



**Q2 — 2003**  
**CX Financial Statements**

## CYBERPLEX INC. MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIOD ENDED JUNE 30, 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 JUNE 30, 2003 COMPARED TO QUARTER ENDED JUNE 30, 2002.

##### Overview

Overall, the second quarter of 2003 was a successful quarter for Cyberplex. The Company continued to improve on key metrics by increasing revenue by 17% over the previous quarter, improving and maintaining positive EBITDA results, preserving cash balances, and continuing to maintain its gross margins levels.

##### Revenue

Revenue decreased 20%, to \$1.93 million for the quarter ended June 30, 2003 from \$2.39 million for the same period in 2002, primarily from the decline in technology spending that has been experienced throughout our sector over the past two and a half years. Although year-over-year revenue declined, quarter-over-quarter revenue increased by approximately 17%.

##### Direct Costs

Direct costs for the quarter were \$865,000, down \$120,000, or 12%, when compared to the second quarter of 2002. As with the first quarter of 2003, the reduction in direct costs was achieved by minimizing the number of underutilized resources, increasing the use of contract-based personnel and improving project management for all engagements.

##### Sales & Marketing Expenses

Sales and marketing expenses, consisting primarily of salaries and other costs associated with our sales and marketing teams, were \$170,000 for the quarter. This figure decreased \$90,000, or 35%, when compared to the same quarter in 2002. Once again, 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 \$615,000, down \$200,000, or 25%, when compared to the first quarter of 2002. A reduction in non-billable resources, facility costs, discretionary spending and other overhead items has enabled the Company to continue to reduce these expenses year over year.

##### Amortization

Amortization expense for the quarter decreased to \$100,000, down from \$166,000 for the quarter ended June 30, 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 \$316,000 for the three months ended June 30, 2003. This is a significant improvement when compared to the net cash inflow from operations of \$35,000 generated during same quarter a year ago. Cash generated from operations was the result of favourable operating results combined with a reduction in prepaid expenses for facilities and insurance costs.

#### Financing Activities

Financing activity for the quarter ended June 30, 2003 consisted of a reduction in capital lease obligations and long-term liabilities of \$92,000. Financing activity for the quarter ended June 30, 2002 was limited to a reduction in capital lease obligations of \$143,000.

#### Investing Activities

Investing activities for the second quarters of 2003 and 2002 related entirely to capital assets additions and disposals. In 2003, the Company made minor capital asset additions totaling \$18,000, while in the same quarter of 2002, the Company disposed of capital assets amounting to \$185,000.

#### Cash Position

Cash flows for the 12 months ended June 30, 2003 were effectively break-even. At June 30, 2003, the company had cash, cash equivalents, and short-term investments of \$3.96 million, only slightly up from the \$3.92 million held at June 30, 2002. The Company continues to have a strong commitment to protecting its cash position by remaining focused on operational profitability.

### 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 June 30, 2003 (unaudited)	as at December 31, 2002 (unaudited)
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash, cash equivalents, and short-term investments	\$ 3,961,316	\$ 3,917,922
Accounts receivable, net of allowance for doubtful accounts of \$191,628 (December 31, 2002 - \$206,196)	1,788,947	1,862,149
Prepaid expenses and sundry assets	<u>228,350</u>	<u>244,170</u>
	5,978,613	6,024,241
Capital assets	2,103,564	2,287,661
<b>TOTAL ASSETS</b>	<b><u>\$ 8,082,177</u></b>	<b><u>\$ 8,311,902</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 3,307,491	\$ 3,135,796
Current portion of obligations under capital leases	44,604	196,373
Current portion of deferred lease inducements	82,859	106,984
Unearned revenue	<u>253,837</u>	<u>457,165</u>
	3,688,791	3,896,318
Future income taxes	162,019	162,019
Other long-term liabilities	<u>1,141,627</u>	<u>1,352,002</u>
	1,303,646	1,514,021
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	68,836,758	68,836,758
Deficit	<u>(65,747,018)</u>	<u>(65,935,195)</u>
	3,089,740	2,901,563
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 8,082,177</u></b>	<b><u>\$ 8,311,902</u></b>

See accompanying Notes to the Consolidated Financial Statements

**CYBERPLEX INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

	Three Month Period Ended		Six Month Period Ended	
	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)
Revenue	\$ 1,927,552	\$ 2,398,328	\$ 3,578,359	\$ 5,134,912
Cost of sales	864,940	984,447	1,668,819	2,204,934
<b>Gross profit</b>	<b>1,062,612</b>	<b>1,413,881</b>	<b>1,909,540</b>	<b>2,929,978</b>
Sales and marketing expenses	169,945	262,863	387,600	647,736
General and administrative expenses	615,635	817,620	1,160,177	1,757,917
	785,580	1,080,483	1,547,777	2,405,653
<b>Income/(Loss) before the undernoted</b>	<b>277,032</b>	<b>333,398</b>	<b>361,763</b>	<b>524,325</b>
Amortization	(101,223)	(166,018)	(201,732)	(342,374)
Write-down of short-term investment	-	-	(9,772)	-
Gain on settlement of long-term notes payable	-	-	-	2,567,438
Interest income	29,093	8,745	45,057	30,834
Interest on long term debt	(2,709)	(20,846)	(7,139)	(258,797)
<b>Income before income taxes</b>	<b>202,193</b>	<b>155,279</b>	<b>188,177</b>	<b>2,521,426</b>
Provision for income tax	-	-	-	-
<b>Net income</b>	<b>\$ 202,193</b>	<b>\$ 155,279</b>	<b>\$ 188,177</b>	<b>\$ 2,521,426</b>
Deficit - beginning of the period	(65,949,211)	(65,656,794)	(65,935,195)	(68,441,687)
Gain on settlement of equity component of note	-	-	-	418,746
<b>Deficit - end of period</b>	<b>\$ (65,747,018)</b>	<b>\$ (65,501,515)</b>	<b>\$ (65,747,018)</b>	<b>\$ (65,501,515)</b>
Weighted average number of common shares - basic	29,664,951	29,344,670	29,664,951	29,333,428
Weighted average number of common shares - diluted	32,012,619	32,499,882	32,012,619	32,499,882
<b>Basic earnings (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.09</b>
<b>Diluted earnings (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.08</b>

See accompanying Notes to the Consolidated Financial Statements

**CYBERPLEX INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Month Period Ended		Six Month Period Ended	
	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income from continuing operations	\$ 202,193	\$ 155,279	\$ 188,177	\$ 2,521,426
Items not involving cash				
Amortization	101,223	166,018	201,732	342,374
Unrealized foreign exchange gain/loss	3,269	(94,865)	8,941	(93,086)
Amortization of lease inducements	(12,063)	(22,869)	(24,125)	(36,734)
Gain on settlement of Liv Group note	-	-	-	(2,567,438)
Accretion of interest	-	-	-	158,434
Changes in non-cash working capital				
Accounts receivable	(561,358)	619,625	6,563	(74,148)
Prepaid expenses and sundry assets	253,985	(101,640)	(18,469)	6,270
Unbilled receivable	212,590	-	212,590	-
Accounts payable and accrued liabilities	109,952	(369,513)	141,279	(65,257)
Income taxes recoverable	-	1,244	-	167,196
Unearned revenue	6,697	(318,020)	(203,326)	(264,676)
Cash flows from (used in) operating activities	316,488	35,259	513,362	94,361
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Reduction in long-term liabilities	(91,984)	-	(176,085)	-
Cash payment on settlement of long-term note	-	-	-	(2,250,000)
Obligations under capital lease	(50,228)	(143,611)	(151,769)	(306,305)
	(142,212)	(143,611)	(327,854)	(2,556,305)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of capital assets, net	(17,635)	185,462	(17,635)	181,578
	(17,635)	185,462	(17,635)	181,578
Foreign exchange gain/(loss) on cash held in foreign currency	(89,707)	53,853	(124,479)	52,856
Change in cash, cash equivalents & short-term investments	66,934	130,963	43,394	(2,227,510)
Cash, cash equivalents & short-term investments, beginning of period	3,894,382	3,788,746	3,917,922	6,147,219
Cash, cash equivalents & short-term investments end of period	\$ 3,961,316	\$ 3,919,709	\$ 3,961,316	\$ 3,919,709

See accompanying Notes to the Consolidated Financial Statements

**CYBERPLEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE**  
**MONTH PERIOD ENDED JUNE 30, 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 June 30, 2003 and December 31, 2002 and the results of operations and cash flows for the three and six months ended June 30, 2003 and 2002. Interim results are not necessarily indicative of results for a full year.

**3. Outstanding shares:**

As of June 30, 2003, there were 29,664,951 common shares issued and outstanding and there were 2,347,668 options outstanding to acquire common shares of the Company. There were 815,714 warrants, held by Livgroup Investments Ltd. with an exercise price of \$2.00 which expired 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 not have changed this quarter because there were no stock based compensation awarded during the quarter.

**5. Segmented Information:**

The Company operates in one business segment – technology consulting. Financial information by geographic segment is as follows:

**Revenue by geographic location:**

	Three months ended	
	June 30, 2003	June 30, 2002
Canada	\$ 901,126	\$ 529,535
U.S.	1,026,426	1,868,794
	<u>\$ 1,927,552</u>	<u>\$ 2,398,329</u>

**Capital Assets by geographic location:**

	As at	
	June 30, 2003	December 31, 2002
Canada	\$ 2,079,569	\$ 2,258,451
U.S.	23,995	29,210
	<u>\$ 2,103,564</u>	<u>\$ 2,287,661</u>