



3rd Quarter Report 2002

267 Richmond St. West,
Toronto, ON Canada M5V 3M6
T: (416) 597-8889
F: (416) 597-2345
E: investor@cyberplex.com
www.cyberplex.com
TSX: CX

Cyberplex Inc.
Management Discussion and Analysis
For the 3 month period ended September 30, 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.

RESULTS OF OPERATIONS

Quarter ended September 30, 2002 compared to quarter ended September 30, 2001.

Revenue

Revenue for the three months ended September 30, 2002 was \$1.4 million, down \$1.6 million, or 54%, 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 market demand for technology services.

Direct Costs

Direct costs for the quarter were \$682,000, down \$1.6 million, or 71%, when compared to the third quarter in 2001. The decreased costs resulted from reductions in production staff required to appropriately align direct costs with revenue and stabilize gross margin at desired levels.

Sales & Marketing Expenses

Sales and marketing expenses, consisting primarily of salaries and other costs associated with our sales and marketing staff, were \$124,000 for the quarter. This represents a decrease of \$950,000, or 89%, when compared to the same quarter in 2001. The decrease in spending reflects the continued changes the Company has made to its sales and marketing teams in terms of the number of employees and reduced advertising and promotional spending budgets.

General & Administrative Expenses

General and administrative expenses for the quarter were \$580,000. This represents a decrease of \$1.9 million, or 77%, from \$2.5 million a year ago and is a direct result of the intense cost reduction efforts that the Company has implemented. In addition to the reduced number of non-billable personnel, cost savings continue to be realized from our downsized facilities, reduced discretionary spending, and greater efficiencies realized throughout our organization.

Amortization

Amortization expense decreased substantially to \$166,000, down from \$7.8 million for the quarter ended September 30, 2001. Amortization for this quarter consisted entirely of amortization relating to our fixed assets, while third quarter 2001 amortization consisted of fixed asset amortization as well as impairment charges relating to goodwill.

LIQUIDITY AND CASH POSITION

Operating Activities

For the three months ended September 30, 2002, the Company experienced a \$440,000 net cash outflow from operations, compared to a net cash outflow from continuing operations of \$4.5 million for the same quarter a year ago. This use of cash resulted from the net loss combined with a reduction in accounts payable and an increase in prepaid expenses and sundry assets.

Financing Activities

Financing activities for the quarter, which resulted in a cash use of \$219,000, was similar to the use of cash of \$208,000 for the same quarter in 2001. The current quarter's use of cash resulted from capital lease obligations and lease restructure accruals, where as in 2001, the use of cash consisted entirely of capital lease payments.

Investing Activities

Investing activities provided a source of cash of \$600,000 this quarter, compared to \$4.9 million for the same period in 2001. Cash inflow for both of these quarters was largely comprised of proceeds received from the sale of assets of

Procure.com Inc. Third quarter 2001 cash inflow included the initial proceeds from the sale of \$4.9 million, while the current quarter included the final payment of \$600,000.

Cash Position

As at September 30, 2002, the company had cash, cash equivalents, and short-term investments of \$3.8 million, compared with \$6.1 million at September 30, 2001. This decrease in cash over the past 12 months is a result of operating losses, cash used for various restructuring initiatives, and cash used to settle the debt associated with the Procure acquisition.

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 September 30, 2002	as at December 31, 2001
	<u>(unaudited)</u>	<u>(unaudited)</u>
ASSETS		
Current Assets:		
Cash, cash equivalents and short-term investments	\$ 3,827,109	\$ 6,147,219
Accounts receivable, net of allowance for doubtful accounts of \$277,606 (December 31, 2001 - \$350,751)	1,534,240	1,590,282
Note receivable	-	600,000
Income taxes recoverable	71,297	237,377
Prepaid expenses and sundry assets	378,481	320,627
Current portion of deferred lease benefit	-	85,725
	<u>5,811,127</u>	<u>8,981,230</u>
Capital assets	2,860,266	3,550,097
Long-term portion of deferred lease benefit	34,290	34,290
	<u>2,894,556</u>	<u>3,584,387</u>
TOTAL ASSETS	<u>\$ 8,705,683</u>	<u>\$ 12,565,617</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,348,527	\$ 4,122,747
Current portion of obligations under capital leases	301,685	541,613
Current portion of deferred lease inducements	48,252	133,577
Unearned revenue	45,202	308,719
	<u>3,743,666</u>	<u>5,106,656</u>
Long-term notes payable	-	4,079,107
Obligations under capital leases	456	196,373
Deferred lease inducements	70,795	34,268
Future income taxes	295,662	295,662
Other long-term liabilities	1,422,381	1,724,221
	<u>1,789,294</u>	<u>6,329,631</u>
SHAREHOLDERS' EQUITY		
Capital stock	68,039,644	66,589,568
Contributed surplus	324,000	-
Commitment to issue capital stock	-	1,774,076
Warrants	473,114	473,114
Equity component of financial instruments	-	734,259
Deficit	(65,664,035)	(68,441,687)
	<u>3,172,723</u>	<u>1,129,330</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 8,705,683</u>	<u>\$ 12,565,617</u>

CYBERPLEX INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Three months ended		Nine months ended	
	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)
Revenue	\$ 1,380,003	\$ 2,968,301	\$ 6,514,915	\$ 15,044,248
Direct costs	<u>682,073</u>	<u>2,332,354</u>	<u>2,887,007</u>	<u>9,159,081</u>
Gross profit	697,930	635,947	3,627,908	5,885,167
Sales and marketing expenses	123,507	1,079,978	771,243	4,164,148
General and administrative expenses	<u>579,064</u>	<u>2,479,696</u>	<u>2,336,981</u>	<u>7,164,621</u>
	702,571	3,559,674	3,108,224	11,328,769
Income/(Loss) before the undernoted	(4,641)	(2,923,727)	519,684	(5,443,602)
Amortization	(165,879)	(7,785,583)	(508,253)	(10,767,349)
Write-down of investment	-	(345,921)	-	(1,098,734)
Restructuring charge	-	(1,104,271)	-	(1,104,271)
Gain on settlement of long-term note	-	-	2,567,438	2,752,878
Interest income	20,168	52,569	51,002	122,404
Interest on long term debt	<u>(12,168)</u>	<u>(302,516)</u>	<u>(270,965)</u>	<u>(1,165,463)</u>
Income/(Loss) before income taxes and discontinued operations	(162,520)	(12,409,449)	2,358,906	(16,704,137)
Provision for income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income/(Loss) from continuing operations	(162,520)	(12,409,449)	2,358,906	(16,704,137)
Loss from discontinued operations	-	(94,506)	-	(3,496,626)
Loss on disposal of discontinued operations	-	(9,092,746)	-	(9,092,746)
Net income/(Loss)	\$ (162,520)	\$ (21,596,701)	\$ 2,358,906	\$ (29,293,509)
Deficit - beginning of the period	(65,501,515)	(39,363,648)	(68,441,687)	(31,666,840)
Gain on settlement of equity component of note	<u>-</u>	<u>-</u>	418,746	<u>-</u>
Deficit - end of period	\$ (65,664,035)	\$ (60,960,349)	\$ (65,664,035)	\$ (60,960,349)
Weighted average number of common shares	29,664,951	29,298,149	29,445,150	27,188,833
Basic earnings (loss) per share from continuing operations	\$ (0.01)	\$ (0.42)	\$ 0.08	\$ (0.61)
Basic earnings (loss) per share	\$ (0.01)	\$ (0.74)	\$ 0.08	\$ (1.08)
Diluted earnings (loss) per share from continuing operations	\$ (0.01)	\$ (0.42)	\$ 0.07	\$ (0.61)
Diluted earnings (loss) per share	\$ (0.01)	\$ (0.74)	\$ 0.07	\$ (1.08)

CYBERPLEX
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Three Month Period Ended</u>		<u>Nine Month Period Ended</u>	
	<u>September 30, 2002</u> <u>(unaudited)</u>	<u>September 30, 2001</u> <u>(unaudited)</u>	<u>September 30, 2002</u> <u>(unaudited)</u>	<u>September 30, 2001</u> <u>(unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss) for continuing operations	\$ (162,520)	\$ (12,020,007)	\$ 2,358,906	\$ (14,786,981)
Items not involving cash				
Amortization	165,879	531,634	508,253	2,250,080
Unrealized foreign exchange gain/loss	60,348	30,562	(32,738)	(60,935)
Write down of goodwill	-	6,864,507	-	6,864,507
Amortization of lease inducements	(12,064)	(64,554)	(48,798)	(193,662)
Gain on settlement of Liv Group note	-	-	(2,567,438)	(2,752,878)
Accretion of interest	-	184,179	158,434	343,965
Changes in non-cash working capital				
Accounts receivable	151,478	(882,272)	77,331	3,238,031
Prepaid expenses and sundry assets	(64,125)	527,258	(57,855)	340,379
Accounts payable and accrued liabilities	(578,648)	699,975	(643,906)	(3,411,557)
Income taxes recoverable	(1,116)	45,208	166,080	(95,227)
Unearned revenue	1,159	(441,505)	(263,517)	(364,492)
Cash flows from (used in) continuing operating activities	<u>(439,609)</u>	<u>(4,525,015)</u>	<u>(345,248)</u>	<u>(8,628,770)</u>
Cash flows (used in) discontinued operations	-	(1,297,343)	-	(4,853,034)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from stock options	-	-	-	26,429
Proceeds from leasehold benefit	-	-	-	422,632
Reduction in long-term liabilities	(89,510)	-	(89,510)	-
Cash payment on settlement of long-term note	-	-	(2,250,000)	(4,043,063)
Obligations under capital lease	<u>(129,540)</u>	<u>(207,992)</u>	<u>(435,845)</u>	<u>(655,639)</u>
	(219,050)	(207,992)	(2,775,355)	(4,249,641)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of Procure	-	4,860,000	-	4,860,000
Proceeds from note receivable	600,000	-	600,000	-
Acquisition of capital assets, net	<u>-</u>	<u>29,819</u>	<u>181,578</u>	<u>(409,677)</u>
	600,000	4,889,819	781,578	4,450,323
Foreign exchange gain/(loss) on cash held in foreign currency	(33,941)	37,470	18,915	261,353
Change in cash, cash equivalents & short-term investments	(92,600)	(1,103,061)	(2,320,110)	(13,019,769)
Cash, cash equivalents & short-term investments, beginning of period	<u>3,919,709</u>	<u>7,106,223</u>	<u>6,147,219</u>	<u>19,022,931</u>
Cash, cash equivalents & short-term investments end of period	<u>\$ 3,827,109</u>	<u>\$ 6,003,162</u>	<u>\$ 3,827,109</u>	<u>\$ 6,003,162</u>

Cyberplex Inc.
Notes to Consolidated Financial Statements
For the three month period ended September 30, 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 September 30, 2002 and December 31, 2001 and the results of operations and cash flows for the three and nine months ended September 30, 2002 and 2001. Interim results are not necessarily indicative of results for a full year.

3. Outstanding Shares

As of September 30, 2002, there were 29,664,951 common shares issued and outstanding. In addition, there were 1,691,638 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 a 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.

5. Stock-based Compensation (continued)

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:

	For the period ended September 30, 2002	
	Three months	Nine months
<u>Net Income</u>		
As reported	\$ (162,520)	\$ 2,358,906
Pro forma	(186,694)	2,318,027
<u>Basic earnings per share</u>		
As reported	\$ (0.01)	\$ 0.08
Pro forma	(0.01)	0.08
<u>Diluted earnings per share</u>		
As reported	\$ (0.01)	\$ 0.07
Pro forma	(0.01)	0.07

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

	For the period ended September 30, 2002	
	Three months	Nine months
Risk-free interest rate	3.70%	3.90%
Expected life (years)	3.42	3.45
Expected dividend yield	0%	0%
Expected volatility	101%	101%

6. Segmented Information

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

Revenue by geographic location:

	Three months ended	
	September 30, 2002	September 30, 2001
Canada	\$ 372,601	\$ 1,258,241
U.S.	1,007,402	1,710,060
	<u>\$ 1,380,003</u>	<u>\$ 2,968,301</u>

Capital Assets by geographic location:

	As at	
	September 30, 2002	December 31, 2001
Canada	\$ 2,714,607	\$ 3,345,739
U.S.	145,659	204,358
	<u>\$ 2,860,266</u>	<u>\$ 3,550,097</u>