the same period. Over the past several years, we have enjoyed the ability to finance our operation through operational cash flows, and 2000 was no exception. Cyberplex also has a bank line of credit of up to \$7.5 million, bearing interest at prime plus 0.5%, and subject to certain covenants relating to the maintenance of certain financial ratios.

In 2000, our operating activities resulted in a use of cash of \$1.8 million, compared with a use of cash of \$3.5 million in 1999. Though we reported a net loss for the year of \$30.8 million, this amount was offset by non-cash items such as amortization and write-downs, as well as a generation of cash through our accounts payable totaling \$7.1 million.

Financing activities undertaken during the year provided a source of cash of \$4 million. Of this amount, \$2 million was generated through a private stock placement in February 2000, where holders of special warrants previously issued in 1998 exercised their right to purchase 875,000 common shares of the Company. An additional \$2.2 million was generated through cash received from various landlords for the purposes of leasehold inducements. These funds were secured as a result of our having entered into a number of new leases during the year.

Investing activities produced a use of funds of \$23.4 million, compared with a use of cash of \$2.5 million in 1999. This significant use of cash was largely a function of the company using some of its cash reserves to purchase certain short-term, liquid investments. Also contributing to the use of cash was \$8 million relating to the addition of capital assets, primarily our new corporate head office and other facilities added during the year. The remaining \$3 million use of cash represented the cash component of the consideration provided as part of the acquisition of ProCure.

Year ended December 31, 1999 compared to year ended December 31, 1998

Revenue

Revenue for the year ended December 31, 1999 increased by \$11.6 million, or 129%, to \$20.6 million. This growth was achieved as a result of our entry into the U.S market through the acquisition of Saper Media Group, as well as a full year's results from our 1998 acquisition of Webworks. These acquisitions

General & Administrative

General & administrative expenses increased in 1999 by 110% to over \$6.4 million from \$3.1 million in 1998. As a percentage of revenue, this figure remained relatively constant at 31% in 1999 versus 33% in 1998. The increase in absolute dollars was a result of adding additional facilities, as well as the ramp-up of our management team and additional administrative and specialized resources. Managers were brought on to help grow all of our production and sales facilities; to support and grow infrastructure; to lead specialized areas of expertise, and to add new functional areas to the business.

Other Expenses

Research and development costs of \$395,000 in 1999 relate to initiatives undertaken in the knowledge lab. The significant increase in capital assets during the year resulted in increased amortization on these assets of \$775,000, compared with \$163,000 in 1998. The acquisition of Saper Media Group as well as an entire year's amortization of Webwork's goodwill resulted in goodwill amortization increasing from \$170,000 in 1998 to \$580,000 in 1999.

Risks Relating to Cyberplex and the Internet Industry

Risks associated with growth

Given the rapid growth and overall development that our company has experienced over the past several years, it is essential that our internal controls, operating systems, and our management's acumen continue to keep pace with the demands of the marketplace. Given the heightened level of competition experienced in the latter half of 2000, it is imperative that we expand and refine our management controls, reporting systems, and overall policies and procedures in order to facilitate growth in a tougher environment.

Dependence of Key Personnel

Cyberplex's success depends to a significant extent on the abilities and efforts of its senior management team. They must operate and manage effectively, both as individuals and as a team, for the company to flourish.

Competition for talent in our sector is intense. The loss of an executive officer, senior manager, or key employee could have a material effect on our business. Although the company has non-competition and non-disclosure agreements with all its executive officers and senior managers, any loss of key personnel could have negative effects.

Demand for Cyberplex's Products and Services

The market for interactive products and services is constantly evolving and becoming increasingly competitive. Cyberplex's growth depends on our ability to create, develop, and deploy interactive strategies and solutions that service existing clients and attract new ones. The contraction of the dot-com sector midway through 2000 had a significant impact on our industry.

Dependence on the Internet

A significant portion of the sales of Cyberplex's products depends on the growth of the interactive multimedia market and private intranet networks. However, sales of our Internet-related products and services rely, in large part, on the industry and infrastructure that has developed around Internet access and traffic. Inadequate development of a reliable network backbone or the lack of timely delivery of complimentary products could affect the overall commercial viability of the Internet marketplace. Global e-commerce and information exchange is constantly changing and evolving, and it is difficult to predict with any assurance its long-term commercial success.

both resulted in additional billable resources, which combined with larger projects and the ability to charge higher rates, resulted in strong revenue growth.

Direct Costs

The direct costs associated with production increased to \$10.4 million in 1999 from \$4.6 million in 1998. Though this represents a substantial increase in absolute dollars, the gross margin was relatively constant between years, decreasing slightly from 52% in 1998 to 51% in 1999. This fluctuation was due to our practice of adding production resources ahead of demand, understanding that this will result in somewhat lower utilization for a period of time.

Sales & Marketing

Sales & marketing expenses increased to over \$3.6 million in 1999 from \$1 million in 1998 as we continued to hire additional resources to help build a sales force in Canada and to expand aggressively into the U.S. Additional branding and advertising activities were also initiated during 1999 in both countries and this also contributed to the increase in this area.

Competition

The markets for our services, which have always been competitive, have never been more intense. This competition is faced from other Internet professional service firms, advertising agencies, system integrators, and internal IS/IT organizations. As the Internet begins to mature, and competition continues to heighten, it will remain a significant challenge for the company.

Rapid Technological Change

Cyberplex uses many different technologies to develop and deploy strategic solutions for its customers. These technologies are rapidly changing. While we continuously research and evaluate the tools we use, there is no assurance that these technologies and the expertise we build around them will continue to be applicable in the future.

Length of Sales Cycle

The development and implementation of interactive web sites is often an enterprise-wide decision for prospective clients. This usually requires a lengthy sales cycle that includes an analysis of customer needs, a written proposal, presentations and contract negotiations. Because web site development can involve a substantial commitment of capital, there are often delays in approving such large expenditures. The sales cycle varies, but typically it has ranged from one to nine months. During that time, the sales cycle can be affected by the client's budgetary constraints, internal acceptance reviews, and the overall economic climate, factors over which Cyberplex has little or no control.

Outlook

The following paragraphs are based on current expectations of the company and the actual results may differ from those discussed below.

Although 2000 represented a year of continued growth on many fronts, it also represented the year that our industry began to stabilize and mature. The contraction of the dot-com sector, slumping capital markets, heightened competition, and longer sales cycles for prospective clients have combined to give our industry a very different look than a year ago.

These factors however, are offset by the fact that as a company, we feel that we have certain strategic competitive advantages. These include our distributed production model that allows for cost-effective

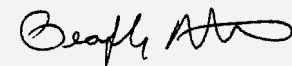
remote production work for U.S. clients; strong relationships and a track record that has been built over the past 6 years; and the composition of a talented team of professionals that have built some of the most sophisticated technology solutions in North America. This, in conjunction with our restructuring efforts made at the end of 2000, leave us confident that Cyberplex has the potential to emerge as one of the industry's most successful companies.

We also expect that ProCure will begin to show returns on the substantial investments we have made in it since our acquisition. We have been extremely pleased with the progress ProCure has made over the past year with regard to refining and enhancing its technology, building an infrastructure, and developing new clients. In the coming year, we will be actively seeking a financing opportunity for this investment with the goal of introducing a strategic partner into the equation that can help us develop ProCure into a market leader.



Management's Responsibility for Financial Reporting

Management is responsible for the integrity of the financial statements and operational information presented in this annual report. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect the management's best estimates and judgments. Financial information presented elsewhere in the annual report is consistent with that in the financial statements. Management maintains a system of internal controls, consistent with reasonable costs, to provide reasonable assurances that all assets are safeguarded and to facilitate the preparation of relevant, reliable, and timely financial information. External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee has reviewed these financial statements with management and the external auditors and has reported to the Board of Directors, who have approved the financial statements.



Geoffrey Rotstein,
Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Cyberplex Inc. as at December 31, 2000 and 1999 and the consolidated statements of operations and deficit 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 December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
February 23, 2001, except
as to note 12 which is as of April 23, 2001



CYBERPLEX INC. - Consolidated Balance Sheets - December 31, 2000 and 1999



Assets

	2000	1999
Current assets:		
Cash and cash equivalents	\$5,472,662	\$26,721,670
Short-term investments	13,550,269	-
Accounts receivable, net of allowance for doubtful accounts of \$1,307,044 (1999 - \$433,093)	7,146,033	7,041,965
Income taxes recoverable	136,965	103,208
Prepaid expenses and sundry assets	934,295	603,775
Work in progress	-	307,666
Current portion of deferred lease benefit	291,327	-
	<u>27,531,551</u>	<u>34,778,284</u>
Capital assets (note 2)	12,923,249	5,288,502
Goodwill, net of accumulated amortization of \$15,689,541 (1999 - \$749,572)	20,718,836	5,813,798
Long-term portion of deferred lease benefit	735,373	-
	<u>\$ 61,909,009</u>	<u>\$ 45,880,584</u>

Liabilities and Shareholders' Equity

	2000	1999
Current liabilities:		
Accounts payable and accrued liabilities	\$10,777,690	\$4,445,690
Current portion of obligations under capital leases (note 5)	1,111,447	305,963
Current portion of deferred lease inducements	239,293	-
Unearned revenue	465,028	336,776
Promissory note payable (notes 3(b) and 12)	14,888,597	-
	<u>27,482,055</u>	<u>5,088,429</u>
Future income taxes	295,661	-
Obligations under capital leases (note 5)	1,527,997	554,191
Deferred lease inducements	2,756,602	-
Shareholders' equity:		
Commitment to issue capital stock (note 3)	2,651,560	2,692,486
Capital stock (note 7):		
Authorized: Unlimited common shares		
Issued and outstanding:		
24,041,057 common shares (1999 - 22,114,213)	58,861,974	38,331,268
Deficit	(31,666,840)	(785,790)
	<u>29,846,694</u>	<u>40,237,964</u>
Commitments (notes 3 and 6)		
	<u>\$ 61,909,009</u>	<u>\$ 45,880,584</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:  
 Vernon Lobo, Director
 Geoffrey Rotstein, Director

CYBERPLEX INC. - Consolidated Statements of Operations and Deficit - Years ended December 31, 2000 and 1999

	2000	1999
Revenue:		
Professional services	\$45,561,864	\$20,582,494
Managed services	1,106,021	-
	<u>46,667,885</u>	<u>20,582,494</u>
Direct costs:		
Professional services	22,240,949	10,378,296
Managed services	859,893	-
	<u>23,100,842</u>	<u>10,378,296</u>
Gross margin:		
Professional services	23,320,915	10,204,198
Managed services	246,128	-
	<u>23,567,043</u>	<u>10,204,198</u>
Expenses:		
Sales and marketing	6,425,424	3,640,463
General and administrative	17,135,549	6,479,398
Research and development	-	394,926
Professional services	23,560,973	10,514,787
Managed services	4,871,359	-
	<u>28,432,332</u>	<u>10,514,787</u>
Loss before the undernoted items	(4,865,289)	(310,589)
Restructuring charge (note 10)	1,649,793	-
Other expenses (note 10)	665,454	-
Amortization (note 10): Goodwill	15,994,431	579,992
Capital assets	11,793,129	818,158
	<u>30,102,807</u>	<u>1,398,150</u>
Loss before interest and income taxes	(34,968,096)	(1,708,739)
Interest income	1,183,722	549,806
Interest expense	(1,162,652)	(66,997)
	<u>21,070</u>	<u>482,809</u>
Loss before income taxes	(34,947,026)	(1,225,930)
Income taxes (recovery) (note 8):		
Current	(150,000)	(19,380)
Future	(3,954,976)	(9,810)
	<u>(4,104,976)</u>	<u>(29,190)</u>
Loss for the year	(30,842,050)	(1,196,740)
Retained earnings (deficit), beginning of year	(785,790)	410,950
Change in accounting policy (note 1(l))	(39,000)	-
Deficit, end of year	<u>\$ (31,666,840)</u>	<u>\$ (785,790)</u>
Loss per share (basic and fully diluted)	\$ (1.31)	\$ (0.06)
Weighted average number of common shares	<u>23,626,439</u>	<u>19,613,327</u>

See accompanying notes to consolidated financial statements.

CYBERPLEX INC. - Consolidated Statements of Cash Flows
- Years ended December 31, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Loss for the year	\$(30,842,050)	\$(1,196,740)
Items not involving cash:		
Amortization of goodwill and capital assets	27,787,560	1,398,150
Other amortization	267,600	-
Future income taxes	(3,954,976)	(9,810)
Unrealized foreign exchange loss	(39,311)	94,208
Non-cash consideration for services rendered	(1,184,000)	-
Accretion of interest	111,000	-
Change in non-cash working capital:		
Accounts receivable	(829,075)	(4,492,717)
Income taxes recoverable	(183,758)	(70,615)
Prepaid expenses and sundry assets	(410,600)	(539,305)
Work in progress	307,666	(166,414)
Accounts payable and accrued liabilities	7,084,026	1,611,415
Unearned revenue	128,252	(111,852)
Cash flows used in operating activities	(1,757,666)	(3,483,680)
Cash flows from financing activities:		
Increase in loan receivable	-	(200,000)
Repayment of loan receivable	-	500,000
Proceeds from private placement, net of issue costs	1,965,545	14,967,058
Cash received from leasehold inducements	2,165,651	-
Principal payments of obligations under capital leases	(447,526)	-
Proceeds from special warrant issue, net of issue costs	-	13,802,284
Proceeds from stock options exercised	330,901	219,283
Cash flows from financing activities	4,014,571	29,288,625
Cash flows from investing activities:		
Purchase of short-term investments	(12,366,269)	-
Additions to capital assets	(7,976,485)	(2,459,230)
Acquisition of ProCure, net of cash acquired	(3,159,610)	-
Acquisition costs of i-Socket Inc., net of cash acquired	103,996	-
Acquisition of Saper Media Group, net of cash acquired	-	(61,466)
Cash flows used in investing activities	(23,398,368)	(2,520,696)
Foreign exchange gain (loss) on cash held in foreign currency	(107,545)	13,427
Increase (decrease) in cash and cash equivalents	(21,249,008)	23,297,676
Cash and cash equivalents, beginning of year	26,721,670	3,423,994
Cash and cash equivalents, end of year	\$ 5,472,662	\$ 26,721,670
Supplemental disclosures of cash flow information:		
Interest paid	\$330,652	\$66,997
Income taxes paid	164,383	-
Supplemental disclosures of non-cash investing and financing activities:		
Common shares issued:		
On acquisition of ProCure.com	\$8,853,264	-
On acquisition of i-Socket Inc.	8,828,315	-
On acquisition of Saper Media Group	-	21,514
Acquisition of capital assets through capital leases	1,782,499	619,016
Additions to capital assets included in accounts payable and accrued liabilities	344,396	1,356,592

See accompanying notes to consolidated financial statements.

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

The Company, through its subsidiaries, is in the businesses of designing and delivering internet strategies and solutions to corporate and institutional clients and providing managed services.

1. Significant accounting policies:

(a) Basis of presentation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The results of operations for acquisitions are included in these consolidated financial statements from the date of acquisition. Intercompany transactions and balances are eliminated on consolidation.

(b) Cash and cash equivalents:

Cash consists of deposits with major financial institutions. Cash equivalents consist of corporate discount notes with an original maturity of three months or less at the date of acquisition or cashable guaranteed investment certificates held with chartered banks. As at December 31, 2000, cash equivalents accounted for approximately 10% (1999 - 56%) of the cash and cash equivalents balance.

(c) Short-term investments:

The Company's short-term investments include highly liquid instruments with an original maturity of 90 days or more and are carried at the lower of cost and market value.

(d) Financial instruments:

The fair values of cash and cash equivalents, short-term investments, accounts receivable, sundry assets and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments. Included in short-term investments is an equity investment with a carrying value of \$1,184,000. The market value of this investment at December 31, 2000 is approximately \$2,334,600 based on available market quotes. The investment is currently escrowed, to be released in 2001.

Obligations under capital leases and the promissory note payable approximate fair values based on current borrowing rates of similar instruments.

(e) Revenue recognition:

The Company's revenue consists of professional services revenue and managed services revenue. Professional services revenue is based on either time and materials arrangements or fixed fee arrangements.

Revenue related to time and materials arrangements is recognized as services are performed.

Revenue from fixed fee contracts is recognized using the percentage of completion method, based on the ratio of total labour hours incurred to date to total estimated labour hours. Changes in job performance, job conditions, estimated profitability and final contract settlement may result in revisions to contract costs and income, and are recognized in the period in which the revisions are determined. Contract costs include direct material and labour costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Amounts billed in excess of revenue recognized to date on a contract-by-contract basis are classified as "unearned revenue," whereas revenue recognized in excess of amounts billed is classified as "work in progress."

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

1. Significant accounting policies (continued):

Professional services revenue from advertising is recognized over the term of the engagement as services are performed.

Managed services revenue consists of subscription fees, typically charged on a monthly basis, transaction revenue, generated on a per-transaction basis, and consulting and customization revenue. Monthly subscription revenue is recognized in the month the fee is earned and transaction revenue is recognized when the transaction occurs. Consulting and customization revenue is recognized as the services are performed.

Equity instruments received from customers for providing professional services are recorded at the fair value of the professional services provided or the equity instruments received, whichever is more clearly determinable.

For the year ended December 31, 2000, \$1,184,000 of revenue was recorded for services rendered under an equity for services arrangement.

(f) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Computer software	Declining balance	30%
Leasehold improvements	Straight line	Over term of lease

The Company regularly reviews the carrying values of its capital assets by comparing the carrying amount of the asset to the expected future cash flows to be generated by the asset. If the carrying value exceeds the amount recoverable, a write-down is charged to the statement of operations.

(g) Software development costs:

Research costs are expensed as incurred. Application software development costs are capitalized once the technical feasibility has been established and the Company has identified a market for the product, or intends to use it for internal purposes. The capitalized costs are amortized over their useful life based on expected sales or the useful life of the related product, which generally does not exceed three years. If, in any year, any particular software product is found to have insufficient market potential or insufficient internal application to recover the investment, any unamortized balance in respect of that software product will be charged to income. Software development costs are recorded net of any related tax credits.

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

1. Significant accounting policies (continued):

(h) Goodwill:

Goodwill is recorded at cost and is being amortized on a straight-line basis over 6 to 10 years. Management reviews, on a regular basis, the carrying amount of goodwill for possible permanent impairment by evaluating undiscounted expected future cash flows. Goodwill is written down when a permanent decline in value is identified.

(i) Stock-based compensation plans:

The Company uses the intrinsic value method to account for options issued to employees under its stock option plan. As such, stock-based compensation is recorded if, on the date of grant, the current fair value of each underlying common share exceeds the exercise price per share. Stock-based compensation is recognized as an expense over the vesting period of the option.

(j) Earnings per share:

Earnings per share have been calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share have been calculated as if all options and warrants had been exercised at the beginning of the year.

(k) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(l) Income taxes:

In December 1997, the Accounting Standards Board of The Canadian Institute of Chartered Accountants ("CICA") issued Section 3465 of the CICA Handbook, Income Taxes ("Section 3465"). Effective January 1, 2000, the Company adopted Section 3465 and has reported the cumulative effect of that change in the method of accounting for income taxes as an adjustment to deficit at January 1, 2000. Section 3465 requires a change from the deferral method of accounting for income taxes to the asset and liability method of deferral for income taxes.

Under the asset and liability method of Section 3465, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enacted date.

Under the deferral method, which was applied in 1999 and earlier years, deferred income taxes were recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable in the year of the calculation. Under the deferral method, deferred income taxes are not adjusted for subsequent changes in tax rates.

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

1. Significant accounting policies (continued):

(m) Foreign currency translation:

Monetary assets and liabilities of the Company and its wholly owned subsidiaries, which are integrated foreign operations, that are denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at the historical exchange rates. Transactions included in operations are translated at the average rates for the year. Exchange gains and losses resulting from the translation of these foreign denominated amounts are reflected in the consolidated statements of operations and deficit in the year in which they occur.

(n) Deferred lease benefits and lease inducements:

Deferred lease benefits and lease inducements represent periods of reduced rent for leased premises, leasehold improvements paid for by the landlord and the value of rent-free periods. Lease benefits have been deferred at the start of the lease and will be drawn down as the benefit is received. Lease inducements are amortized on a straight-line basis over the periods of the leases and the amortization is recorded as a reduction of rent expenses.

2. Capital assets:

	Cost	Accumulated amortization	Net book value
2000			
Furniture and equipment	\$ 3,125,332	\$ 568,069	\$ 2,557,263
Computer equipment	5,079,845	1,817,556	3,262,289
Computer software	2,026,096	605,987	1,420,109
Leasehold improvements	6,108,668	425,080	5,683,588
	\$ 16,339,941	\$ 3,416,692	\$ 12,923,249
1999			
Furniture and equipment	\$ 1,180,313	\$ 152,503	\$ 1,027,810
Computer equipment	2,649,789	847,951	1,801,838
Computer software	712,591	335,987	376,604
Leasehold improvements	2,176,469	94,219	2,082,250
	\$ 6,719,162	\$ 1,430,660	\$ 5,288,502

Included in furniture and equipment is furniture acquired under capital leases having an original cost of \$145,063 (1999 - \$46,339) and a net book value of \$116,608 (1999 - \$30,582). Included in computer equipment is equipment acquired under capital leases having an original cost of \$2,797,506 (1999 - \$967,503) and a net book value of \$2,068,281 (1999 - \$735,115).

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

3. Acquisitions:

(a) i-Socket Web Creative, Inc.:

On February 7, 2000, the Company acquired i-Socket Web Creative, Inc. ("i-Socket"), a full service web development company based in San Francisco, California. The Company acquired all of the issued and outstanding shares of i-Socket in exchange for a maximum of 2,500,000 of the Company's common shares, of which 300,000 shares were issued on closing. The fair value of the shares issued on closing for this acquisition was \$8,828,315 based on the fair value of the Company's common shares on the date of acquisition. These shares were held in escrow until August 7, 2000 and could not be transferred or otherwise dealt with during this period. The remaining 2,200,000 shares are contingently issuable on i-Socket meeting certain specified revenue results, calculated on each closing anniversary date over a three-year period. In addition, the Company incurred costs of \$119,579 in connection with this acquisition that have been included in the purchase price.

(b) ProCure.com:

On March 29, 2000, the Company acquired ProCure.com Inc. ("ProCure"), an Application Service Provider ("ASP") based in Toronto, Ontario, for \$3,000,000 in cash, a \$15,000,000 promissory note and 472,440 common shares of the Company with a fair value of \$8,853,264 based on the fair value of the Company's common shares on the date of acquisition. The promissory note was issued to the former principal shareholder of ProCure, LivGroup Investments Ltd., and bears interest at prime, compounded annually. The promissory note was measured and recorded at its fair value of \$14,777,598. The Company is required to repay all of the principal and accrued interest under the note on September 29, 2001. The promissory note also provides that the Company is required to repay at least \$5,000,000 of the principal amount of the promissory note if the Company completes an equity offering with net proceeds totaling at least \$50,000,000 prior to August 11, 2001. If the Company were to default on its obligation to repay any amount due, the promissory note will become convertible into common shares of the Company on the basis of \$31.75 per share (note 12). Of the common shares issued, 314,190 are held in escrow and will be released in periods of up to three years. In addition, the Company incurred costs of \$122,000 in connection with this acquisition that have been included in the purchase price.

(c) Saper Media Group Inc.:

On May 7, 1999, the Company acquired all of the outstanding share capital of Saper Media Group Inc. ("Saper") pursuant to two separate share exchange agreements. Saper is involved in providing internet professional services.

Under the terms of the first share exchange agreement, the majority shareholders of Saper exchanged all their outstanding Saper shares for 95,000 non-voting preferred shares of a subsidiary of the Company, Cyberplex U.S.A. Southwest Inc., to be held in escrow. These shares are convertible into a maximum of 600,000 of the Company's common shares dependent on Saper attaining six semi-annual earn-out targets. Under the second share exchange agreement, the minority shareholders of Saper exchanged all their outstanding Saper shares for 5,000 non-voting preferred shares of Cyberplex U.S.A. Southwest Inc., which are automatically convertible without any further action by the Company or the minority shareholders into 30,000 of the Company's common shares over six semi-annual periods. The fair value of the 100,000

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

3. Acquisitions (continued):

non-voting preference shares issuable to the majority and minority shareholders as described above was \$2,714,000 and has been originally recorded as commitment to issue capital stock. In addition, the Company incurred costs of \$96,458 in connection with the acquisition which have been included in the purchase price.

The fair value of the preferred shares was determined using the fair value of the Company's common shares on the date of acquisition, into which the preferred shares are convertible. The purchase price includes the fair value of the 95,000 preferred shares issued to the majority shareholders at the date of purchase as management believes the earn-out targets will be attained. The 5,000 preferred shares issuable to the minority shares were also included in the purchase price. During the year, 645 (1999 - 832) of the preferred shares were converted into 3,872 (1999 4,994) common shares of the Company at a value of \$16,681 (1999 - \$21,514).

As at December 31, 2000, the first three earn-out targets have been met and 47,500 of the convertible preferred shares have been released from escrow to the majority shareholders of Saper Media Group. The majority shareholders have not exercised their option to convert the convertible preferred shares to the Company's common shares.

The consideration paid for each acquisition has been allocated to the net assets acquired based on their respective fair values and the excess of purchase price over the fair value of the net assets acquired has been recorded as goodwill and is being amortized as follows:

	ProCure	i-Socket	Saper Media Group
ProCure	6 years		
i-Socket	6 years		
Saper Media Group	10 years		

The transactions are summarized as follows:

	ProCure	i-Socket	Saper Media Group
Net assets acquired:			
Current assets	\$ 108,779	\$ 1,057,253	\$ 494,668
Capital assets	419,522	203,906	51,481
Acquired technology	8,727,609	-	-
Current liabilities	(336,619)	(421,549)	(229,788)
Future income taxes	(3,900,000)	-	-
Long-term liabilities	(79,863)	-	-
Fair value of identifiable net assets	4,939,428	839,610	316,361
Goodwill	21,723,278	8,108,284	2,494,097
Purchase price	\$ 26,662,706	\$ 8,947,894	\$ 2,810,458

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

4. Credit facility:

The Company has a \$7,500,000 credit facility. Borrowings under the credit facility must be supported by assigned deposits of cash and cash equivalents and bear interest at prime plus 0.5% per annum. As security for bank indebtedness, the Company has provided a general assignment of book debts. The credit facility is subject to certain financial covenants.

5. Obligations under capital leases:

Future minimum lease payments under capital leases which expire between 2001 and 2003 are:

2001	\$ 1,316,939
2002	1,112,857
2003	547,199
2004	21,847
2005	14,565
	3,013,407
Less amounts representing interest at 16%	373,963
	2,639,444
Less current portion	1,111,447
	\$ 1,527,997

Interest incurred during the year amounted to \$178,389 (1999 - \$66,997).

6. Commitments:

The Company is required to make minimum payments under the terms of operating leases for premises, property and equipment expiring on various dates to September 2014. Minimum future lease payments are as follows:

2001	\$ 3,804,251
2002	3,489,837
2003	3,583,622
2004	3,710,892
2005	3,131,653
Thereafter	17,990,990
	\$ 35,711,245

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

7. Capital stock:

Authorized: Unlimited common shares

Issued:	Number of common shares	Amount
As at December 31, 1998	17,672,245	\$ 9,321,129
Issued during the year:		
Special warrants financing	2,223,000	13,802,284
Private placement	2,000,000	14,967,058
Exercise of stock options	213,974	219,283
Conversion of preferred shares (note 3)	4,994	21,514
As at December 31, 1999	22,114,213	\$38,331,268
Issued during the year:		
Change in accounting policy (note 1(l))	-	536,000
Private placement, net of share issue costs	875,000	1,965,545
Exercise of stock options	275,536	330,901
Acquisition of i-Socket	299,996	8,828,315
Conversion of preferred shares (note 3)	3,872	16,681
Acquisition of ProCure	472,440	8,853,264
As at December 31, 2000	24,041,057	\$ 58,861,974

Stock option plan:

The Company's stock option plan (the "Plan") provides for the granting of options to employees, officers, directors and consultants of the Company. The maximum number of common shares which may be set aside for issuance under the Plan is 3,600,000 shares. Options issued under the Plan vest annually over a three or four-year period. The common shares issuable upon exercise of any option that is cancelled or terminated prior to its exercise will become available again for grant under the Plan. In accordance with the Plan, the exercise price of options is determined based on the fair market value per share on the day preceding the grant date.

Options granted under the Plan may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination if the optionee ceases to be an employee, officer or director of the Company. Options issued under the Plan are non-transferable.

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

7. Capital stock (continued):

A summary of the status of the Company's options under the Plan is as follows:

2000			1999			
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable
\$ 0.76	65,000	1.34	65,000	210,551	2.42	118,218
0.80 - 2.21	402,258	2.61	230,617	512,088	3.35	149,922
3.25 - 18.85	1,328,137	4.22	255,084	794,750	4.24	-
18.90 - 27.00	391,100	4.12	-	-	-	-
	2,186,495		550,701	1,517,389		268,140

The following table summarizes the continuity of options issued under the Plan:

	2000		1999	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,517,389	\$ 3.83	1,136,950	\$ 1.23
Granted	1,242,400	18.26	890,250	6.12
Exercised	(275,536)	1.20	(213,974)	1.02
Cancelled	(297,758)	17.31	(295,837)	2.74
Outstanding, end of year	2,186,495	10.51	1,517,389	3.83
Options exercisable, end of year	550,701	\$ 2.95	268,140	\$ 1.12

On May 25, 1999, the Company issued 20,000 options to an outside service provider to purchase the Company's common shares at \$7.50 per share. The options expire on May 25, 2004.

As part of a private placement in 1998, the Company issued 875,000 warrants entitling the holder to purchase, on a one-for-one basis, common shares of the Company at \$2.25 per share until March 17, 2000. In February 2000, all warrants were exercised for gross proceeds of \$1,968,750.

In connection with the 2,000,000 common shares issued on October 15, 1999, the Company issued 560,000 warrants entitling the holder to purchase, on a one-for-one basis, common shares of the Company at \$8.50 per share. The warrants, none of which had been exercised at December 31, 2000, expire on October 14, 2001.

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

8. Income taxes:

Income taxes reported differs from the amount computed by applying the statutory rates to operating income before income taxes. The reasons are as follows:

	2000	1999
Income tax recovery based on statutory rates	\$(14,852,486)	\$ (551,669)
Amortization of goodwill	6,797,633	260,996
Unrecognized tax benefit of current year loss	4,099,877	278,000
Recovery of taxes from prior years	(150,000)	(139,000)
Large Corporations Tax	-	100,000
Other	-	22,483
	\$(4,104,976)	\$ (29,190)

The tax effects of temporary difference that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2000 are presented below:

Future tax assets:		
Non-capital losses		\$ 4,230,000
Share issue costs		283,000
Other assets		37,000
		4,550,000
Less valuation allowance		4,550,000
		-
Future tax liabilities:		
Other assets		(295,661)
Net future tax liability		\$ (295,661)

The Company has non-capital loss carry forwards of approximately \$10,000,000 which expire in years up to 2007.

9. Segmented information:

The Company has reviewed its operations and determined that it operates in two business segments: professional services, which includes Internet strategy consulting and advertising as well as application development work; and managed services, which uses a proprietary ASP platform to enable businesses to effectively manage and process their procurement systems.

The Company's reportable segments are strategic business units that offer different products and services. They are managed and reviewed separately by the Chief Operating Decision Maker because each segment requires different technology, strategic competencies and marketing strategies.

A summary of the Company's two business segments for the year ended December 31, 2000 is set out below. In 1999, the Company operated only in the professional services segment and, as a result, no comparative table for 1999 is presented.

CYBERPLEX INC. - Notes to Consolidated Financial Statements
- Years ended December 31, 2000 and 1999

9. Segmented information (continued):

	Professional services	Managed services	Total
Revenue	\$ 45,561,864	\$ 1,106,021	\$ 46,667,885
Gross margin	\$ 23,320,915	\$ 246,128	\$ 23,567,043
Expenses:			
Sales and marketing	\$ 6,425,424	\$ 1,017,194	\$ 7,442,618
General and administrative	17,135,549	1,451,015	18,586,564
Research and development	-	2,403,150	2,403,150
	23,560,973	4,871,359	28,432,332
Amortization	17,428,113	10,359,447	27,787,560
Identifiable assets	46,120,595	15,788,414	61,909,009
Capital expenditures	6,265,296	1,711,189	7,976,485

Revenue and assets per geographic location are as follows:

	2000	1999
Revenue by geographic location:		
Canada	\$ 15,686,126	\$ 14,402,911
U.S.	26,338,290	6,179,583
Other	4,643,469	-
	\$ 46,667,885	\$ 20,582,494
Capital assets and goodwill by geographic location:		
Canada	\$ 26,002,643	\$ 8,617,463
U.S.	7,639,442	2,484,837
	\$ 33,642,085	\$ 11,102,300

In 2000, one customer accounted for 13% of revenue and 11% of accounts receivable. In 1999, one customer accounted for 15% of revenue and 14% of accounts receivable.

10. Restructuring and impairment charges:

During 2000, the Company recorded a charge for restructuring and asset write-downs aggregating \$16,717,171 as a result of changes in market conditions and an effort to consolidate operations. The amounts are comprised of the following:

(a) Restructuring charge	\$ 1,649,793
(b) Capital asset write-down	7,248,233
(c) Goodwill write-down	7,153,691
(d) Other expenses	665,454
	\$ 16,717,171

(a) The restructuring charge includes severance and similar expenses, as well as the costs associated with exiting certain facility leases. The Company's initiatives have resulted in the layoff of both production and head office support positions.

10. Restructuring and impairment charges (continued):

(b) As a result of restructuring efforts, the Company identified \$698,624 of capital assets which will no longer be utilized. Also included in this amount was an impairment charge of \$6,549,609 relating to ASP software acquired upon the acquisition of ProCure. Management has determined that significant technology changes have rendered the acquired software obsolete, and the net book value is no longer supported by future cash flows.

(c) Due to changes in market conditions, the Company assessed permanent impairments in certain goodwill which existed at the end of 2000. Impairment charges, which were recorded as accelerated amortization, related to goodwill recorded on the following acquisitions:

Saper Media Group	\$ 2,057,630
Webworks	3,096,061
ProCure	5,900,000
	\$ 11,053,691

Determination and measurement of these permanent impairments was made from examination of the future, undiscounted cash flows projected over the remaining life of the applicable goodwill. The assessment has been made at the lowest level for which cash flows were identifiable and independent of cash flows from other asset groups.

(d) Other expenses relate to professional fees and other expenses incurred during the year in connection with a planned U.S. public offering.

11. Comparative figures:

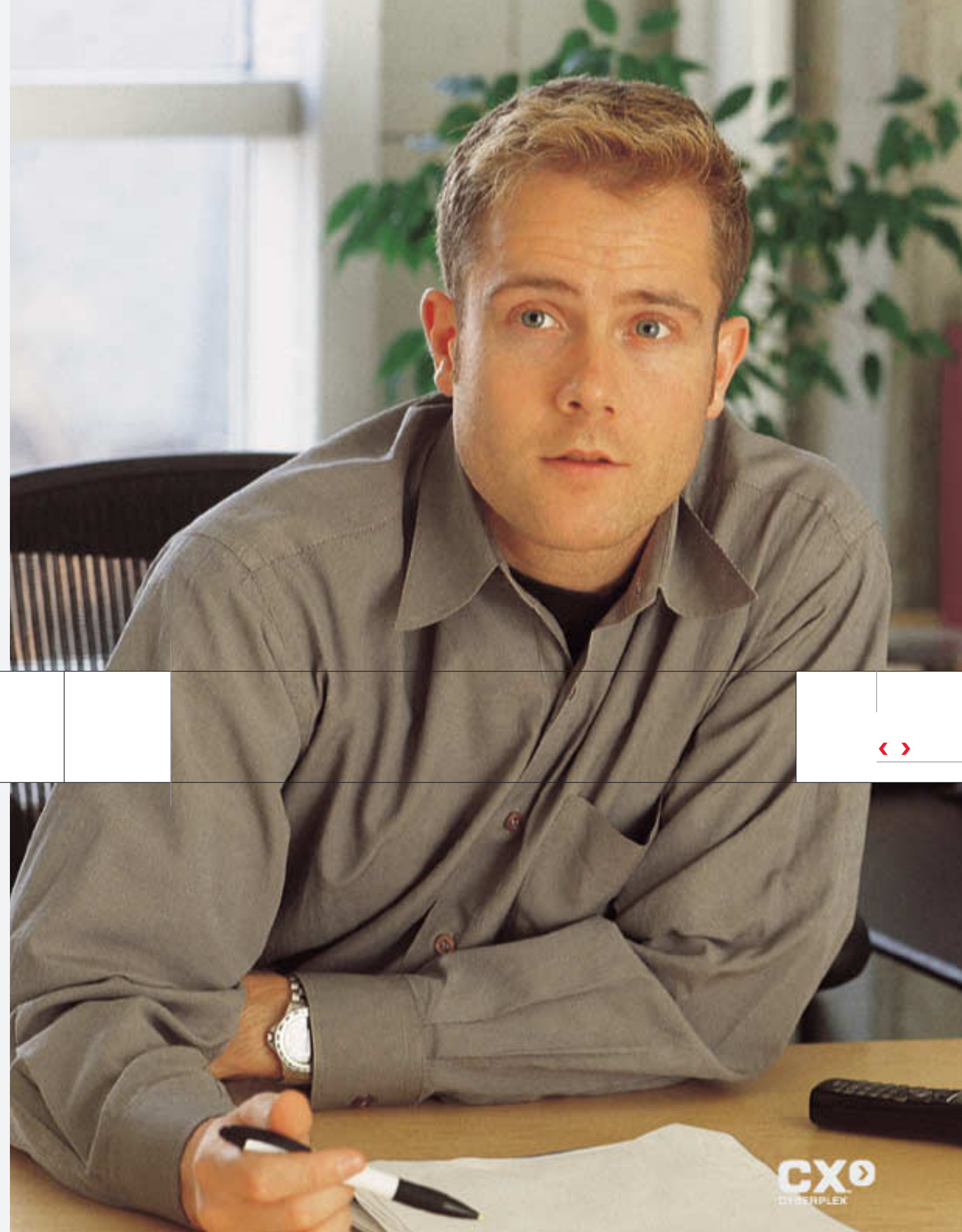
Certain reclassifications of 1999 amounts have been made to facilitate comparison with the current year.

12. Subsequent event:

On April 23, 2001, the Company and LivGroup Investments Ltd. settled the promissory note with a face value of \$15,000,000 which arose on the acquisition of ProCure. In exchange for retiring the promissory note, the Company agreed to:

- (a) Pay cash of \$4,000,000;
- (b) Exchange \$6,000,000 of principal plus accrued interest into common shares of the Company at the rate of \$1.75 per share;
- (c) Issue one common share purchase warrant expiring April 1, 2003 with an exercise price of \$2.00 per common share for every five common shares issued under (b); and
- (d) Issue a promissory note for \$5,000,000 bearing interest at prime plus 1% due in April 2003, \$2,600,000 of which is convertible into common shares of the Company in certain circumstances at a price of \$4.00 per share.

The terms of the agreement are subject to regulatory approval.





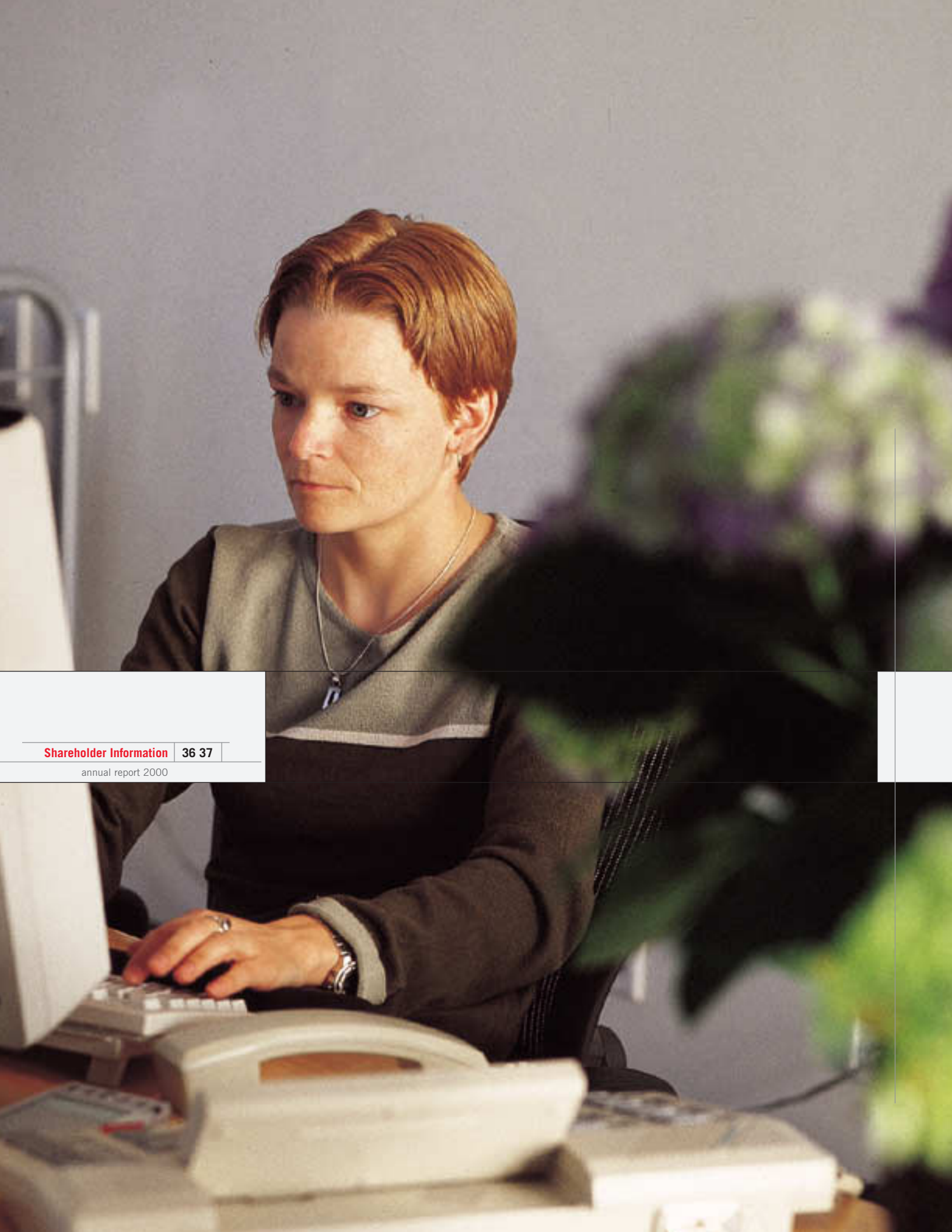
The Cyberplex Team

Carri Abrahms Bruce Adams Ashley Adamson Efrem Ainsley Mark Atkinson Annice Allat Karrie Allen Nicola Allen Cameron Andrews Susan Arbing Michelle Bailey David Barnes Jerry Bas Brett Baugh Stuart Beckett Liz Beechey Peter Bier Randall Bier Lukas Blaikie Andrew Blair Megan Blanchard Jeff Blanding Aleksandar Bojicic Damien Boyes Shari Boyle Cindy Bradshaw Daryl Brewer Carol Broderick Jennifer Brooks Rob Brown Faith Buott Aaron Burr Adam Butler Tyler Campbell Gil Canare Loretta Caponigro Kelly Carroll Feyzi Celik Brian Chan Cassandra Chang Raina Chamberlain Jason Chase Ada Cheung Jameson Cheung Avery Chin Donna Chin Elena Chronis Michael Clark David Cocca Nick Cody Michael Coll Joanna Collins John Collinson Shahid Constantino Jody Corbin Ian Corera Lisa Cowan Marcia Cox David Crumrine Chad Currie Duane Currie Charla Cusinato Steve Dale Jeremy Daly Jean Dams Rizwan Dar Yvonne Darnell Michael Davies Geo Davila Bob Dawson Shelly Dawson Chris DeGrace Alex Del Solar Alex de Paz Andrea Derouin Michelle Dewar Alison Dickie Patricia Dominiguez Kevin Dougan Marty Doupe Michael Duda George Dunphy Lisa Durocher Dorota Dusko Don Edmonds Jennifer Elliott Scott Elliott Eric Enair Mike Erlindson David Erwin Eric Ettinger Andrew Evrovski Alan Farquhar Jeff Fila Paul Fleming Charles Flynn Krista Foisy Graham Forsyth Chris Frostad Chris Fuller Tracey Gant Amy Geller Elizabeth Geserick Bill Gfroefrer Greg Gibbons Daniel Gileo Kieran Gillet Robin Glennie Erica Goddard Michael Gonos Robert Gooch Christine Graham Mark Graham Rob Grant Andrew Grantham Brad Groff Tom Gross Kristine Hahn Chester Hamilton David Hansen Hillary Hewson Cleon Hill Wood-Salomon Norma Hislop Hai Hoang Robert Hollis Neil Honig Dean Hopkins Steve Hornett Jeremy Hossfeld Tim Howell Jun Hua Martin Hughes Leslie Hunter Joseph Ierullo Marco Imperatore Adrian Inness Richard Irving Anne Irwin Michele James Jennifer Janik Jeff Janssen Evan Jennings Deborah Jessop Michael Jobes Nikolai Joukov Crystal Kienapple Pamela Kelly Robert Kemp Chris Kilburn Brian Kim Katherine Klosa David Koch Kim Konte Sue Kratochvil Ken Kumar-Misir Tiago Kunzendorff Melanie Lamoureux Terra Landry Scott Lane Andre Langlois Steve LaRocque John Lascurettes Jim Latimer Jack Lee Donald Legge Marcus Leon Mike Leung Evette Lev David Lewis Dan Liebster Jody Little Kate Littleboy Brian Lough Stephen Louie Lionel Lum Heidi Lusby Danny MacDonald Quinn MacDonald David MacKay Earnest Mak David MacLaughlin Sean Maclean Craig MacMaster Derek MacNeil Justin MacNutt George Mandala Revital Marom Kim Martin Steven Matheson Norrie Matthews Darrell May Wendy Mazet Angela McCarthy Andrew McCartney Maury McCoy Ron McDougall Karyn McGillion Jonathan McGinley David McKenzie Pam McMeekin Scott McNabney Erin McNeil Trey Mebane Alec Melkonian Michele Mendoza Nestor Menjivar Michael Miller Paul Miner Kam Mistry Maria Moher Maria Molek Grace Montemar Arthur Montesinos Andrea Moore



Mauricio Morales Elese Moran Adam Morenberg Cyril Mullins Kathleen Neidert Paul Nolte Peter Oakes Cauley O'Day Allison Onishi Frank Orlando Martin Ortuzar Jason Otis Andrew Otwell Chris Ovsenny Gary Pacheco Gina Panza Isabelle Paquet Angela Paton Shawn Patterson Sonia Pawlowski Robert Payne Kim Peck Nelson Pereira Lubomir Petrounov Dan Phillips Salven Pillay Allen Pink Joseph Power Wendy Pravda Pamela Prescott Steve Prescott Rob Purdie Milena Radzikowska David Raeside Amy Ramnarace Bruce Randall Kimberly Rasenberger Julie Recollet Barry Reville Trudy Rink Marc Robichaud Scott Rogers Tomas Roldan David Ronson Jeri Rosen Kelly Rosettani Chris Ross Peter Rothe Geoff Rotstein Ron Ruffner Victoria Russell Dave Rutherford John-Eric Salameh Jeff Sangster Paul Saper Max Saunders Julia Scarlett-MacCallum Ruth Schnarr Todd Schoenfeld Randy Schultz Alex Scott Charles Scott Liliya Sedova Ernest Seto Chaitee Sengupta Paul Shaffelburg Sanjay Shamdasani Denise Shantz Travis Shorrock Minaz Sidi Anna Singer Kelly Slauenwhite Jonathan Slonim Adrienne Smith Marcia Smith Neville Smith Jason Southcombe Kathleen Spidle Klara Spira Robert Starkey Craig Statham Erin Steed Jason Stone January Stuebing Tammy Sturge Charles Sue-Wah-Sing Amanda Swann Alan Tam Kim Taylor Steve Taylor Vitalie Temnenko Kendra Temporale Michael Thiessen Nicholas Thomas David Thorpe Jodie Tilley Scott Totzke Greg Twinney John Tyner Maryan Vandenbelt Wendy Varen Reagan Vieira Derek Vigar Ranjanamala Vijayanand Mirko Villalta Rosemary Villalta Daniel Vogel Chris Vulovic Karen Wade Sean Walker Dennis Wallace Gabriella Walsh Anthony Watts Michelle Weihe Darin White Dan Williams Mack Willis Andrew Wilson Matt Wolodarsky Douglas Woodhouse Edmond Wu Xiaoyan (Lisa) Wu Mio Yokoi Bob Young Breen Young Matthew Young Alan Yu Dejan Zizanovic Lisa Zweig





Shareholder Information

The Annual General Meeting of shareholders will be held on June 14th, 2001 at 2pm, at the Corporate Office of Cyberplex Inc., 267 Richmond Street West, Toronto, Ontario.

Board of Directors

Vernon Lobo	Chairman of the Board, Managing Director, Mosaic Venture Partners
Dean Hopkins	President and Chief Executive Officer of Cyberplex Inc.
Earl I. Rotman	Managing Director (Investment Banking) CIBC World Markets Inc.
Geoffrey Rotstein	Chief Financial Officer of Cyberplex Inc.
Steve Sadler	Chairman and Chief Executive Officer of Eng House Systems Ltd. And Chairman of Helix Investments (Canada) Inc.
Preston Thom	Director, Former President of Comdisco Canada Ltd. from 1988 - 1998

Senior Management Team

Dean Hopkins	President and Chief Executive Officer
Peter Bier	Vice President of Production
Lisa Durocher	Vice President of Sales and Marketing
Rob Payne	Chief Technology Officer
Geoffrey Rotstein	Chief Financial Officer
Tammy Sturge	Vice President of Human Resources

Corporate Office

Cyberplex Inc., 267 Richmond Street West, Toronto, Ontario, M5V 3M6
www.cyberplex.com

Shareholder Inquiries

Cyberplex Inc., 267 Richmond Street West, Toronto, Ontario, M5V 3M6
e-mail: investor@cyberplex.com
tel: 416.597.8889 tax: 416.597.2345

Transfer Agent

Montreal Trust
600, 530 – 8th Avenue S.W., Calgary, Alberta, T2P 3S8

Auditors

KPMG LLP - Chartered Accountants
Yonge Corporate Centre, 4120 Yonge Street, Suite 500, Toronto, Ontario, M2P 2B8

Lawyers

Gowling, Strathy & Henderson
Commerce Court West, Suite 4900, Toronto, Ontario, M5L 1J3



Corporate Office

Cyberplex Inc., 267 Richmond Street West, Toronto, Ontario, M5V 3M6
www.cyberplex.com

Production and Sales Offices

General Inquiries
e-mail: info@cyberplex.com
tel: 1.888.597.8889

CX Head Office & Toronto Production Center (TPC)

267 Richmond Street West, Toronto, Ontario, M5V 3M6
tel: 416.597.8889 fax: 416.597.2345

Halifax Production Center (HPC)

Purdy's Wharf Tower II, Suite 2004, 1969 Upper Water Street, Halifax, Nova Scotia, B3J 3R7
tel: 902.429.4721 fax: 902.423.0899

Waterloo Production Center (WPC)

410 Albert Street, Suite 102, Waterloo, Ontario, N2L 3V3
tel: 519.725.5350 fax: 519.725.6621

Austin Sales Office

7000 North MoPac Drive, Suite 150, Austin, Texas, 78731
tel: 512.343.8383 fax: 512.343.6175



San Francisco Production Center (SFPC) & Sales Office

100 Shoreline Hwy, Bldg. A, Suite 100, Mill Valley, California, 94941
tel: 415.339.1830 fax: 415.339.1979

Boston Sales Office

15 Dartmouth Place, Boston, MA, 02116
tel: 617.859.9361 fax: 617.859.9363

Los Angeles Sales Office

310 Washington Boulevard, Suite 212, Marina Del Rey, California, 90292
tel: 310.577.9119 fax: 310.577.9109

Norwalk Sales Office

205 Liberty Square, Norwalk, CT, 06855
tel: 203.299.0777 fax: 203.299.0898

ProCure.com

2305 Wyecroft Road, Oakville, Ontario, L6L 6R2
tel: 905.465.1875 fax: 905.465.0741
www.procure.com