



**Q3 — 2003**  
**CX Financial Statements**

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

##### Overview

The third quarter of 2003 was a successful quarter for Cyberplex. The Company acquired Webfront Communications Inc. to enhance its Microsoft capabilities while continuing to improve on key metrics by increasing revenue by 6% over the previous quarter, maintaining positive EBITDA results, preserving cash balances, and maintaining a gross margin at historical levels.

##### Revenue

Revenue for the third quarter increased to \$2.05 million, up 49% from \$1.38 million generated for the same period in 2002. Revenue for the nine-month period ending September 30, 2003 is down approximately 14% when compared to the same period last year. Sequential, or quarter-over-quarter, revenue increased by approximately 6%.

##### Direct Costs

Direct costs for the quarter were \$920,000, down \$238,000, or 35%, when compared to the third quarter of 2002. As with the first two quarters 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. Focus in this area has enabled the company to maintain its gross margin at industry leading levels.

##### Sales & Marketing Expenses

Sales and marketing expenses, consisting primarily of salaries and other costs associated with our sales and marketing initiatives, were \$164,000 for the quarter. This figure represents an increase of \$40,000, or 33%, when compared to the same quarter in 2002. The increase is due to the Company's efforts to generate sales by the addition of sales personnel and through additional resources acquired in the WebFront acquisition.

##### General & Administrative Expenses

General and administrative expenses for the quarter were \$638,000, up \$60,000, or 10%, when compared to the third quarter of 2002. Strict attention to non-billable resources, facility costs, discretionary spending and other overhead items has enabled the Company to minimize the increase in expenditure, while continuing to grow the business. The small increase is the result of the WebFront acquisition.

##### Amortization

Amortization expense for the quarter was \$100,000, down from the \$166,000 recorded for the quarter ended September 30, 2002. As with prior quarters, 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 \$166,000 for the three months ended September 30, 2003. This is a considerable improvement when compared to the net cash outflow from operations of \$440,000 incurred during same quarter a year ago. Cash generated from operations was largely the result of positive operating results offset by an increase in accounts receivable.

#### Financing Activities

Financing activity for the quarter ended September 30, 2003 consisted mainly of a reduction in capital lease obligations of \$92,000 and a reduction in long-term liabilities of \$44,000. Financing activity for the quarter ended September 30, 2002 consisted of a reduction in capital lease obligations of \$130,000 and a reduction in long-term liabilities of \$90,000.

#### Investing Activities

Investing activities for the third quarter of 2003 consisted primarily of the addition of capital assets acquired through the Webfront acquisition, while investing activities for the same period of 2002 consisted of \$600,000 of cash inflows from the receipt of a note receivable.

#### Cash Position

Cash position for the 12 months ended September 30, 2003 was effectively unchanged. At September 30, 2003, the company had cash, cash equivalents, and short-term investments of \$3.90 million, up slightly from the \$3.83 million held at September 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 September 30, 2003 <u>(unaudited)</u>	as at December 31, 2002 <u>(unaudited)</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash, cash equivalents, and short-term investments	\$ 3,902,279	\$ 3,917,922
Accounts receivable, net of allowance for doubtful accounts of \$212,921 (December 31, 2002 - \$206,196)	2,257,373	1,862,149
Prepaid expenses and sundry assets	<u>222,362</u>	<u>244,170</u>
	6,382,014	6,024,241
Capital assets	2,086,574	2,287,661
<b>TOTAL ASSETS</b>	<b><u>\$ 8,468,588</u></b>	<b><u>\$ 8,311,902</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 3,395,161	\$ 3,135,796
Current portion of obligations under capital leases	455	196,373
Current portion of deferred lease inducements	70,796	106,984
Unearned revenue	<u>442,590</u>	<u>457,165</u>
	3,909,002	3,896,318
Future income taxes	162,019	162,019
Other long-term liabilities	<u>1,049,542</u>	<u>1,352,002</u>
	1,211,561	1,514,021
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	68,843,158	68,836,758
Deficit	<u>(65,495,133)</u>	<u>(65,935,195)</u>
	3,348,025	2,901,563
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 8,468,588</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		Nine Month Period Ended	
	September 30, 2003 (unaudited)	September 30, 2002 (unaudited)	September 30, 2003 (unaudited)	September 30, 2002 (unaudited)
Revenue	\$ 2,053,231	\$ 1,380,003	\$ 5,631,590	\$ 6,514,915
Cost of sales	920,227	682,073	2,589,046	2,887,007
<b>Gross profit</b>	<b>1,133,004</b>	<b>697,930</b>	<b>3,042,544</b>	<b>3,627,908</b>
Sales and marketing expenses	163,676	123,507	551,276	771,243
General and administrative expenses	637,829	579,064	1,798,006	2,336,981
	801,505	702,571	2,349,282	3,108,224
<b>Income/(Loss) before the undernoted</b>	<b>331,499</b>	<b>(4,641)</b>	<b>693,262</b>	<b>519,684</b>
Amortization	(104,390)	(165,879)	(306,122)	(508,253)
Write-down of short-term investment	-	-	(9,772)	-
Gain on settlement of long-term notes payable	-	-	-	2,567,438
Interest income	25,742	20,168	70,799	51,002
Interest on long term debt	(966)	(12,168)	(8,105)	(270,965)
<b>Income/(Loss) before income taxes</b>	<b>251,885</b>	<b>(162,520)</b>	<b>440,062</b>	<b>2,358,906</b>
Provision for income tax	-	-	-	-
<b>Net income/(Loss)</b>	<b>\$ 251,885</b>	<b>\$ (162,520)</b>	<b>\$ 440,062</b>	<b>\$ 2,358,906</b>
Deficit - beginning of the period	(65,747,018)	(65,501,515)	(65,935,195)	(68,441,687)
Gain on settlement of equity component of note	-	-	-	418,746
<b>Deficit - end of period</b>	<b>\$ (65,495,133)</b>	<b>\$ (65,664,035)</b>	<b>\$ (65,495,133)</b>	<b>\$ (65,664,035)</b>
Weighted average number of common shares - basic	29,677,994	29,664,951	29,669,347	29,445,150
Weighted average number of common shares - diluted	32,746,662	32,499,882	32,738,015	32,192,302
<b>Basic earnings (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ 0.01</b>	<b>\$ 0.08</b>
<b>Diluted earnings (loss) per share</b>	<b>0.01</b>	<b>\$ (0.01)</b>	<b>\$ 0.01</b>	<b>\$ 0.07</b>

See accompanying Notes to the Consolidated Financial Statements

## CYBERPLEX INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2003 (unaudited)	September 30, 2002 (unaudited)	September 30, 2003 (unaudited)	September 30, 2002 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income (Loss) for continuing operations	\$ 251,885	\$ (162,520)	\$ 440,062	\$ 2,358,906
Items not involving cash				
Amortization	104,390	165,879	306,122	508,253
Unrealized foreign exchange gain/loss	308	60,348	9,249	(32,738)
Amortization of lease inducements	(12,063)	(12,064)	(36,188)	(48,798)
Gain on settlement of Liv Group note	-	-	-	(2,567,438)
Accretion of interest	-	-	-	158,434
Changes in non-cash working capital				
Accounts receivable	(463,086)	151,478	(456,523)	77,331
Prepaid expenses and sundry assets	5,987	(64,125)	(12,482)	(57,855)
Unbilled receivable	-	-	212,590	-
Accounts payable and accrued liabilities	89,517	(578,648)	230,796	(643,906)
Income taxes recoverable	-	(1,116)	-	166,080
Unearned revenue	188,753	1,159	(14,573)	(263,517)
Cash flows from (used in) operating activities	165,691	(439,609)	679,053	(345,248)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Reduction in long-term liabilities	(92,085)	(89,510)	(268,170)	(89,510)
Issue of common shares on Webfront acquisition	6,400	-	6,400	-
Cash payment on settlement of long-term note	-	-	-	(2,250,000)
Obligations under capital lease	(44,150)	(129,540)	(195,919)	(435,845)
	(129,835)	(219,050)	(457,689)	(2,775,355)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from note receivable	-	600,000	-	600,000
Acquisition of capital assets, net	(87,400)	-	(105,035)	181,578
	(87,400)	600,000	(105,035)	781,578
Foreign exchange gain/(loss) on cash held in foreign currency	(7,493)	(33,941)	(131,972)	18,915
Change in cash, cash equivalents & short-term investments	(59,037)	(92,600)	(15,643)	(2,320,110)
Cash, cash equivalents & short-term investments, beginning of period	3,961,316	3,919,709	3,917,922	6,147,219
Cash, cash equivalents & short-term investments, end of period	\$ 3,902,279	\$ 3,827,109	\$ 3,902,279	\$ 3,827,109

See accompanying Notes to the Consolidated Financial Statements

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

**3. Outstanding shares**

As of September 30, 2003, there were 29,684,951 common shares issued and outstanding. In addition, there were 3,088,668 options outstanding to acquire common shares of the Company.

**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.

#### 4. Stock-based compensation (cont'd)

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, 2003			
	Three Months		Nine Months	
<u>Net Income</u>				
As reported	\$	251,885	\$	440,062
Pro forma		175,426		286,132
<u>Basic earnings per share</u>				
As reported	\$	0.01	\$	0.01
Pro forma	\$	0.01	\$	0.01
<u>Diluted earnings per share</u>				
As reported	\$	0.01	\$	0.01
Pro forma	\$	0.01	\$	0.01

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, 2003	
	Three Months	Nine Months
Risk-free interest rate	3.45%	3.80%
Expected life (years)	3.85	3.77
Expected dividend yield	0%	0%
Expected volatility	101%	101%

#### 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	
	September 30, 2003	September 30, 2002
Canada	\$ 981,202	\$ 372,601
U.S.	1,072,029	1,007,402
	<u>\$ 2,053,231</u>	<u>\$ 1,380,003</u>

##### Capital Assets by geographic location:

	As at	
	September 30, 2003	September 30, 2002
Canada	\$ 2,065,284	\$ 2,714,607
U.S.	21,290	145,659
	<u>\$ 2,086,574</u>	<u>\$ 2,860,266</u>