



1st Quarter Report 2002

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Cyberplex Inc.
Management Discussion and Analysis
For the 3 month period ended March 31, 2002

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 first quarter of 2002 was a significant quarter for Cyberplex. After several quarters of reductions and losses, the results from this quarter demonstrate that many of the initiatives that had been started over the past twelve months were beginning to pay off.

Furthermore, in March 2002, we were able to negotiate a final settlement for the promissory notes that were to be due to Livgroup Investments Ltd. in April 2003. The \$5 million promissory notes, including accrued interest and any other rights outstanding, were retired in exchange for an immediate one-time cash payment of \$2.25 million. This new deal strengthens our balance sheet by eliminating the largest portion of our long-term debt, and will enable us to focus all efforts on building our business.

RESULTS OF OPERATIONS

Quarter ended March 31, 2002 compared to quarter ended March 31, 2001.

Revenue

Revenue for the three months ended March 31, 2002 was \$2.7 million, down \$4.2 million, or 61%, when compared to the same period a year earlier. As cited in previous quarters, the decline in revenue can be directly attributed to the reduced demand for technology services.

Direct Costs

Direct costs for the quarter were \$1.2 million, down \$2.7 million, or 69%, when compared to the same quarter in 2001. The decreased costs are a result of the reductions to production staff over the last 12 months. These reductions were required to appropriately align direct costs with revenues and return gross margins to desirable levels.

Sales & Marketing Expenses

Sales and marketing expenses, consisting primarily of salaries and allocated facility costs for our sales and marketing staff, was \$400,000 for the quarter. This represents a decrease of 1.2 million, or 75%, when compared to the same quarter in 2001. The 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 company.

General & Administrative Expenses

General and administrative expenses for the quarter were \$900,000. This represents a decrease of \$1.5 million, or 63%, from \$2.4 million a year ago and is a direct result of the intense cost reduction efforts that the Company has made to all overhead costs. In addition to the reduced number of non-billable personnel, cost savings have been realized by downsizing all facilities, reducing all discretionary spending, and through greater efficiency improvements throughout our operations.

Amortization

Amortization expense decreased to \$176,000, down from \$970,000 for the quarter ended March 31, 2001. The decrease is due to the reduction in the carrying values of our amortizable assets that resulted from the write-downs carried out in 2001.

LIQUIDITY AND CASH POSITION

Operating Activities

For the three months ended March 31, 2002, the Company had net cash inflow from operations of \$59,000, compared to a use of cash from continuing operations of \$4.8 million for the same quarter a year ago. The source of cash was a result of improved operational results combined with an increase in accounts payable and decrease in prepaid expenses and sundry assets. These items were offset by an increase in our accounts receivable that resulted from the timing of sales during the quarter.

Financing Activities

Financing activities for the quarter represented a use of cash of \$2.4 million, compared to a source of cash of \$192,000 for the same quarter in 2001. The use of cash is largely attributed to the final settlement payment of \$2.25 million to Livgroup for settlement of the \$5 million notes that were to be due in April 2003.

In addition, \$162,000 was spent on capital lease payments during the quarter. In 2001, the major component of our source of cash was \$390,000 in lease inducements from our landlord offset by \$225,000 in capital lease payments.

Investing Activities

Investing activities for the both the three-month period ended March 31, 2002 and the three-month period ended March 31, 2001 was comprised solely of capital asset additions. Capital asset additions for the current quarter were limited to \$4,000, compared to capital asset additions of \$432,000 for the same quarter ended 2001.

Cash Position

As at March 31, 2002, the company had cash, cash equivalents, and short-term investments of \$3.8 million, compared with \$12.7 million at March 31, 2001. This decrease in cash over the past 12 months relates predominately to the cash used to develop Procure and to settle the debt associated with its acquisition, as well as amounts spent on the various restructuring initiatives and the poor operating results of 2001.

RISKS AND UNCERTAINTIES

Cyberplex has not had any significant changes to its risks and uncertainties from those that were disclosed in the Company's 2001 MD&A.

OUTLOOK

Cyberplex has not had any significant changes to its outlook from those that were disclosed in the Company's 2001 MD&A.

CYBERPLEX INC.
Consolidated Balance Sheets
As at March 31, 2002 and December 31, 2001

	as at March 31, 2002 (unaudited)	as at December 31, 2001 (unaudited)
ASSETS		
Current Assets:		
Cash, cash equivalents and short-term investments	\$ 3,788,746	\$ 6,147,219
Accounts receivable, net of allowance for doubtful accounts of \$380,368 (December 31, 2001 - \$350,741)	2,282,794	1,590,282
Note receivable	600,000	600,000
Income taxes recoverable	71,425	237,377
Prepaid expenses and sundry assets	212,717	320,627
Current portion of deferred lease benefit	-	85,725
	<u>6,955,682</u>	<u>8,981,230</u>
Capital assets	3,377,625	3,550,097
Long-term portion of deferred lease benefit	34,290	34,290
TOTAL ASSETS	<u>\$ 10,367,597</u>	<u>\$ 12,565,617</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 4,288,744	\$ 4,122,747
Current portion of obligations under capital leases	480,460	541,613
Current portion of deferred lease inducements	133,577	133,577
Unearned revenue	362,063	308,719
	<u>5,264,844</u>	<u>5,106,656</u>
Long-term notes payable	-	4,079,107
Obligations under capital leases	94,832	196,373
Deferred lease inducements	20,403	34,268
Future income taxes	295,662	295,662
Other long-term liabilities	1,511,892	1,724,221
	<u>1,922,789</u>	<u>6,329,631</u>
SHAREHOLDERS' EQUITY		
Capital stock	66,589,568	66,589,568
Commitment to issue capital stock	1,774,076	1,774,076
Warrants	473,114	473,114
Equity component of financial instruments	-	734,259
Deficit	(65,656,794)	(68,441,687)
	<u>3,179,964</u>	<u>1,129,330</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 10,367,597</u>	<u>\$ 12,565,617</u>

CYBERPLEX INC.
Consolidated Statements of Operations and Deficit
For the three month periods ended March 31, 2002 and March 31, 2001

	Three months ended	
	March 31, 2002 (unaudited)	March 31, 2001 (unaudited)
Revenue	\$ 2,736,584	\$ 6,924,712
Cost of sales	1,220,487	3,890,965
Gross margin	1,516,097	3,033,747
Sales and marketing expenses	384,873	1,585,344
General and administrative expenses	940,297	2,412,298
	<u>1,325,170</u>	<u>3,997,642</u>
EBITDA, before undernoted items	190,927	(963,895)
Amortization - Capital assets	176,356	636,343
Amortization - Goodwill	-	333,067
EBIT, before undernoted items	14,571	(1,933,305)
Write-down of investment	-	(451,020)
Gain on settlement of long-term notes payable	2,567,438	-
	<u>2,582,009</u>	<u>(2,384,325)</u>
EBIT	2,582,009	(2,384,325)
Interest income	22,089	37,623
Interest on long term-debt	(237,951)	(418,259)
	<u>2,366,147</u>	<u>(2,764,961)</u>
INCOME/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS	2,366,147	(2,764,961)
PROVISION FOR INCOME TAXES	<u>-</u>	<u>-</u>
INCOME/(LOSS) FROM CONTINUING OPERATIONS	2,366,147	(2,764,961)
Loss from discontinued operations	-	(2,726,671)
NET INCOME/(LOSS)	<u>\$ 2,366,147</u>	<u>\$ (5,491,632)</u>
Deficit - Beginning of the Period	(68,441,687)	(31,666,840)
Gain on settlement of equity component of note	<u>418,746</u>	<u>-</u>
Deficit - End of Period	<u>\$ (65,656,794)</u>	<u>\$ (37,158,472)</u>
Weighted average number of common shares - basic	29,322,062	24,422,950
Weighted average number of common shares - diluted	32,293,597	29,353,048
Basic earnings (loss) per share from continuing operations	\$ 0.08	\$ (0.11)
Basic earnings (loss) per share	\$ 0.08	\$ (0.22)
Diluted earnings (loss) per share from continuing operations	\$ 0.07	\$ (0.11)
Diluted earnings (loss) per share	\$ 0.07	\$ (0.22)

CYBERPLEX INC.
Consolidated Statements of Cash Flows
For the three month periods ended March 31, 2002 and March 31, 2001

	Three months ended	
	March 31, 2002 (unaudited)	March 31, 2001 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss) for continuing operations	\$ 2,366,147	\$ (2,764,961)
Items not involving cash		
Amortization	176,356	969,410
Unrealized foreign exchange gain	1,779	(337,425)
Amortization of lease inducements	(13,865)	(64,554)
Gain on settlement of long-term notes payable	(2,567,438)	-
Accretion of interest	158,434	37,000
Changes in non-cash working capital		
Accounts receivable	(693,772)	(272,661)
Prepaid expenses and sundry assets	107,910	67,832
Accounts payable and accrued liabilities	304,256	(2,914,720)
Income taxes recoverable	165,952	(870)
Unearned revenue	53,344	455,734
Cash flows from (used in) continuing operating activities	59,103	(4,825,215)
Cash flows (used in) discontinued operations	-	(1,832,975)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock options	-	26,429
Proceeds from leasehold benefit	-	391,247
Cash payment on settlement of long-term note	(2,250,000)	-
Principal payments under capital leases	(162,694)	(225,432)
	(2,412,694)	192,244
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of capital assets, net	(3,884)	(432,711)
	(3,884)	(432,711)
Foreign exchange gain/(loss) on cash held in foreign currency	(998)	536,647
Change in cash, cash equivalents & short-term investments	(2,358,473)	(6,362,010)
Cash, cash equivalents & short-term investments, beginning of period	6,147,219	19,022,931
Cash, cash equivalents & short-term investments end of period	\$ 3,788,746	\$ 12,660,921

Cyberplex Inc.
Notes to Consolidated Financial Statements
For the three month period ended March 31, 2002
(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, 2001. Except for those described in notes four and five, these 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 March 31, 2002 and December 31, 2001 and the results of operations and cash flows for the three months ended March 31, 2002 and 2001. Interim results are not necessarily indicative of results for a full year.

3. Outstanding Shares

As of March 31, 2002, there were 29,322,062 common shares issued and outstanding. In addition, there were 1,874,835 options and 815,714 warrants outstanding to acquire common shares of the Company.

4. Business Combinations, Goodwill, and Other Intangible Assets

In July 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1581, "Business Combinations" and Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires Business Combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting, as the pooling of interests method is no longer permitted. It also expands upon the specific criteria for which goodwill should be recorded separately from other intangible assets. Under Section 3062, goodwill and intangible assets with an indefinite-life are no longer amortized, but rather tested for impairment on a periodic basis. An impairment loss will be recognized when the fair value of goodwill or the intangible asset is less than the carrying amount of those items. These changes will be applied prospectively.

5. Stock-based Compensation

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870, which requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to direct awards of stock to employees. As permitted by Section 3870, the Company has chosen to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of pro forma information. The Company has applied the pro forma information on prospective basis for all awards granted on or after January 1, 2002. The pro forma effect of awards granted prior to January 1, 2002 has not been included.

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	\$ 2,366,147
	Pro forma	\$ 2,359,201
Basic earnings per share	As reported	\$0.08
	Pro forma	\$0.08
Diluted earnings per share	As reported	\$0.07
	Pro forma	\$0.07

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	3.92%
Expected life of options in years	2.25
Expected dividend yield	0.00%
Expected volatility	101.00%

6. Notes payable

On March 18th, 2002, the Company and Livgroup Investments Ltd ("Livgroup") settled the promissory notes with a face value of \$5,000,000, which related to the Company's acquisition of Procure.com ("Procure"). Under the terms of the deal, Cyberplex made a one-time cash payment of \$2,250,000 to Livgroup. In exchange, Livgroup retired the \$5 million promissory notes that were due in April 2003, including all accrued interest and any other attached rights outstanding.

7. Segmented Information

The Company operates in one business segment – Internet professional services. Financial information by geographic segment is as follows:

	<u>Revenue</u>			<u>Capital Assets</u>	
	Three months ended			As at	
	March 31, 2002	March 31, 2001		March 31, 2002	December 31, 2001
Canada	\$ 627,198	\$ 2,074,857	Canada	\$ 3,185,836	\$ 3,345,739
U.S.	2,109,386	4,849,855	U.S.	191,789	204,358
	<u>\$ 2,736,584</u>	<u>\$ 6,924,712</u>		<u>\$ 3,377,625</u>	<u>\$ 3,550,097</u>