



Q1 — 2003
CX Financial Statements

CYBERPLEX INC. MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2003

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 MARCH 31, 2003 COMPARED TO QUARTER ENDED MARCH 31, 2002.

Overview

The first quarter of 2003 was an encouraging quarter for Cyberplex and a strong start to the year. Revenue was up 18% from the previous quarter, gross margin remained stable at industry leading levels, expenses were carefully managed and the Company maintained its strong cash balance.

Revenue

Revenue for the quarter ended March 31, 2003 was \$1.65 million, compared to \$2.74 million for the same period a year earlier. This reduction in revenue is a direct result of the decline in technology spending that has been experienced throughout our sector over the past 12 months. Although year-over-year revenue declined, the quarter-over-quarter revenue increased by over 18%. This is the first quarterly increase in over a year.

Direct Costs

Direct costs for the quarter were \$800,000, down \$420,000, or 33%, when compared to the same quarter in 2002. The reduction in direct costs was achieved by reducing the number of underutilized resources, increasing the use of contract-based personnel and improving project management for all engagements. These initiatives have enabled us to appropriately align our direct costs with revenues to maintain our gross margin levels.

Sales & Marketing Expenses

Sales and marketing expenses, consisting primarily of salaries and other costs associated with our sales and marketing teams, were \$220,000 for the quarter. This represents a decrease of 160,000, or 42%, when compared to the same quarter in 2002. The decrease in spending reflects the changes the Company incorporated into its sales and marketing efforts in terms of the number of employees, their associated overhead costs, and all outsourced costs associated with Company wide advertising and promotional expenditures.

General & Administrative Expenses

General and administrative expenses for the quarter were \$540,000, down \$400,000, or 43%, when compared to the first quarter of 2002. Savings continued to be realized from the diligent restructuring initiatives carried out over the past two years. Strict attention to non-billable utilization, facility costs, discretionary spending and other overhead items has enabled the Company to continue to reduce these expenses.

Amortization

Amortization expense for the quarter decreased to \$100,000, down from \$176,000 for the quarter ended March 31, 2002. This decrease is due to the reduced carrying values of our capital assets, resulting from the sale and write-down of various assets over the past 12 months.

LIQUIDITY AND CASH POSITION

Operating Activities

The Company had a net cash inflow from operations of \$197,000 for the three months ended March 31, 2003. This compares favourably with the net cash inflow from operations of \$59,000 generated during same quarter a year ago. Cash generated from operations was supplemented by strong accounts receivable collections and diligent management of accounts payable. Cash inflows were partially offset by an increase in prepaid expenses for facilities and insurance costs, among others.

Financing Activities

Financing activities for the quarter, consisting of activities relating to long-term liabilities and capital leases, represented a use of cash of \$186,000. The use of cash this quarter represents a significant improvement from the use of cash of \$2.4 million for the same quarter in 2002. In 2002, the Company paid \$2.25 million to Livgroup Investments Ltd. to finalize all remaining obligations associated with the outstanding notes payable.

Investing Activities

Investing activities were nominal during the first quarters of both 2003 and 2002. There was no investing activity for the first quarter of 2003, and in first quarter of 2002, investing activity was comprised solely of a \$4,000 cash outflow for minor capital asset additions.

Cash Position

As at March 31, 2003, the company had cash, cash equivalents, and short-term investments of \$3.9 million, which is relatively constant with the \$3.8 million on hand a year ago. The conservation of our cash balance over the past 12 months is a further testament of our continued commitment towards operational profitability and cash preservation.

RISKS AND UNCERTAINTIES

Cyberplex has not had any significant changes to its risks and uncertainties from those that were disclosed in the Company's 2002 MD&A.

OUTLOOK

Cyberplex has not had any significant changes to its outlook from those that were disclosed in the Company's 2002 MD&A.

**CYBERPLEX INC.
CONSOLIDATED BALANCE SHEETS**

	as at March 31, 2003 <u>(unaudited)</u>	as at December 31, 2002 <u>(unaudited)</u>
ASSETS		
Current Assets:		
Cash, cash equivalents and short-term investments	\$ 3,894,382	\$ 3,917,922
Accounts receivable, net of allowance for doubtful accounts of \$199,463 (December 31, 2002 - \$206,196)	1,350,920	1,862,149
Prepaid expenses and sundry assets	516,624	244,170
	<u>5,761,926</u>	<u>6,024,241</u>
Capital assets	2,187,152	2,287,661
TOTAL ASSETS	<u>\$ 7,949,078</u>	<u>\$ 8,311,902</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,194,717	\$ 3,135,796
Current portion of obligations under capital leases	94,832	196,373
Current portion of deferred lease inducements	94,922	106,984
Unearned revenue	247,141	457,165
	<u>3,631,612</u>	<u>3,896,318</u>
Future income taxes	162,019	162,019
Other long-term liabilities	1,267,901	1,352,002
	<u>1,429,920</u>	<u>1,514,021</u>
SHAREHOLDERS' EQUITY		
Capital stock	68,836,758	68,836,758
Deficit	(65,949,212)	(65,935,195)
	<u>2,887,546</u>	<u>2,901,563</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$7,949,078</u>	<u>\$ 8,311,902</u>

See accompanying Notes to the Consolidated Financial Statements

CYBERPLEX INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Three months ended	
	March 31, 2003 (unaudited)	March 31, 2002 (unaudited)
Revenue	\$ 1,650,807	\$ 2,736,584
Direct costs	<u>803,879</u>	<u>1,220,487</u>
Gross profit	846,928	1,516,097
Sales and marketing expenses	\$ 217,655	\$ 384,873
General and administrative expenses	<u>544,542</u>	<u>940,297</u>
	\$ 762,197	\$ 1,325,170
Income/(Loss) before the undernoted	84,731	190,927
Amortization	\$ (100,509)	\$ (176,356)
Write-down of investment	(9,772)	-
Gain on settlement of long-term note	-	2,567,438
Interest income	15,964	22,089
Interest on long term debt	<u>(4,430)</u>	<u>(237,951)</u>
Income/(Loss) before income taxes	(14,016)	2,366,147
Provision for income tax	-	-
Net income/(Loss)	<u>\$ (14,016)</u>	<u>\$ 2,366,147</u>
Deficit - beginning of the period	(65,664,035)	(68,441,687)
Gain on settlement of equity component of note	-	418,746
Deficit - end of period	<u><u>\$ (65,678,051)</u></u>	<u><u>\$ (65,656,794)</u></u>
Weighted average number of common shares - basic	29,664,951	29,322,062
Weighted average number of common shares - diluted	32,828,333	32,293,597
Basic earnings (loss) per share	\$ (0.01)	\$ 0.08
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.07

See accompanying Notes to the Consolidated Financial Statements

CYBERPLEX INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Month Period Ended	
	March 31, 2003 (unaudited)	March 31, 2002 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss) for continuing operations	\$ (14,016)	\$2,366,147
Items not involving cash		
Amortization	100,509	176,356
Unrealized foreign exchange gain/loss	5,672	1,779
Amortization of lease inducements	(12,062)	(13,865)
Gain on settlement of Liv Group note	-	(2,567,438)
Accretion of interest	-	158,434
Changes in non-cash working capital:		
Accounts receivable	567,921	(693,772)
Prepaid expenses and sundry assets	(272,454)	107,910
Accounts payable and accrued liabilities	31,327	304,256
Income taxes recoverable	-	165,952
Unearned revenue	(210,023)	53,344
Cash flows from (used in) continuing operating activities	<u>196,874</u>	<u>59,103</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Reduction in long-term liabilities	(84,101)	-
Cash payment on settlement of long-term note	-	(2,250,000)
Obligations under capital lease	(101,541)	(162,694)
	<u>(185,642)</u>	<u>(2,412,694)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets, net	-	(3,884)
	<u>-</u>	<u>(3,884)</u>
Foreign exchange gain/(loss) on cash held in foreign currency	(34,772)	(998)
Change in cash, cash equivalents & short-term investments	(23,540)	(2,358,473)
Cash, cash equivalents & short-term investments, beginning of period	<u>3,917,922</u>	<u>6,147,219</u>
Cash, cash equivalents & short-term investments end of period	<u><u>\$ 3,894,382</u></u>	<u><u>\$ 3,788,746</u></u>

See accompanying Notes to the Consolidated Financial Statements

CYBERPLEX INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2003 (UNAUDITED)

1. Nature of business:

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.

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 audited consolidated financial statements for the year ended December 31, 2002. These unaudited interim consolidated financial statements are based upon accounting principals consistent with those used and described in the annual audited 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, 2003 and December 31, 2002 and the results of operations and cash flows for the three months ended March 31, 2003 and 2002. Interim results are not necessarily indicative of results for a full year.

3. Outstanding Shares

As of March 31, 2003, there were 29,664,951 common shares issued and outstanding. In addition, there were 2,347,668 options and 815,714 warrants outstanding to acquire common shares of the Company. The warrants, held by Livgroup Investments Ltd. with an exercise price of \$2.00, are due to expire on April 1st, 2003.

4. 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.

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:

	<u>For the three months ended March 31, 2003</u>	
<u>Net Income</u>		
As reported	\$	(14,016)
Pro forma		(58,143)
<u>Basic earnings per share</u>		
As reported	\$	(0.01)
Pro forma		(0.01)
<u>Diluted earnings per share</u>		
As reported	\$	(0.01)
Pro forma		(0.01)

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

	<u>For the three months ended March 31, 2003</u>
Risk-free interest rate	4.15%
Expected life (years)	3.68
Expected dividend yield	0%
Expected volatility	101%

5. Segmented Information

The Company operates in one business segment – technology consulting. Financial information by geographic

Capital assets by geographic location:

	<u>As at</u>	
	<u>March 31, 2003</u>	<u>December 31, 2002</u>
Canada	\$ 2,160,652	\$ 2,258,451
U.S.	26,500	29,210
	<u>\$ 2,187,152</u>	<u>\$ 2,287,661</u>