

Cyberplex Inc.
Management Discussion and Analysis
For the three-month period ended September 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.

RESULTS OF OPERATIONS

Revenue

Professional services revenue of approximately \$3 million for the third quarter was down considerably from the \$13.2 million recorded during the same quarter a year ago. For the nine month period ended September 30, 2001, revenue was approximately \$15 million compared to \$36.9 million in the prior year. This quarter, our ten largest clients accounted for approximately 90% of the revenue, compared to approximately 65% last year and revenue from Fortune 1000 clients accounted for almost 95% of the total, up from 74% a year ago.

Direct Costs

Direct costs for professional services decreased to \$2.3 million for the quarter, down 60% from the \$5.7 million incurred during the same period last year. This decrease is the direct result of the reduced billable headcount - down approximately 50% from the previous year.

Sales & Marketing Expenses

Sales and marketing expenses of \$1.1 million for the third quarter were down 32%, or \$535,000 from the same period a year ago. This decrease resulted from management's decision to significantly reduce the marketing initiatives that were underway.

General & Administrative Expenses

General and administrative expenses for the third quarter amounted to \$2.5 million, down 42% from the \$4.3 million incurred during the same period last year. Cumulative results for the first nine months showed these expenses at \$7.2 million - down 43% from the \$12.4 million recorded in the previous year. This reduction can be attributed to reduced discretionary spending at all levels of the organization as well as a reduction in headcount for all administrative roles supporting the company.

LIQUIDITY AND CASH POSITION

Operating Activities

For the quarter ended September 30, 2001, operating activities resulted in a net cash use of \$5.8 million. A year ago these activities resulted in a source of cash of approximately \$2.1 million. The years use of cash resulted from both the 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 the quarter represented a use of cash of \$208,000. This use of cash relates primarily to the capital lease payments for various hardware and software assets. Last years third quarter financing activities resulted in a source of cash of approximately \$111,000 due to cash received from the exercise of stock options.

Investing Activities

Investing activities for the quarter were the direct result of the proceeds received from the sale of Procure.com - the discontinued operations. The \$4.86 million received from this sale represented the bulk of the investing activity. Investing activity is down significantly from 2000 when the company spent \$2.2 million for capital asset acquisitions.

Cash Position

As at September 30, 2001, the company had cash, cash equivalents, and short-term investments totaling \$6 million, compared to \$17.4 million at September 30, 2000. This decrease in cash over the past 12 months resulted from the investment in acquiring and developing technology for the managed services division, which is now listed as a discontinued operation, and from losses in the professional services business.

As the managed services division is no longer a part of the company, the majority of the cash burn associated with this operation has been reduced.

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.



3rd Quarter Report 2001

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CYBERPLEX INC.
CONSOLIDATED BALANCE SHEETS

	As at September 30, 2001 (unaudited)	As at December 31, 2000
ASSETS		
Current Assets		
Cash, cash equivalents, & short-term investments	\$ 6,003,162	\$ 19,022,931
Accounts receivable	3,249,368	7,146,033
Note receivable	1,000,000	-
Prepaid expenses and sundry assets	567,280	934,295
Income taxes recoverable	232,193	136,965
Deferred lease benefit - current	89,716	291,327
	<u>11,141,719</u>	<u>27,531,551</u>
Deferred lease benefit - long term	514,351	735,373
Net capital assets	10,048,260	12,923,249
Goodwill	-	20,718,836
TOTAL ASSETS	<u><u>\$ 21,704,330</u></u>	<u><u>\$ 61,909,009</u></u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable & accrued liabilities	\$ 4,773,648	\$ 10,777,690
Current liabilities of discontinued operations	613,505	-
Current portion of capital lease obligations	899,745	1,111,447
Current portion of deferred lease inducements	257,441	239,293
Unearned revenue	100,536	465,028
Note payable	-	14,888,597
	<u>6,644,875</u>	<u>27,482,055</u>
Notes payable	3,894,928	-
Long-term liabilities of discontinued operations	1,405,319	-
Capital lease obligations	224,429	1,527,997
Deferred lease inducements	2,544,792	2,756,602
Future income taxes	294,240	295,661
	<u>8,363,708</u>	<u>4,580,260</u>
SHAREHOLDERS' EQUITY		
Commitment to issue captial stock	1,765,836	2,651,560
Captial stock	65,890,260	58,861,974
Deficit	<u>(60,960,349)</u>	<u>(31,666,840)</u>
	<u>6,695,747</u>	<u>29,846,694</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 21,704,330</u></u>	<u><u>\$ 61,909,009</u></u>

See accompanying Notes to the Consolidated Financial Statements

CYBERPLEX INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three month period ended		Nine month period ended	
	Sept. 30, 2001 (unaudited)	Sept. 30, 2000 (unaudited)	Sept. 30, 2001 (unaudited)	Sept. 30, 2000 (unaudited)
Professional Services Revenue	\$ 2,968,301	\$ 13,199,598	\$ 15,044,248	\$ 36,865,700
Professional Services Direct Costs	<u>2,332,354</u>	<u>5,704,036</u>	<u>9,159,081</u>	<u>15,803,072</u>
Gross Margin	635,947	7,495,562	5,885,167	21,062,628
EXPENSES				
Sales and marketing expenses	1,079,978	1,614,856	4,164,148	4,553,415
General and administrative expenses	<u>2,479,696</u>	<u>4,261,864</u>	<u>7,164,621</u>	<u>12,430,295</u>
	<u>3,559,674</u>	<u>5,876,720</u>	<u>11,328,769</u>	<u>16,983,710</u>
EBITDA, before undernoted items	(2,923,727)	1,618,842	(5,443,602)	4,078,918
Amortization - Capital assests	531,634	504,328	1,527,572	2,371,837
Amortization - Aquired technology	-	399,300	-	-
Amortization - Goodwill	389,442	1,382,961	2,375,270	2,904,525
EBIT, before undernoted items	(3,844,803)	(667,747)	(9,346,444)	(1,197,444)
Write down of investment, at cost	(345,921)	-	(1,098,734)	-
Write down of goodwill	(6,864,507)	-	(6,864,507)	-
Restructuring charge	(1,104,271)	-	(1,104,271)	-
Gain on settlement of long-term note	-	-	2,752,878	-
EBIT	(12,159,502)	(667,747)	(15,661,078)	(1,197,444)
Interest Income	52,569	287,698	122,404	945,423
Interest on long-term debt	<u>(302,516)</u>	<u>(60,399)</u>	<u>(1,165,463)</u>	<u>(162,942)</u>
LOSS BEFORE TAXES AND DISCONTINUED OPERATIONS	(12,409,449)	(440,448)	(16,704,137)	(414,963)
PROVISION FOR INCOME TAXES	-	450,000	-	1,088,000
LOSS FROM CONTINUING OPERATIONS	(12,409,449)	(890,448)	(16,704,137)	(1,502,963)
Loss from discontinued operations	(94,506)	(1,693,499)	(3,496,626)	(2,502,778)
Loss on disposal of discontinued operations	(9,092,746)	-	(9,092,746)	-
NET LOSS	(21,596,701)	(2,583,947)	(29,293,509)	(4,005,741)
Deficit - Beginning of the Period	(39,363,648)	(2,246,584)	(31,666,840)	(785,790)
Adjustment to Opening Deficit	-	-	-	(39,000)
Deficit - End of Period	<u>(60,960,349)</u>	<u>(4,830,531)</u>	<u>(60,960,349)</u>	<u>(4,830,531)</u>
Weighted average number of common shares	29,298,149	24,021,550	27,188,833	23,080,401
Basic earnings (loss) per share from continuing operations	\$ (0.42)	\$ (0.04)	\$ (0.61)	\$ (0.07)
Basic earnings (loss) per share	\$ (0.74)	\$ (0.11)	\$ (1.08)	\$ (0.17)

See accompanying Notes to the Consolidated Financial Statements

CYBERPLEX INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three month period ended		Nine month period ended	
	Sept. 30, 2001 (unaudited)	Sept. 30, 2000 (unaudited)	Sept. 30, 2001 (unaudited)	Sept. 30, 2000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	\$ (21,596,701)	\$ (2,583,947)	\$(29,293,509)	\$(4,005,741)
Items not affecting cash				
Amortization - capital assets	531,634	2,418,487	1,900,181	5,479,927
Amortization - goodwill	389,442	-	2,375,270	-
Write down of goodwill	6,864,507	-	6,864,507	-
Unrealized foreign exchange gain	30,562	-	(60,935)	-
Amortization of lease benefit	-	102,871	-	122,825
Amortization of lease inducements	(64,554)	(51,945)	(193,662)	(152,848)
Loss on disposal of Procure assets	9,092,746	-	9,092,746	-
Gain on settlement of LivGroup note	-	-	(2,752,878)	-
Accretion of interest	184,179	37,000	343,965	74,000
Changes in non-cash working capital				
Accounts receivable	(752,325)	(745,435)	3,453,017	(5,546,101)
Prepaid expenses and sundry assets	388,420	(357,466)	191,957	(1,087,742)
Work in progress	-	(189,810)	-	(248,644)
Accounts payable and accrued liabilities	(493,971)	(1,376,510)	(4,672,306)	2,271,260
Income taxes payable	-	469,890	-	877,090
Income taxes recoverable	45,208	-	(95,227)	103,208
Unearned revenue	(441,505)	185,598	(364,492)	364,004
	<u>(5,822,358)</u>	<u>(2,091,267)</u>	<u>(13,211,366)</u>	<u>(1,748,762)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from stock options	-	110,959	26,429	346,421
Issue of note payable on acquisition of Procure	-	-	-	14,777,597
Proceeds from private stock placement	-	-	-	1,968,750
Proceeds from leasehold benefit	-	-	422,632	1,541,816
Cash payment on settlement of LivGroup note	-	-	(4,043,063)	-
Principal payments under capital leases	<u>(207,992)</u>	<u>-</u>	<u>(808,023)</u>	<u>-</u>
	(207,992)	110,959	(4,402,025)	18,634,584
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of Procure	4,860,000	-	4,860,000	-
Acquisition of investment	-	-	-	(1,184,480)
Acquisition of Procure	-	-	-	(17,777,597)
Business acquisition costs, net of cash acquired	-	-	-	(125,192)
Acquisition of capital assets, net	<u>29,819</u>	<u>(2,240,133)</u>	<u>(527,731)</u>	<u>(7,093,616)</u>
	4,889,819	(2,240,133)	4,332,269	(26,180,885)
Foreign exchange gain (loss) on cash held in foreign currency	37,470	-	261,353	-
Change in cash, cash equivalents & short-term investments	(1,103,061)	(4,220,441)	(13,019,769)	(9,295,063)
Cash, cash equivalents & short-term investments, beginning of period	<u>7,106,223</u>	<u>21,647,048</u>	<u>19,022,931</u>	<u>26,721,670</u>
Cash, cash equivalents & short-term investments, end of period	\$ 6,003,162	\$ 17,426,607	\$ 6,003,162	\$ 17,426,607

See accompanying Notes to the Consolidated Financial Statements

Cyberplex Inc.
Notes to Consolidated Financial Statements
For the three month period ended September 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.

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 September 30, 2001 and 2000 and the results of operations and cash flows for the three and nine months ended September 30, 2001 and 2000. Interim results are not necessarily indicative of results for a full year.

3. Outstanding Shares:

As of September 30, 2001, there were 1,974,622 options, 1,375,714 warrants and 650,000 other convertible securities outstanding to acquire common shares of the Company.

4. Discontinued Operations:

On July 6th, 2001 the Company disposed of 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.

The results from discontinued operations have been reported separately and include operating losses up to the disposal date. Revenue included in the financial results of discontinued operations is as follows:

	Three month period ended		Nine month period ended	
	Sept 30, 2001	Sept 30, 2000	Sept 30, 2001	Sept 30, 2000
Managed Services Revenue	-	\$ 302,503	\$ 653,734	\$ 702,722

5. Basic earnings (loss) per share:

Basic earnings (loss) per share from continuing operations and basic earnings (loss) per share including discontinued operations are based on the weighted average number of common shares outstanding during the period. Fully diluted loss per share information for the three and nine months ended September 30, 2001 has not been provided as it is anti-dilutive.

6. Restructuring and Goodwill write down charges:

i) The Company recorded a \$1,104,271 charge for restructuring that includes severance and similar expenses, as well as costs associated with exiting certain facility leases.

ii) At the end of the quarter management implemented a plan for the downsizing of the Company's operations in San Francisco acquired through the I-Socket acquisition. As a result, the Company assessed a permanent impairment of all existing I-Socket goodwill and recorded a goodwill impairment charge of \$6,864,507. Determination and measurement of the impairment was made from the examination of the future, undiscounted cash flows projected over the remaining life of the applicable goodwill.

7. Segmented Information:

With the sale of Procure the company operates in one business segment – Internet professional services. The Company earned revenue by geographic location as follows:

	Three month period ended	
	Sept 30, 2001	Sept 30, 2000
Canada	\$ 1,258,241	\$ 1,583,952
International	1,710,060	11,615,646
	<u>\$ 2,968,301</u>	<u>\$ 13,199,598</u>

Capital assets and goodwill by geographic location:

	As at	
	Sept 30, 2001	June 30, 2001
Canada	\$ 9,495,345	\$ 30,704,479
International	552,915	565,388
	<u>\$ 10,048,260</u>	<u>\$ 31,269,867</u>