

Cyberplex Inc.
Management Discussion and Analysis
For the three-month period ended June 30, 2001

The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Company and notes thereto, which have been prepared in accordance with generally accepted accounting principals (GAAP) in Canada for interim financial statements.

OVERVIEW

The second quarter of 2001 proved to be another challenging quarter for Cyberplex. The slow down in spending that has been experienced throughout the technology sector has continued and as a result it has impacted our financial results.

Throughout the quarter we continued to realize cost savings from the internal restructuring implemented at the end of 2000. In addition, we have continued to look for further cost reductions and efficiencies to lower the organizations overhead, some of which have been reflected in these financial results.

Subsequent to the end of the quarter, a significant step was taken to refocus the company back to its core offering of professional services. Procure.com, our wholly owned subsidiary that focused solely on managed services, was sold to BCE Emergis on July 6th, 2001. This sale was important for Cyberplex as it not only allows the company to refocus on its core offering, but it also significantly reduces our monthly cash requirements and strengthens our long-term cash flow.

RESULTS OF OPERATIONS

Revenue

Professional services revenue decreased to \$5.2 million for the three-month period ended June 30, 2001, down \$7.3 million, or 59% from the same period a year earlier. This reduction can be attributed to the overall slowdown in the technology sector, resulting in project delays, budget cuts and overall reduced spending from both new and existing accounts. Our migration to a client base consisting of Fortune 1000 companies has been very successful in that almost 80% of our quarterly revenue came from these types of clients compared to only 53% a year ago.

Managed service revenue of \$286,000 was down 29% from the same period a year earlier.

Direct Costs

Direct costs for our professional services business decreased to \$2.9 million for the quarter, down 46% compared to the same period a year earlier. This decrease is the direct result of reducing our billable headcount by over 40% when compared to the previous year.

Managed services direct costs were up 116% from 2000 to \$382,000. This amount is consistent with previous quarters and accounts for the additional resources committed to building out the technology during the year.

Sales & Marketing Expenses – Professional Services

Sales and marketing expenses of \$1.5 million for the second quarter were down 6%, or \$101,000 from the same period a year ago.

General & Administrative Expenses – Professional Services

General and administrative expenses have decreased to \$2.3 million, down 48% or \$2.1 million, from the \$4.4 million a year ago. This decrease is the direct result of our reduction in support positions and an increased focus on internal efficiencies and reduced infrastructure.

Results of Operations (continued)

Managed Services Expenses

Managed services expenses of \$1.2 million consist of sales and marketing expenses of \$170,000, and general and administrative expenses of \$533,000. As mentioned in prior quarters, these expenditures represent the costs of building the brand, infrastructure and technology of this division. During the quarter we were actively building segments of the business, while also prudently reducing excess expenses by 28% when compared to the prior quarter.

LIQUIDITY AND CASH POSITION

Operating Activities

For the quarter ended June 30, 2001, cash incurred from operations totaled \$869,000, compared to a source of cash of \$3.2 million for the same quarter a year ago. This use of cash was a result of the companies operating loss incurred over the quarter as well as the net effect of changes in accounts payable, accrued liabilities, and accounts receivable.

Financing Activities

Financing activities for Q2 2001 represented a use of cash of \$4.3 million. This use of cash is largely attributed to a \$4 million dollar payment to LivGroup as part of a renegotiation of the \$15 million note that was to be due September 2001. In addition, \$303,000 was spent on capital lease payments during the quarter. In 2000, the major component of our source of cash was attributed to leasehold inducement payments received and cash received on the exercise of stock options.

Investing Activities

Investing activities for the three-month period ended June 30, 2001 was comprised of \$57,000 used for capital asset additions. This amount is considerably less than the \$4 million use of cash during the same period last year, when the company purchased \$2.9 million of capital assets and \$1.1 million in investments.

Cash Position

As at June 30, 2001, the company had cash, cash equivalents, and short-term investments totaling \$7.1 million, compared with \$21.6 million at June 30, 2000. This decrease in cash over the past 12 months relates predominately to the cash invested in acquiring and developing the Procure offering and the operating losses incurred over the period.

RISKS AND UNCERTAINTIES

Cyberplex has not had any significant changes to its risks and uncertainties from those that were disclosed in the Company's 2000 MD&A.

OUTLOOK

Cyberplex has not had any significant changes to its outlook from those that were disclosed in the Company's 2000 MD&A.



2nd Quarter Report 2001

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CYBERPLEX
CONSOLIDATED BALANCE SHEETS

	As at June 30, 2001 (unaudited)	As at March 31, 2001 (unaudited)
ASSETS		
Current Assets		
Cash, cash equivalents, & short-term investments	\$ 7,106,223	\$ 12,660,921
Accounts receivable	2,765,762	7,143,146
Prepaid expenses and sundry assets	1,130,758	837,054
Income taxes recoverable	277,401	137,836
Deferred lease benefit - current	89,716	131,305
	<u>11,369,860</u>	<u>20,910,262</u>
Deferred lease benefit - long term	514,351	504,147
Net capital assets	12,112,251	12,604,645
Goodwill	19,157,616	20,168,528
TOTAL ASSETS	<u>\$ 43,154,078</u>	<u>\$ 54,187,582</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable & accrued liabilities	\$ 5,406,979	\$ 7,964,758
Current portion of capital lease obligations	1,096,955	1,188,261
Current portion of deferred lease inducements	257,441	239,293
Unearned revenue	542,041	920,762
Note payable	-	14,925,597
	<u>7,303,416</u>	<u>25,238,671</u>
Note payable	3,710,749	-
Capital lease obligations	943,879	1,156,525
Deferred lease inducements	2,609,346	2,692,048
Future income taxes	294,240	294,240
	<u>7,558,214</u>	<u>4,142,813</u>
SHAREHOLDERS' EQUITY		
Commitment to issue captial stock	1,765,836	2,668,241
Capitall stock	64,682,887	59,296,329
Equity component of convertible instrument	734,259	-
Warrants	473,114	-
Deficit	(39,363,648)	(37,158,472)
	<u>28,292,448</u>	<u>24,806,098</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 43,154,078</u>	<u>\$ 54,187,582</u>

See accompanying Notes to the Consolidated Financial Statements

CYBERPLEX
CONSOLIDATED STATEMENTS OF OPERATIONS

	3 Month Period Ended June 30		6 Month Period Ended June 30	
	2001 (unaudited)	2000 (unaudited)	2001 (unaudited)	2000 (unaudited)
Professional Services Revenue	\$ 5,151,235	\$ 12,496,055	\$ 12,075,947	\$ 23,666,102
Managed Services Revenue	286,428	400,219	653,734	400,219
	<u>5,437,663</u>	<u>12,896,274</u>	<u>12,729,681</u>	<u>24,066,321</u>
Professional Services Direct Costs	2,935,762	5,471,754	6,826,727	10,099,036
Managed Services Direct Costs	381,879	176,672	920,273	176,672
	<u>3,317,641</u>	<u>5,648,426</u>	<u>7,747,000</u>	<u>10,275,708</u>
Professional Services Gross Margin	2,215,473	7,024,301	5,249,220	13,567,066
Managed Services Gross Margin	(95,451)	223,547	(266,539)	223,547
	<u>2,120,022</u>	<u>7,247,848</u>	<u>4,982,681</u>	<u>13,790,613</u>
EXPENSES				
Sales and marketing expenses	1,498,826	1,599,960	3,084,170	2,938,559
General and administrative expenses	2,272,635	4,383,968	4,684,925	8,168,431
Managed services expenses	1,153,936	953,163	2,762,964	953,163
	<u>4,925,397</u>	<u>6,937,091</u>	<u>10,532,059</u>	<u>12,060,153</u>
EBITDA Professional Services, before undernoted items	(1,555,988)	1,040,373	(2,519,883)	2,460,076
Write-down of investment, at cost	(301,793)	-	(752,813)	-
Gain on settlement of long-term note	2,752,878	-	2,752,878	-
EBITDA Professional Services	895,097	1,040,373	(519,818)	2,460,076
EBITDA Managed Services	(1,249,387)	(729,616)	(3,029,503)	(729,616)
EBITDA Total	(354,290)	310,757	(3,549,321)	1,730,460
Amortization - Capital assests	549,898	491,763	1,368,547	808,516
Amortization - Aquired technology	-	731,360	-	731,360
Amortization - Goodwill	1,010,913	1,219,963	1,985,828	1,521,564
	<u>1,560,811</u>	<u>2,443,086</u>	<u>3,354,375</u>	<u>3,061,440</u>
EBIT	(1,915,101)	(2,132,330)	(6,903,696)	(1,330,981)
Interest income	32,212	301,925	69,835	649,730
Interest on long-term debt	(322,287)	(70,199)	(862,947)	(102,543)
LOSS BEFORE TAXES	(2,205,176)	(1,900,604)	(7,696,808)	(783,794)
PROVISION FOR INCOME TAXES	-	-	-	638,000
NET LOSS	\$ (2,205,176)	\$ (1,900,604)	\$ (7,696,808)	\$ (1,421,794)
Deficit - Beginning of the Period	(37,158,472)	(345,980)	(31,666,840)	(785,790)
Adjustment to Opening Deficit	-	-	-	(39,000)
Deficit - End of Period	<u>\$ (39,363,648)</u>	<u>\$ (2,246,584)</u>	<u>\$ (39,363,648)</u>	<u>\$ (2,246,584)</u>
Weighted average number of common shares	27,979,944	23,931,295	26,116,695	23,139,730
Basic earnings (loss) per share	\$ (0.08)	\$ (0.08)	\$ (0.29)	\$ (0.06)

See accompanying Notes to the Consolidated Financial Statements

CYBERPLEX
CONSOLIDATED STATEMENTS OF CASH FLOWS

	3 Month Period Ended June 30		6 Month Period Ended June 30	
	2001 (unaudited)	2000 (unaudited)	2001 (unaudited)	2000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	\$ (2,205,176)	\$ (1,900,604)	\$ (7,696,808)	\$ (1,421,794)
Items not affecting cash				
Amortization - capital assets	549,898	491,763	1,368,547	808,516
Amortization - goodwill	1,010,913	1,219,963	1,985,828	1,521,564
Amortization - aquired software	-	731,360	-	731,360
Unrealized foreign exchange gain	245,928	-	(91,497)	-
Amortization of lease inducement	(64,554)	(51,945)	(129,108)	(100,903)
Amortization of lease benefit	-	11,972	-	19,954
Gain on settlement of LivGroup note	(2,752,878)	-	(2,752,878)	-
Accretion of interest	122,786	37,000	159,786	37,000
Changes in non-cash working capital				
Accounts receivable	4,514,713	(860,748)	4,205,342	(4,800,666)
Prepaid expenses and sundry assets	(293,704)	(819,125)	(196,463)	(730,276)
Work in progress	-	1,032,811	-	(58,833)
Income taxes payable	-	-	(2,699,896)	407,200
Accounts payable and accrued liabilities	(1,478,440)	3,343,747	(1,479,310)	3,647,771
Income taxes recoverable	(139,565)	(127,645)	316,169	103,208
Unearned revenue	(378,721)	80,831	(378,721)	178,406
	<u>(868,800)</u>	<u>3,189,379</u>	<u>(7,389,009)</u>	<u>342,506</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from deferred lease benefit	31,385	770,908	422,632	1,541,816
Proceeds from stock options	-	157,853	26,429	235,461
Issue of note payable on acquisition of Procure	-	-	-	14,777,597
Proceeds from private stock placement	-	-	-	1,968,750
Cash payment on settlement of LivGroup note	(4,043,063)	-	(4,043,063)	-
Principal payments under capital leases	(303,952)	-	(600,031)	-
	<u>(4,315,630)</u>	<u>928,761</u>	<u>(4,194,033)</u>	<u>18,523,624</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of investment	-	(1,184,480)	-	(1,184,480)
Acquisition of Procure	-	-	-	(17,777,597)
Business acquisition costs, net of cash acquired	-	-	-	(125,192)
Acquisition of capital assets, net	(57,504)	(2,862,916)	(557,550)	(4,853,484)
	<u>(57,504)</u>	<u>(4,047,396)</u>	<u>(557,550)</u>	<u>(23,940,753)</u>
Foreign exchange gain (loss) on cash held in foreign currency	(312,764)	-	223,883	-
Change in cash, cash equivalents & short-term investments	(5,554,698)	70,744	(11,916,708)	(5,074,622)
Cash, cash equivalents & short-term investments, beginning of period	<u>12,660,921</u>	<u>21,576,304</u>	<u>19,022,931</u>	<u>26,721,670</u>
Cash, cash equivalents & short-term investments, end of period	\$ 7,106,223	\$ 21,647,048	\$ 7,106,223	\$ 21,647,048

See accompanying Notes to the Consolidated Financial Statements

Cyberplex Inc.
Notes to Consolidated Financial Statements
For the three month period ended June 30, 2001
(unaudited)

1. Nature of business:

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

2. Significant accounting policies:

The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principals for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2000. The unaudited interim consolidated financial statements are based upon accounting principals consistent with those used and described in the annual consolidated financial statements.

The unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary to present fairly the financial position of the Company as of June 30, 2001 and 2000 and the results of operations and cash flows for the three and six months ended June 30, 2001 and 2000. Interim results are not necessarily indicative of results for a full year.

3. 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 Company's management because each segment requires different technology, strategic competencies and marketing strategies.

A summary of the Company's two business segments for the three-month period ended June 30, 2001 is set out below.

Three months ended June 30, 2001	Professional Services	Managed Services	Total
Revenue	\$ 5,151,235	\$ 286,428	\$ 5,437,663
Gross Margin	2,215,473	(95,451)	2,120,022
Expenses:			
Sales and Marketing	1,498,826	169,949	1,668,775
General and Administrative	2,272,635	532,986	2,805,621
Research and Development	-	451,001	451,001
	3,771,461	1,153,936	4,925,397
Amortization	359,595	190,303	549,898
Identifiable Assets	10,597,133	1,515,118	12,112,251
Capital Expenditures	-	57,504	57,504

Cyberplex Inc.
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Segmented Information (continued)

Revenue by geographic location:

	Three months ended	
	June 30, 2001	June 30, 2000
Canada	2,338,195	3,353,031
International	3,099,468	9,543,243
	<u>\$ 5,437,663</u>	<u>\$ 12,896,274</u>

Capital assets and goodwill by geographic location:

	As at	
	June 30, 2001	March 31, 2001
Canada	30,704,479	30,483,387
International	565,388	2,289,786
	<u>\$ 31,269,867</u>	<u>\$ 32,773,173</u>

4. Outstanding Shares

As of June 30, 2001, there were 1,545,057 options, 1,375,714 warrants and 650,000 other convertible securities outstanding to acquire common shares of the Company.

5. Basic earnings (loss) per share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding. Fully diluted loss per share information for the three and six months ended June 30, 2001 has not been provided as it is anti-dilutive.

6. Notes payable

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

- Pay cash of \$4,000,000.
- Exchange \$6,000,000 of principal plus accrued interest into common shares of the company at the rate of \$1.75 per share.
- Issue one common 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
- 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.

7. Supplemental Non-Cash Financing Activities

The following non-cash financing activities resulted as part of the settlement of a \$15,000,000 note payable to LivGroup (note 6):

Settlement of LivGroup note	\$ (13,322,551)
Capital stock issued on settlement of note	4,484,153
Warrants issued on settlement of note	473,114
Equity component of \$2.6 million note	734,259
Issue of notes payable to LivGroup	3,587,963

8. Subsequent Event

On July 6th, 2001 the Company agreed to sell substantially all of the assets of ProCure.com (including intellectual property, accounts receivables, customer contracts, licensed software, capital assets and certain leased assets) to BCE Emergis for consideration of \$5.86 million. The Company remains responsible for the liabilities relating to Procure.

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Capital stock issued on settlement of note	4,484,153
Warrants issued on settlement of note	473,114
Equity component of \$2.6 million note	734,259
Issue of notes payable to LivGroup	3,587,963

8. Subsequent Event

On July 6th, 2001 the Company agreed to sell substantially all of the assets of ProCure.com (including intellectual property, accounts receivables, customer contracts, licensed software, capital assets and certain leased assets) to BCE Emergis for consideration of \$5.86 million. The Company remains responsible for the liabilities relating to Procure.