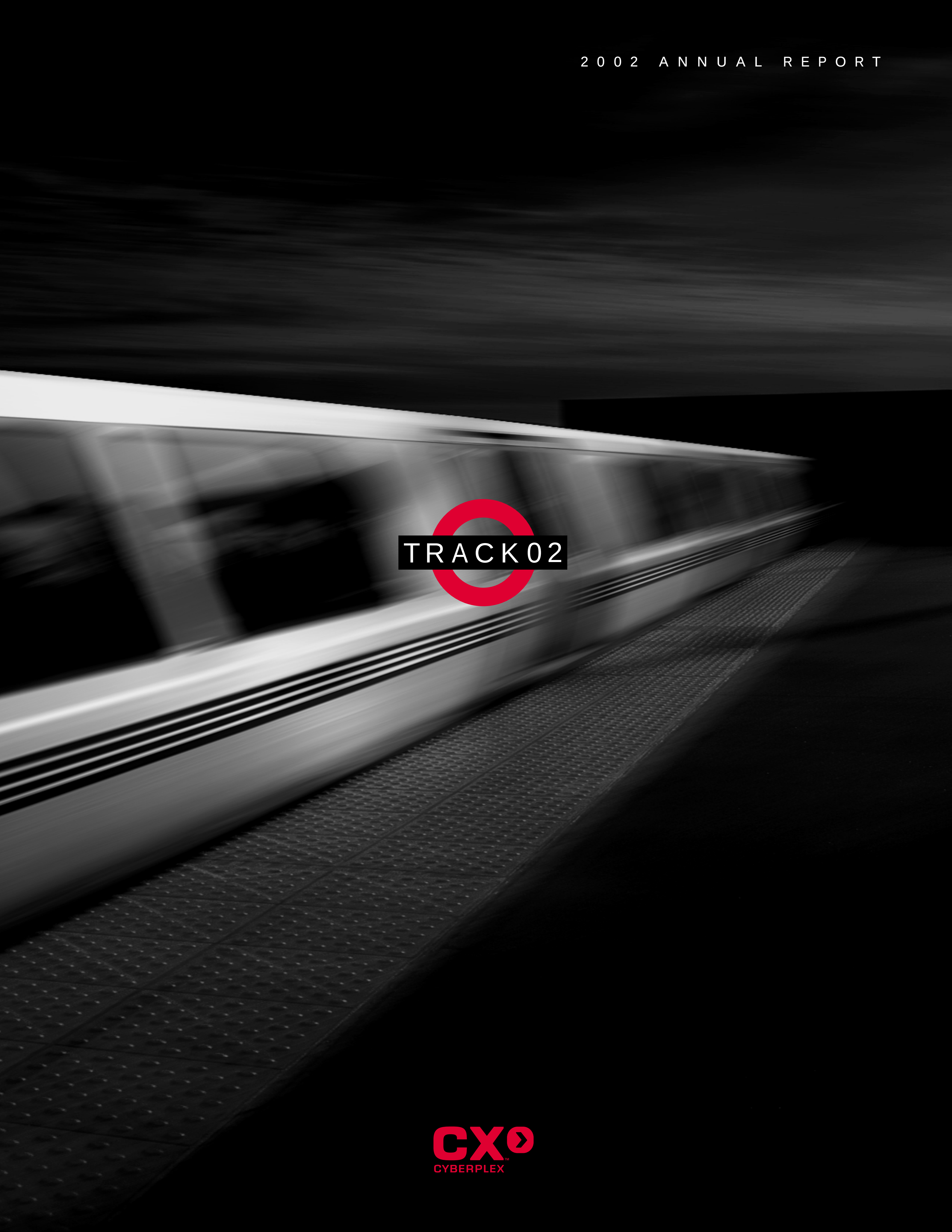
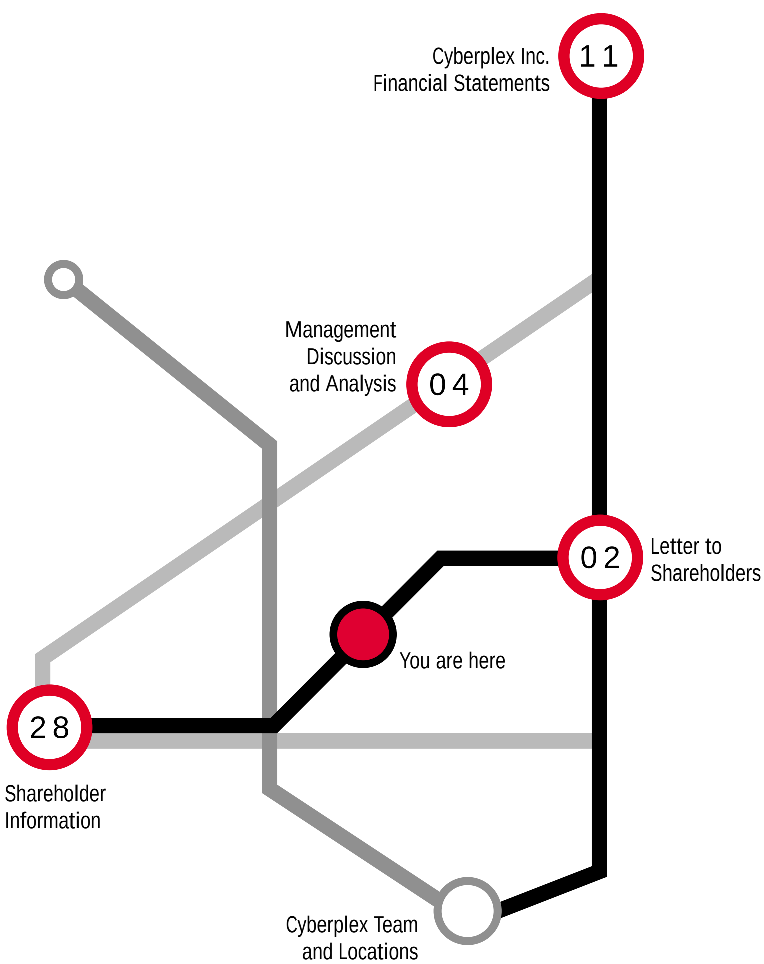

2002 ANNUAL REPORT
TRACK02
CX
CYBERPLEX

“Do not go where the path may lead, go instead where there is no path and leave a trail.”
Ralph Waldo Emerson (1803 - 1882)

ROUTE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LETTER TO SHAREHOLDERS

2002 was a year of transition for us, one in which we finished the work to put the old CX behind us and began focusing on building for the future. Despite the challenging market conditions we are pleased with the progress that we made during the year and feel that we are a stronger company than we were a year ago.

In our 6th year as a public company, and our 8th year in business, our focus was on remaining profitable, stabilizing revenue, and carving out a defendable market position on which to base the future. For the second year in a row, and for the second time in our history, our revenue declined. Revenue for 2002 totalled $7.9 million, down significantly from $17.7 million in 2001. However, by the second half of the year we had stabilized our revenue and started to show nominal growth. In addition, we continued to manage our costs carefully to ensure that operational profitability was maintained throughout the year. Our gross margins were strong and among the best in the industry at 56%, a significant improvement over the 41% we posted in 2001. Furthermore, as a result of our focus on profitability we recorded an EBITDA of $678,000 for the year, a major improvement over the $6.2 million loss from 2001. We were also successful at improving our balance sheet. During the year we successfully eliminated several long-term obligations, including a large debt from the purchase of Procure.com, and a number of significant facility leases. As a result, we ended the year with approximately $4 million of cash and no long-term debt.

What you can't see from the encouraging financial results is all of the work that we have done to reposition the company and to prepare it for the future. Over the course of the year we made substantial progress on three strategic dimensions:

I. Renew Our Value Proposition to the Market

In 2002 we took a hard look at the services that we offered our clients and compared them to the alternatives and the trends that were shaping our industry. It became obvious that significant changes were occurring in the types of services that clients required and where they were looking to fulfill their needs. We clearly needed to be proactive to address these changes or risk being marginalized as a business. Clients no longer needed much help with custom application development as they had invested significantly over the previous five years in major technology projects. Instead, clients were struggling with how to get the most value from their existing systems. Furthermore, most of the custom application development work was being commoditized, and was being awarded to offshore providers or other sources of low cost, low risk development talent.

Instead of attempting to compete with the low cost providers, we shifted our emphasis towards helping clients take advantage of their existing investments in technology. Our message to the market was that our experience with contemporary technology and architecture at the enterprise level could produce solutions that had an immediate and tangible business impact. This value proposition proved effective and we were able to attract a number of new clients, each of which is now a strong reference of our capabilities in this area.

We are encouraged by these results and continue to refine our message to the market and to take every opportunity to communicate it to potential clients.

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II. Get Vertical

Given this new value proposition, it became clear that a significant amount of domain knowledge and experience would be required in order to be effective. As a result, we needed to align our efforts with a single vertical in order to be most effective. Financial services was a clear choice as a number of industry forces were at work requiring firms to leverage their investments in technology, and yet few would have the internal capabilities to consider solutions at an enterprise level. Furthermore, we had a number of reference clients in this area already and could clearly demonstrate knowledge of the domain.

Over the course of the year we focused our efforts on building credibility with this vertical. We recruited new staff with expertise in this market, developed partnerships with key suppliers to the vertical, developed specific points of view surrounding key business issues designed to demonstrate our understanding of the market, and we focused our sales efforts primarily on accounts in financial services. The combination of these efforts resulted in the attraction of several new clients and a general repositioning of the company within this segment.

III. Complement Services with Solutions

Looking ahead we feel strongly that it is important to augment our professional services offering in the marketplace by combining it with a specific software product offering. We see a number of advantages of this configuration. Specifically, it allows the market positioning of the firm to be clarified and the sales activities to be more focused. Furthermore, it adds a longer term set of revenue streams in the form of license and maintenance. It also provides leverage to the delivery of services as the consultants have a chance to reuse insight and methods from previous client situations translating to higher margins. Finally, it permits the development of a number of sales channels through the major consulting firms to enhance the direct sales efforts that should result in a more rapid acquisition of clients. We are pursuing this strategy in two ways: mining existing client relationships for solutions that have broad appeal, and aggressively looking to acquire a product business as the core of the offering.

LOOKING FORWARD

2003 promises to be as difficult as 2002 as we continue with our restructuring initiatives, and have to deal with an uncertain economic climate. As a result, our goals for 2003 are modest:

1. Ensure operational profitability throughout the year

2. Continue the pattern of consistent revenue growth

3. Develop a solutions business to complement our services model

We have survived a tremendous amount of change over the past several years and are wiser and more experienced for it. In 2003 we are looking to capitalize on some of that wisdom, as we firmly believe that we have developed a solid foundation on which to build. While over the past several years it has felt like we were at the end of a process, 2003 feels like we are at the start of something new and exciting.

THANK YOU

After 8 challenging years we continue to be humbled by the amount of support and goodwill that we receive from our stakeholders. Without this constant source of fuel we would not have had the strength or capacity to survive this long.

While there are too many people to thank individually, a number of distinct groups stand out that deserve our heartfelt thanks. The committed people of CX and their families have consistently believed in us, and in our work, and have delivered incredible value to our clients despite uncertainty and change. Our alumni have been there on the sidelines cheering us on, ready to help when called upon. Our clients have continued to believe in our abilities and trusted us with their work, when safer options were available. Our Board of Directors has waded into the challenges with us allowing us access to their collective experience and relationships. And, our shareholders have continued to believe in our potential despite a turbulent financial market.

Thank you to everyone for believing in CX. Your support and assistance has allowed us to see 2003 as the start of something exciting.

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. (also referred to as "we", "us", "our", "Cyberplex" and the "Company") 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 enterprise integration firm that helps clients consolidate and simplify their technology architecture in order to eliminate duplication and inefficiency at an enterprise level. We have a particular focus on the financial services industry, where we combine state-of-the-art architecture and suites of integration tools with the investments that our clients have already made in technology. The solutions we build permit our clients access to information and functionality previously isolated to specific parts of the organization liberating them to be more proactive and strategic in their industry.

In order to generate value for our Fortune 1000 clients, our consultants work to acquire the information needed to understand our clients' business, the competitive environment, and the opportunities available.

Once this information is obtained, business architects, technology experts, and design teams identify areas where the development and integration of advanced applications can improve our clients' existing business. We then offer a comprehensive range of services to deliver these solutions, including project management, application development, systems integration, application maintenance, user-centered interface design, and audience development.

With production centres located in Canada and sales offices located in both Canada and the United States, our technology and consulting professionals are able to serve clients located anywhere in North America.

CYBERPLEX YEAR IN REVIEW

2002 was a transition year for Cyberplex. A significant amount of time and resources were invested to reposition ourselves for not only survival, but also for growth in this new economic climate.

Two years ago, our plans were to restructure the Company and address the significant changes that had impacted the market for technology services. Although we had been able to forecast some of the changes that were going to impact our business, we were unable to anticipate the severity and the speed with which these changes took place. As a result, our restructuring efforts in 2001 were not sufficient. The continued contraction of the technology market, the new value that clients expected, the new skills that technology companies needed to possess, and the new economic climate became abundantly clear in 2002. It was at this time that the full impact of the downturn in the technology community was known.

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Cyberplex continued to reposition itself both financially and strategically. As we strived to be recognized as a survivor in the market with a defensible market position, we needed to ensure that we had aligned our costs appropriately to allow the company to return to operational profitability. In order to accomplish our goals for 2002, our initial steps were to ensure that our existing clients were serviced exceptionally well, to redefine our value proposition, and to institute a plan that would result in a stable cost structure from which to grow profitability. Having now completed the year, we believe that we were successful on all of these fronts and plan to continue to focus and build on these foundations in the coming years. Some of our major milestones in 2002 included:

- Revenue from existing clients remained strong, accounting for approximately 86% of revenue, consistent with the previous year despite the significant market downturn.
- Our value proposition was refined to specifically address the needs of firms in the financial services sector. Our ability to focus on the enterprise needs of firms in this area has proved successful as we were able to build and secure new relationships with firms like Thompson Financial and Royal Bank.
- Operational profitability was restored during the year as results for three of the four quarters provided EBITDA margins ranging from 7% to 14%.

- During the first quarter of 2002, we were able to restructure the final portion of our $5 million debt owing to Livgroup Investments Ltd. Under the terms of the deal, Cyberplex made a one-time cash payment of $2.25 million, in exchange for the settlement of the $5 million promissory notes and all accrued interest and other rights associated with the notes.

- Continued evaluation of our cost structure which allowed us to both proactively plan for future operations as well as respond quickly to any changes in the industry.

By the end of 2002, the Company had changed significantly. The total number of employees had decreased, our production facilities were consolidated to Toronto and Halifax, and our specialization in the financial services sector was beginning to show results. Financially, by the fourth quarter of 2002, the Company had once again surfaced as a profitable entity with some of the highest gross margins in the industry. As a result, Cyberplex had successfully transformed itself, in expertise and financial performance, to re-emerge as a competitive player in the technology sector.

SOURCES OF REVENUE AND REVENUE RECOGNITION

Our revenues are derived primarily from fees for 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. Even under agency of record agreements, however, a client may terminate our services on relatively short notice. As experienced in previous years, a significant amount of our costs are fixed and a material variation in the number of or value in any significant engagements, 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, if the industry dictates a shift towards more fixed price engagements, we will be required to follow suit. At the beginning of any fixed-fee engagement, we estimate the total cost of the project and recognize revenue on a percentage of completion basis. We then review the revenue recognized on a quarterly basis and, to the extent that we discover any inaccuracies in the estimates or cost overruns due to unforeseen requirements, adjustments are made in that period.

In 2002, our largest three clients accounted for approximately 62% of revenue. No other client exceeded 10%, and our top 10 clients accounted for just over 95% of revenue. In the future, it is possible that a few accounts will continue to 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 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 a publicly traded international organization, including travel, accommodation, training, recruiting, finance and legal. Sales and marketing expenses relate to all costs associated with building our sales force, maintaining our brand, and all other forms of shareholder communication. Interest on long-term debt and capital leases results primarily from costs incurred from capital leases during the year.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2001, the Accounting Standards Board of the CICA issued Handbook Section 3870. Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which shares of common stock, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments.

Section 3870 sets out a fair value based method of accounting that is required for certain, but not all, stock-based transactions. Section 3870 must be applied to: all stock-based payments to non-employees, and to employee awards that are direct awards of stock, that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy that no compensation cost is recorded on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital and contributed surplus.

Section 3870, however, does require additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options.

The Company adopted Section 3870 for its fiscal year beginning January 1, 2002. The adoption of this standard did not have a material impact on the Company's financial condition or results of operations.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

Financial Summary

The following table summarizes selected unaudited quarterly financial data over the past two fiscal years. The information should be read in conjunction with our consolidated financial statements and related notes. The operating results for any quarter are not necessarily indicative of results for any future period.

Fiscal 2002

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 2,733	$ 2,394	$ 1,394	$ 1,400
Net Income (Loss)	$ 2,366	$ 155	$ (163)	$ (271)
Earnings (Loss) per share:				
Basic	$ 0.08	$ 0.01	$ (0.01)	$ (0.01)
Diluted	$ 0.07	$ 0.01	$ (0.01)	$ (0.01)

Fiscal 2001

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 7,292	$ 5,438	$ 2,968	$ 2,677
Net Income (Loss) from continuing operations	$ (3,529)	$ (765)	$ (12,409)	$ (7,236)
Net Income (Loss)	$ (5,492)	$ (2,205)	$ (21,597)	$ (7,481)
Earnings (Loss) per share:				
Basic from continuing operations	$ (0.14)	$ (0.03)	$ (0.42)	$ (0.25)
Basic	$ (0.22)	$ (0.08)	$ (0.74)	$ (0.26)
Diluted from continuing operations	$ (0.14)	$ (0.03)	$ (0.42)	$ (0.25)
Diluted	$ (0.22)	$ (0.08)	$ (0.74)	$ (0.26)

Revenue

Revenue for 2002 was $7.9 million, down $9.8 million, or 55%, from $17.7 million in 2001. The reduced revenue resulted from the continued decline in technology spending by many of our customers and in the overall market place. Difficult and uncertain economic conditions persisted throughout 2002 and the Company experienced continued decline in demand for its services as customers delayed both future and existing technology projects. This decline, in conjunction with increased competitive pressures, resulted in more competitive bids and more competitive pricing requirements, all of which impacted our results.

Direct Costs

Cyberplex was able to successfully maintain gross margin levels above 50% throughout 2002. This was accomplished by focusing our efforts on accurately aligning direct costs with revenues. Direct costs decreased 67%, or $7 million, to $3.5 million for 2002, down from $10.5 million in 2001. Specific direct cost reductions were realized by decreasing underutilized resources, increasing the use of contract-based personnel and improving overall project management.

Sales & Marketing

Sales and marketing expenses, consisting primarily of salaries and facility costs for our sales and marketing staff, were $0.9 million for the year. This represents a decrease of $3.9 million, or 81%, when compared to 2001. This substantial decrease in spending reflects the changes the Company has made to its sales and marketing teams and their associated overhead costs, as well as reduced advertising and promotional spending throughout the year.

General & Administrative

General and administrative expenses were down significantly in 2002 as a result of the Company's continued restructuring initiatives and the full impact of the intense cost reduction efforts made in the previous two years. Expenses in this category were $2.8 million for 2002, representing a reduction of $5.8 million, or 67%, when compared to the $8.6 million of general and administrative expenses incurred in 2001. Specific savings were realized by reducing non-billable headcount, closing the Company's Waterloo facility, and reducing all discretionary spending.

Other Income & Expenses

Amortization was $0.9 million in 2002, down $16 million when compared to the $16.9 million recorded in 2001. This reduction can be attributed to the fact that in 2001 various assets were deemed permanently impaired and as a result were written down at the end of the year. Capital asset write downs amounted to $5.9 million in 2001 whereas the write down at the end of 2002 amounted to less than $0.5 million. In addition, the Company had a goodwill amortization of $6.9 million in 2001 and none in 2002.

A gain of $2.6 million was recorded in 2002 from the settlement of the notes payable resulting from our acquisition of Procure.com Inc. ("Procure") in 2000. Under the terms of the deal, Cyberplex made a one-time cash payment of $2.25 million, in exchange for the settlement of $5 million in promissory notes and all accrued interest and other rights associated within.

In 2001, we recorded a restructuring charge of $1.3 million relating to various restructuring provisions primarily consisting of unutilized space and lease exit costs for facilities that were no longer in use. No amount was recorded in 2002.

Net Income

The Company realized a net income of $2.1 million, or $0.07 per common share, for the year ended December 31, 2002. The most significant factor in this number is the $2.6 million gain previously discussed. Overall, these results compare favourably to 2001, when a net loss from continuing operations of $12.8 million, or $0.86 per share, and an overall net loss of $36.8 million, or $1.33 per share, was incurred. When analyzed on an operating basis, measured before amortization, one-time items, and interest income and interest expense, the Company generated an operating income of $0.7 million, compared to an operating loss of $6.2 million in 2001.

Balance Sheet

At December 31, 2002 our holdings of cash, cash equivalents, and short-term investments of $3.92 million, had decrease $2.2 million from the $6.1 million at the end of 2001. This decrease is due primarily to the one-time payment of $2.25 million, resulting from the settlement of the notes and the exit costs associated with closing our Waterloo facility of $0.2 million. Accounts receivable of $1.9 million are up $0.3 million due to a few large invoices that went out late in the year.

Accounts payable and accruals are down by approximately $1 million due to a significant reduction in our trade payables as well as the reduction in various restructuring provisions that were used during the year. Unearned revenue relates to invoices sent out prior to work being performed and the other long term liabilities relate primarily to restructuring provisions recorded in previous years.

Liquidity and Capital Resources

Cash flows from operating activities were effectively break-even in 2002, whereas 2001 resulted in a use of cash from operating activities of $9.7 million. The improvement is due to favourable operating results in 2002 and the Company's strong commitment to protecting its cash position by working towards operational profitability.

Financing activities undertaken during the year contributed to a use of cash of $3.1 million compared to a use of cash of $4 million in 2001. The majority of the cash outflow can be attributed to the one-time cash payment of $2.25 million relating to the settlement of the promissory notes from the Procure acquisition.

Investing activities resulted in a source of cash of only $0.4 million for 2002, compared to a source of cash of $14.7 million for 2001. Investing inflows included the receipt of a $0.6 million note and $0.3 million in proceeds from the sale of unutilized capital assets. These inflows were offset by the net purchase of $0.5 million of short-term interest bearing investments. In 2001, investing activities were impacted by the reclassification of cash between short-term investments and cash on the balance sheet, accounting for $9.8 million and $5.2 million resulting from the sale of the discontinued operations.

RISKS RELATING TO CYBERPLEX AND THE TECHNOLOGY INDUSTRY

Risk Factors

Although management has a confident outlook for Cyberplex and continually improves and adapts the Company's risk mitigation strategies, operating in the technology sector inherently involves a certain level of risk and uncertainty. The Company continues to expand and refine management controls, cost controls, reporting systems, and overall policies and procedures in order to minimize the impact of potential risks and uncertainties. In management's opinion, the following factors, among others, should be considered when evaluating its results of future operations.

General Economic Weakness

The general economic environment, especially that of the technology sector, impacts the Company and its customers. The general economy impacts client spending, capital availability increased operating losses, and overall operating difficulties.

Dependence on Key Personnel

Cyberplex's success depends to a significant extent on the abilities and efforts of its senior management and technical personnel. The loss of, or inability to, attract and retain 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 an adverse effect on the Company's business.

Demand for Cyberplex's Products and Services

The market for interactive products and services is constantly evolving and becoming increasingly competitive. Cyberplex's success depends on our ability to create, develop, and deploy interactive strategies and solutions that service existing clients and attract new ones.

Dependence on the Internet

A significant portion of the sales of Cyberplex's products and services depend 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.

Competition

The professional services market for technology is highly competitive. Competition is faced from Internet professional service firms, advertising agencies, system integrators, and internal IS/IT organizations. The Internets continual progression, the increasing rate of technological change, and the evolution of customer needs and values will continue to create significant opportunities and challenges for the Company and its competitors. Any failure by the Company to anticipate or react to new technological changes and customer needs could have an adverse effect on future revenues and/or market share.

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 our technology solutions 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 these initiatives 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, client 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.

2002 was a transition year for Cyberplex. Our Company was transformed from an entity that was quickly cutting costs and reacting to issues, to an organization with a financial model and value proposition that would attract clients and enable management to proactively plan for the future. We had emerged from the storm that hit the technology community as a smarter, leaner, and much more focused company.

We are smarter due to our ability to process the information that we receive both internally and externally. Our systems and reporting have been improved to allow for a much more disciplined approach to the management of our resources. In addition, our insights into technology and our clients industries have enabled us to provide more value to our clients then ever before.

Our downsizing has resulted in not only a decrease in costs, but also the ability to re-focus on our core offering and to adapt to changes in the marketplace without any significant disruption to our business. As a result, our leaner cost structure has provided the financial stability that both clients and employees expect from any growing organization.

Our value proposition and our focus towards financial services has simplified our approach to the industry. We have a knowledge base that can immediately provide our clients with quantifiable results and also direct where future sales efforts should be made.

Overall, we have emerged from 2002 as a much stronger company. Our client relationships, our ability to satisfy significant balance sheet items, our properly aligned cost structure, our ability to operate profitably, our team and the fact that we have survived some of the toughest market conditions for technology companies in history, have positioned us well for the future. We believe that all of our work over the past two years will allow us to achieve our goals of continued growth and profitability for the future.

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

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Cyberplex Inc. as at December 31, 2002 and 2001 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 14, 2003

CYBERPLEX INC.

Consolidated Balance Sheets
December 31, 2002 and 2001

ASSETS

	2002	2001
Current assets:		
Cash and cash equivalents (note 2)	$ 814,304	$ 3,550,302
Short-term investments (note 2)	3,103,618	2,596,917
Accounts receivable, net of allowance for doubtful accounts of $206,196 (2001 - $350,741)	1,862,149	1,590,282
Note receivable (note 12)	–	600,000
Income taxes recoverable	–	237,377
Prepaid expenses and sundry assets	244,170	440,642
	6,024,241	9,015,520
Capital assets (note 3)	2,287,661	3,550,097
	$ 8,311,902	$ 12,565,617

LIABILITIES AND SHAREHOLDERS' EQUITY

	2002	2001
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,135,796	$ 4,122,747
Current portion of obligations under capital leases (note 5)	196,373	541,613
Deferred lease inducements	106,984	167,845
Unearned revenue	457,165	308,719
	3,896,318	5,140,924
Long-term notes payable (note 11)	–	4,079,107
Obligations under capital leases (note 5)	–	196,373
Future income taxes (note 8)	162,019	295,661
Other long-term liabilities (note 10(a))	1,352,002	1,724,222
Shareholders' equity:		
Capital stock (note 7)	68,836,758	69,571,017
Deficit	(65,935,195)	(68,441,687)
	2,901,563	1,129,330
Commitments (notes 5 and 6)		
	$ 8,311,902	$ 12,565,617

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, 2002 and 2001

	2002	2001
Revenue	$ 7,907,253	$ 17,721,472
Cost of sales	3,486,019	10,511,287
	4,421,234	7,210,185
Expenses:		
Sales and marketing	901,931	4,790,560
General and administrative	2,841,034	8,633,070
	3,742,965	13,423,630
Income (loss) before the undernoted	678,269	(6,213,445)
Amortization (note 14)	(941,474)	(16,987,952)
Write-down of short-term investments	(11,845)	(1,098,734)
Gain on settlement of long-term notes payable (note 11)	2,567,438	2,752,878
Restructuring charges (note 10)	–	(1,268,494)
Interest income	71,752	164,651
Interest on long-term debt	(276,394)	(1,288,846)
	1,409,477	(17,726,497)
Income (loss) before discontinued operations	2,087,746	(23,939,942)
Loss from discontinued operations (note 12)	–	(12,834,905)
Net income (loss)	2,087,746	(36,774,847)
Deficit, beginning of year	(68,441,687)	(31,666,840)
Gain on settlement of equity component of note (note 11)	418,746	–
Deficit, end of year	$ (65,935,195)	$ (68,441,687)
Income (loss) per share from continuing operations (note 15):		
Basic	$ 0.07	$ (0.86)
Diluted	0.07	(0.86)
Income (loss) per share (note 15):		
Basic	0.07	(1.33)
Diluted	0.07	(1.33)

See accompanying notes to consolidated financial statements.

CYBERPLEX INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2002 and 2001

	2002	2001
Cash flows used in operating activities:		
Net income (loss) from continuing operations	$ 2,087,746	$ (23,939,942)
Items not involving cash:		
Amortization	941,474	16,987,952
Gain on settlement of long-term notes payable	(2,567,438)	(2,752,878)
Loss on rent restructuring	–	164,223
Write-down of short-term investments	11,845	1,098,734
Unrealized foreign exchange gain	(4,167)	(128,713)
Accretion of interest	158,434	540,477
Change in non-cash operating working capital (note 13)	(629,995)	(1,639,040)
Cash flows used in continuing operating activities	(2,101)	(9,669,187)
Cash flows used in discontinued operations	–	(2,986,074)
Cash flows used in financing activities:		
Reduction in long-term liabilities	(372,220)	–
Settlement of long-term notes payable	(2,250,000)	(4,043,061)
Cash received for leasehold inducements	–	422,632
Reduction of obligations under capital leases	(541,613)	(380,334)
Proceeds from stock options exercised	–	26,743
Cash flows used in financing activities	(3,163,833)	(3,974,020)
Cash flows from investing activities:		
Net sale (purchase) of short-term investments	(518,546)	9,854,618
Disposal (additions) to capital assets	345,826	(433,414)
Proceeds from note receivable	600,000	–
Proceeds from sale of discontinued operations, net of transaction costs	–	5,238,778
Cash flows from investing activities	427,280	14,659,982
Foreign exchange gain on cash held in foreign currency	2,656	46,939
Decrease in cash and cash equivalents	(2,735,998)	(1,922,360)
Cash and cash equivalents, beginning of year	3,550,302	5,472,662
Cash and cash equivalents, end of year	$ 814,304	$ 3,550,302

Supplemental disclosure of cash flow information (note 13)

See accompanying notes to consolidated financial statements.

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

The Company, through its subsidiaries, is an enterprise integration firm that helps its corporate and industrial clients consolidate and simplify their technology architecture at the enterprise level.

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 acquired subsidiaries are included in these consolidated financial statements from the date of acquisition. Intercompany transactions and balances are eliminated on consolidation.

(b) Financial instruments:

The fair values of cash and cash equivalents, short-term investments, accounts receivable, note receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments. Obligations under capital leases and the promissory notes payable approximate fair values based on current borrowing rates for similar instruments.

(c) Revenue recognition:

The Company's revenue consists of professional services revenue. Professional based on 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.

(d) 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% - 50%
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.

(e) Research and software development costs:

Research costs, net of related investment tax credits, are expenses as incurred. Costs related to development of software, net of related investment tax credits, are expensed as incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. The Company has not deferred any software development costs during 2002 or 2001.

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

(f) Stock-based compensation:

Effective January 1, 2002, the Company adopted The Canadian Institute of Chartered Accountants' Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash and other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments.

The new standard permits the Company to continue its existing policy of not recording compensation cost on the grant of stock options to employees but disclosing, on a pro forma basis, net earnings and earnings per share had the Company adopted the fair value method for accounting for options granted to employees. No restatement of prior periods is required as a result of the adoption of the new standard. Refer to note 7(c) for the disclosure required by the new standard.

(g) Income (loss) per share:

Basic income (loss) per share is computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted income (loss) per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(h) 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.

(i) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, 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. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(j) 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 consolidated 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 in the year in which they occur.

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

(k) Deferred lease benefits:

Deferred lease benefits 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 are drawn down as the benefit is received.

2. Cash, cash equivalents and short-term investments:

Cash consists of deposits with major financial institutions. Cash equivalents are highly liquid investments with an initial maturity of less than 90 days. The major components of cash and cash equivalents are as follows:

	2002	2001
Cash on deposit	$ 814,304	$ 1,350,475
Corporate notes, at annual rates of interest varying between 1.9% and 2.1%	–	2,199,827
	$ 814,304	$ 3,550,302

Short-term investments include highly liquid marketable securities and investments with an initial maturity of 90 days or more and are carried at the lower of cost or market value. The major components of the Company's short-term investments are as follows:

	2002		2001	
	Cost	Fair market value	Cost	Fair market value
Marketable securities	$ 28,131	$ 28,131	$ 39,976	$ 214,682
Corporate notes, at annual rates of interest of approximately 4%	3,075,487	3,075,487	2,556,941	2,556,941
	$ 3,103,618	$ 3,103,618	$ 2,596,917	$ 2,771,623

A write-down of marketable securities of $11,845 was recorded during the year.

3. Capital assets:

2002	Cost	Accumulated amortization	Net book value
Furniture and equipment	$ 1,707,104	$ 1,402,847	$ 304,257
Computer equipment	3,798,053	3,252,667	545,386
Computer software	1,639,205	1,394,060	245,145
Leasehold improvements	5,300,868	4,107,995	1,192,873
	$ 12,445,230	$ 10,157,569	$ 2,287,661

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

3. Capital assets (continued):

2001	Cost	Accumulated amortization	Net book value
Furniture and equipment	$ 2,601,507	$ 1,891,467	$ 710,040
Computer equipment	4,006,374	3,084,530	921,844
Computer software	1,823,577	1,385,266	438,311
Leasehold improvements	6,035,865	4,555,963	1,479,902
	$ 14,467,323	$ 10,917,226	$ 3,550,097

Included above is furniture and equipment acquired under capital leases having an original cost of $145,063 (2001 - $145,063) and a net book value of $74,629 (2001 - $93,286). Included in computer equipment is equipment acquired under capital leases having an original cost of $2,799,496 (2001 - $2,799,496) and a net book value of $410,982 (2001 - $579,119).

4. Acquisitions:

(a) 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 "First 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 "Second 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 convertible into 30,000 of the Company's common shares over six semi-annual periods.

The fair value of the 100,000 non-voting preference shares issuable to the majority and minority shareholders as described above was $2,714,000 and was originally recorded as a commitment to issue capital stock and amounts were transferred to common shares upon conversion. During 2002, $324,000, representing the value ascribed to non-voting preference shares which were not converted to common shares, was transferred to contributed surplus (note 7).

(b) 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 299,996 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. The remaining 2,200,004 shares are contingently issuable on i-Socket meeting certain specified revenue results, calculated on each closing anniversary date over a three-year period.

In 2001, stock-based compensation totalling $2,339,215 was recorded on the issuance of 985,077 shares in accordance with the first earn-out. The measurement date for the compensation was the date on which the contingency was resolved and the share consideration became issuable.

In October 2001, the remaining two principal shareholders of i-Socket resigned from the Company. In addition to their resignation, both shareholders agreed to forfeit their eligibility to earn any of their remaining shares based on the earn-out criteria set out in the transaction.

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

4. Acquisitions (continued):

(c) Procure.com Inc.:

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 and Livgroup Investments Ltd. ("Livgroup") and bears interest at prime, compounded annually. The promissory note was measured and recorded at its fair value of $14,777,598. The note was subsequently renegotiated on April 26, 2001. Details of the renegotiated terms are outlined in note 11.

The consideration paid for each of the above acquisitions had 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 was recorded as goodwill and was being amortized as follows:

Saper	10 years
i-Socket	6 years
Procure	6 years

During 2001, the Company wrote down the goodwill due to permanent impairments (note 10(c)).

5. Obligations under capital leases:

Future minimum lease payments under capital leases which expire in 2003 amounted to $196,373 including amounts representing interest of $13,908. Interest incurred during the year amounted to $83,730 (2001 - $186,699).

6. Commitments:

The Company is required to make minimum payments under the terms of operating leases for premises and equipment expiring on various dates to September 2014. The Company has also entered into non-cancelable sublease agreements for certain premises. Lease commitments and related minimum amounts receivable under non-cancelable sublease agreements are as follows:

	Minimum operating lease commitments	Minimum rental receivable from non-cancelable subleases	Net lease commitments
2003	$ 2,185,478	$ 625,697	$ 1,559,781
2004	2,270,625	578,051	1,692,574
2005	2,083,905	596,250	1,487,655
2006	2,109,205	624,629	1,484,576
2007	1,488,333	–	1,488,333
Thereafter	11,648,236	–	11,648,236
	$ 21,785,782	$ 2,424,627	$ 19,361,155

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

7 Capital stock:

(a) Share capital:

Authorized:
Unlimited common shares

Issued:

	Number of common shares	Amount	Commitment to issue capital stock	Warrants	Equity component of financial instruments	Total
Balance, December 31, 2000	24,041,057	$ 58,861,974	$ 2,651,560	$ –	$ –	$ 61,513,534
Conversion of preferred shares (note 4(a))	203,690	877,484	(877,484)	–	–	–
Exercise of stock options	13,667	26,743		–	–	26,743
Acquisition of i-Socket (note 4(b))	985,077	2,339,215	–	–	–	2,339,215
Livgroup note settlement, net of share issue costs (note 11)	4,078,571	4,484,152	–	–	–	4,484,152
Issue of warrants (note 11(a))	–	–	–	473,114	–	473,114
Issue of convertible promissory note (note 11)	–	–	–	–	734,259	734,259
Balance, December 31, 2001	29,322,062	66,589,568	1,774,076	473,114	734,259	69,571,017
Conversion of preferred shares	342,889	1,774,076	(1,774,076)	–	–	–
Settlement of notes payable (note 11)	–	–	–	–	(734,259)	(734,259)
Balance, December 31, 2002	29,664,951	$ 68,363,644	$ –	$ 473,114	$ –	$ 68,836,758

(b) 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.

(c) Pro forma stock option disclosure:

Had compensation cost for the Company's stock-based compensation plans been determined using the fair value method at the grant dates of the awards, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

Net income:	
As reported	$ 2,087,746
Pro forma	2,020,968
Basic earnings per share:	
As reported	0.07
Pro forma	0.07
Diluted earnings per share:	
As reported	0.07
Pro forma	0.07

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

7. Capital stock (continued):

The Company's calculations for options granted were made using the Black Scholes option-pricing model using the following average assumptions:

Risk-free interest rate	3.87 %
Expected life (years)	3.37
Expected dividend yield	–
Expected volatility	101 %

The weighted average estimated fair value of the options issued during the year was $0.16.

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

	2002		2001	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,281,950	$ 3.95	2,186,495	$ 10.51
Granted	935,668	0.28	1,633,149	0.43
Exercised	–	–	(13,667)	1.96
Cancelled	(1,639,950)	5.11	(1,524,027)	9.61
Outstanding, end of year	1,577,668	0.27	2,281,950	3.95
Options exercisable, end of year	585,266	$ 0.26	614,740	$ 5.74

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

	2002			2001		
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
$0.20	40,000	4.98	40,000	–	–	–
$0.26	787,500	3.87	445,266	1,044,000	4.87	30,000
$0.28	690,168	4.51	40,000	–	–	–
$0.30 - $ 0.32	60,000	4.64	60,000	–	–	–
$0.75 - $ 2.21	–	–	–	595,966	2.89	269,667
$3.25 - $27.00	–	–	–	641,984	2.92	315,073
	1,577,668		585,266	2,281,950		614,740

8. Income taxes:

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

	2002	2001
Income tax recovery based on statutory rates	$ 806,288	$ (10,054,776)
Amortization of goodwill	–	2,932,495
Stock-based compensation	–	982,470
Non-taxable portion of gain on settlement of long-term note	–	(357,000)
Change in valuation allowance	(6,582,662)	6,242,539
Change in enacted tax rates	270,873	–
Other	5,505,501	254,272
	$ –	$ –

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

8. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2002 and 2001 are presented below:

	2002	2001
Future tax assets:		
Non-capital losses	$ 2,953,668	$ 7,825,000
Net capital losses	100,633	1,480,000
Capital assets	1,041,179	1,200,000
Share issue costs	111,269	220,000
Other assets	756,589	821,000
Total future tax assets	4,963,338	11,546,000
Less valuation allowance	4,963,338	11,546,000
Total future tax assets	–	–
Future tax liabilities:		
Other assets	(162,019)	(295,661)
Net future tax liability	$ (162,019)	$ (295,661)

The Company has Canadian non-capital loss carryforwards of approximately $7,300,000, which expire in years up to 2009.

9. Segmented information:

The Company has reviewed its operations and determined that it operates in one business segment, providing professional services, which includes internet strategy consulting and application development work.

	2002	2001
Revenue by geographic location of customer:		
Canada	$ 2,224,755	$ 7,143,068
U.S.	5,682,498	10,578,404
	$ 7,907,253	$ 17,721,472
Capital assets by geographic location:		
Canada	$ 2,258,451	$ 3,345,739
U.S.	29,210	204,358
	$ 2,287,661	$ 3,550,097

In 2002, three customers accounted for 62% of revenue and 76% of accounts receivable. In 2001, four customers accounted for 46% of revenue and 73% of accounts receivable.

10. Restructuring and impairment charges:

During 2001, the Company recorded a charge for restructuring and asset write-downs aggregating $12,986,906 as a result of changes in market conditions and in an effort to further consolidate operations. The amounts are comprised of the following:

	2002	2001
Restructuring charges (a)	$ –	$ 1,268,494
Capital assets write-down (b)	–	5,868,606
Goodwill write-down (c)	–	5,849,806
	$ –	$ 12,986,906

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

10. Restructuring and impairment charges (continued):

(a) The restructuring charges include severance and similar expenses, as well as the costs of occupying excess space in certain leased facilities and the estimated costs associated with exiting such facility leases. The Company's initiatives have resulted in the layoff of both production and head office support positions, for which the Company recorded a severance and termination provision of $469,000.

The Company recorded charges totalling $799,494 relating to estimated costs to exit certain leased premises. The charges were based on management's best estimates of net cash flows for the affected premises, including lease and operating payments, estimated sublease income, lease termination fees, and the anticipated time to sublease and/or terminate the lease. In connection with this charge, the deferred lease benefits and deferred lease inducements have been written down to their estimated realizable amounts.

The remaining accrual at December 31, 2002 of $1,702,592 (2001 - $2,500,366) of which $1,352,002 (2001 - $1,724,222) is classified in other long-term liabilities, relates solely to leased facilities.

(b) As a result of restructuring efforts, the Company wrote down $5,868,606 capital assets, including various leasehold improvements, which will no longer be utilized. The net book values of the affected assets were assessed as impaired, as they are not supported by undiscounted future cash flows. An impairment charge, recorded as accelerated amortization, was recorded to reduce the assets to their estimated recoverable amount.

(c) Due to changes in market conditions, the Company assessed permanent impairments in certain goodwill which existed at the end of 2001. The impairment charges, which were recorded as accelerated amortization, related to goodwill recorded on the i-Socket acquisition in the amount of $5,849,806.

Determination and measurement of this permanent impairment 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.

11. Notes payable:

(a) 2001:

On April 23, 2001, the Company and Livgroup settled the promissory note with a face value of $15,000,000 and a carrying value of $16,075,428, including accrued interest, which arose on the acquisition of Procure (note 4(c)). As a result, the Company recognized a gain on the early retirement of debt in the amount of $2,752,878, being the difference between the carrying value of the promissory note settled and the consideration given on settlement. In exchange for retiring the promissory note, the Company agreed to the following:

(i) Cash payment of $4,000,000;

(ii) Exchange $6,000,000 of principal plus accrued interest into common shares of the Company at the rate of $1.75 per share. The Company issued 4,078,571 common shares, which were recorded at their fair value of $4,484,152;

(iii) Issue one common share purchase warrant (the "warrants") expiring April 1, 2003 with an exercise price of $2.00 per common share for every five common shares issued under (b). The Company issued 815,714 warrants, which, for accounting purposes, were recorded at their fair value of $473,114; and

(iv) Issue a convertible promissory note and non-convertible promissory note of $2,400,000 and $2,600,000, respectively, bearing interest at prime plus 1% due in April 2003. The convertible promissory note is convertible into common shares of the Company in certain circumstances at a price of $4.00 per share subject to adjustments for future dilution.

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

11. Notes payable (continued):

The convertible promissory note for $2,400,000 has been segregated into its debt and equity components. The financial liability component, representing the present value of the face value amount plus all accrued but unpaid interest, is included in long-term liabilities. The remaining component, representing the value ascribed to the holder's option to convert the financial instrument into the Company's common shares is classified in shareholders' equity as the equity component of convertible instrument. These components have been measured at their respective fair values at the date the promissory note was retired. The liability component was recorded in the amount of $1,865,741 and the equity component of the convertible instrument was recorded at $734,259. The liability component is being accreted to the redemption value on a straight-line basis over the period to redemption.

The non-convertible promissory note was measured and recorded at its fair value of $1,722,222 and is being accreted to the redemption value on a straight-line basis over the period to redemption.

(b) 2002:

On March 18, 2002, the Company and Livgroup settled the convertible promissory note and the non-convertible promissory note issued during 2001 with face values of $2,400,000 and $2,600,000, respectively, in exchange for a cash payment of $2,250,000.

The cash payment of $2,250,000 was allocated to the carrying values of the debt and equity components of the promissory notes on a pro rata basis and resulted in a gain on settlement of long-term notes of $2,567,438 and a gain on settlement of the equity component of the note of $418,746.

12. Discontinued operations:

On July 6, 2001, the Company adopted a formal plan and disposed of substantially all of the assets of Procure, the Company's managed services business segment, to BCE Emergis. The sale included all of Procure's intellectual property, accounts receivable, customer contracts, licensed software, capital assets and certain leased assets. The Company remained responsible for Procure's liabilities. The Company has not continued the business of Procure subsequent to the disposition date and all of the liabilities have been settled as at December 31, 2001.

Total sale consideration received was $5,860,000, comprised of cash of $4,860,000 and two notes receivable totalling $1,000,000. Of the notes receivable, $400,000 was received in 2001 and $600,000 was received in 2002.

A loss on sale of discontinued operations of $8,095,343 was recorded, which included a write-down of the remaining Procure goodwill of $12,494,127 and professional fees associated with the sale of $21,222.

	2001
Managed services revenue	$ 649,175
Managed services direct costs	939,822
	(290,647)
Selling, administrative and research and development expenses	2,786,491
Loss before amortization, interest and other items	(3,077,138)
Amortization	1,627,766
Interest expense	34,658
Loss from discontinued operations	(4,739,562)
Loss on sale of discontinued operations	(8,095,343)
	$ (12,834,905)

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

13. Supplemental cash flow information:

	2002	2001
Change in non-cash operating working capital:		
Accounts receivable	$ (263,146)	$ 5,521,080
Income taxes recoverable	237,377	(100,412)
Prepaid expenses and sundry assets	110,747	459,830
Accounts payable and accrued liabilities	(729,777)	(7,363,229)
Unearned revenue	148,446	(156,309)
Future income taxes	(133,642)	–
	$ (629,995)	$ (1,639,040)
Supplemental cash flow information:		
Interest paid	$ 555	$ 184,688
Interest received	89,971	164,622
Income taxes paid	97,329	99,356
Supplemental disclosures of non-cash investing and financing activities:		
Common shares issued:		
On acquisition of i-Socket	–	2,339,215
On settlement of Livgroup note payable	–	4,484,152
Warrants issued on Livgroup notes settlement	–	473,114
Equity component of financial instruments	–	734,259

14. Amortization:

Details of amortization expense are as follows:

	2002	2001
Capital assets	$ 916,610	$ 7,920,828
Goodwill	–	6,982,134
Stock-based compensation (note 4(b))	–	2,339,215
	$ 916,610	$ 17,242,177

CYBERPLEX INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2002 and 2001

15. Income (loss) per share:

The computations for basic and diluted income (loss) per share are as follows:

	2002	2001
Income (loss) from continuing operations	$ 2,087,746	$ (23,939,942)
Net income (loss)	2,087,746	(36,774,847)
Average number of common shares outstanding:		
Basic	29,500,552	27,726,524
Effect of dilutive securities	117,678	–
Diluted	29,618,230	27,726,524
Income (loss) per share from continuing operations:		
Basic	$ 0.07	$ (0.86)
Diluted	0.07	(0.86)
Income (loss) per share:		
Basic	$ 0.07	$ (1.33)
Diluted	0.07	(1.33)

Due to the net losses in 2001, all potential common shares outstanding from dilutive securities are considered anti-dilutive and are excluded from the calculation of diluted loss per share. Details of potential dilutive securities as at each year end are as follows:

	2002	2001
Options (note 7)	1,577,668	2,281,950
Warrants (notes 7 and 11)	815,714	815,714
Convertible portion of notes payable (note 11(b))	–	650,000
Conversion of commitment to issue common shares	–	330,986
	2,393,382	4,078,650

SHAREHOLDER INFORMATION

The Annual and Special Meeting of the Shareholders will be held on June 26, 2003 at 10:00 am, at the Corporate Office of Cyberplex Inc., 267 Richmond Street West, Toronto, Ontario.

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BOARD OF DIRECTORS

Vernon Lobo	Managing Director, Mosaic Venture Partners
W. Dean Hopkins	Chief Executive Officer, Cyberplex Inc.
Paul Atkinson	Chairman and Chief Executive Officer, Casero Inc.
Geoffrey Rotstein	Chief Financial Officer, Cyberplex Inc.
Stephen Sadler	Chairman and Chief Executive Officer, Enghouse Systems Limited and Chairman of Helix Investments (Canada) Inc.
Peter Simon	Managing Director, FlatIron Information Services

SENIOR MANAGEMENT TEAM

W. Dean Hopkins	Chief Executive Officer
Geoffrey Rotstein	Chief Financial Officer
David Keating	President
Peter Bier	Vice President, Production

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CYBERPLEX

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"Do not go where the path may lead, go instead where there is no path and leave a trail."
Ralph Waldo Emerson (1803 - 1882)

STATIONS

SUSAN ARBING PAUL ATKINSON PETER BIER
JASON OTIS JULIE RECOLLET SCOTT ROGERS
CHRIS KILBURN KEN KUMAR-MISIR DAVID
LUKAS BLAIKIE CHARLA CUSINATO
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IERULLO RICHARD IRVING MICHELE JAMES PETER KANNIAH
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