



STRIDE

Q3-2004 CX Financial Statements

Notice to Reader:

The accompanying unaudited interim consolidated financial statements of Cyberplex Inc. for the quarter ended September 30, 2004 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation. These statements have not been reviewed by the Corporation's external auditors.

Dated November 1, 2004

(Signed) Dean Hopkins
President and Chief Executive Officer

(Signed) Geoffrey Rotstein
Chief Financial Officer



CELEBRATING TEN YEARS

The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Company and notes thereto for the period ended September 30, 2004, as well as the Company's audited Consolidated Financial Statements, notes thereto and Management's Discussion and Analysis ("MD&A") for the fiscal year ended December 31, 2003, contained in the Company's 2003 Annual Report. The Company's December 31, 2003 MD&A was prepared in accordance with the new regulations for MD&A disclosure. This interim MD&A is an update to that disclosure.

RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 30, 2004 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2003

Overview

Cyberplex is once again pleased to report a quarter of growth and profitability. With top line revenue increasing by 12% over the previous year, gross margins recorded at 55% and earnings before amortization and interest up by over 17%, Cyberplex continued to generate strong financial results for its third quarter ended September 30, 2004. During the quarter, the Company also announced the acquisition of CyberSecure Inc. ("CyberSecure"), Canada's first Microsoft Gold Certified partner for Security Solutions. This acquisition will further augment Cyberplex's current offering by providing organizations with solutions that incorporate industry leading security frameworks into the final product.

Revenue

Revenue for the third quarter of 2004 increased 12%, to \$2.30 million, up from \$2.05 million for the same period in 2003. The revenue increase is the result of increased work with existing clients, the addition of new clients during the quarter, larger engagement mandates, plus the addition of CyberSecure. Sequential, or quarter-over-quarter, revenue increased 4% when compared to the second quarter of 2004.

Direct Costs

Direct costs for the quarter were \$1.04 million, up \$120,000, or 13%, when compared to the third quarter of 2003. Strong management of direct costs, achieved by continuing to focus on billable utilization, increasing the use of contract-based personnel and improving project management across all engagements, resulted in continued favourable gross margin levels for the quarter.

Sales & Marketing Expenses

Sales and marketing expenses were relatively consistent with those from the previous year, increasing by only \$4,000, or 2%, to \$160,000 from the \$164,000 incurred during the third quarter of 2003. Expenses in this category consist primarily of salaries and other costs associated with our sales and marketing teams.

General & Administrative Expenses

General and administrative expenses for the quarter were \$718,000, an increase of \$80,000, or 13%, from the \$638,000 incurred during the same period last year. Continued focus on non-billable resources, facility costs, discretionary spending and other overhead items has enabled the Company to control its expenditures in this area.



CYBERPLEX INC.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2004

Amortization

Amortization expense for the quarter was \$90,000, down from the \$104,000 recorded during the same quarter in 2003. The decline in amortization expense is a factor of the reduced carrying balances for previously amortized capital assets.

LIQUIDITY AND CASH POSITION

Operating Activities

Operating activities for the quarter provided a source of cash of \$31,000, compared with a source of cash of \$166,000 generated for the same period in 2003. Cash generated by the Company's strong operational results were offset by various non-cash working capital changes during the quarter.

Financing Activities

The Company's financing activities for the quarter consisted primarily of an increase to its long-term liabilities. This increase was the result of long-term obligations acquired with the Company's purchase of CyberSecure, combined with the reclassification of certain long-term rent restructuring provisions. Financing activities for the same quarter of 2003 consisted of a reduction to capital lease obligations by \$44,000, and a reduction in long-term liabilities of \$92,000.

Investing Activities

Investing activities for the third quarter of 2004 produced a net source of funds of \$50,000. The investing inflows resulted from net cash acquired as part of the CyberSecure acquisition, while the outflows of \$6,000 resulted from the acquisition of capital assets. Investing activities for the quarter ended September 30, 2003 resulted in a use of cash of \$87,000 relating solely to the acquisition of capital assets.

Cash Position

The Company's cash position, consisting of cash, cash equivalents and short-term investments, at September 30, 2004 was \$4.35 million. This is up \$1.27 million when compared to the cash balance of \$3.08 million held at September 30, 2003. The increase is the result of strong operational results over the past 12 months combined with the \$992,000 raised through a private placement in the second quarter of 2004. These increases were offset primarily by a one-time payment made to a supplier at the end of 2003, to settle a large outstanding account, as discussed in the Company's 2003 Annual Report. The Company continues to have a strong commitment to protecting and growing its cash position by remaining focused on profitability.

SIGNIFICANT ACCOUNTING POLICIES

On January 1, 2004, the Company adopted CICA Handbook Section 3870 regarding stock based compensation, and recorded a charge to its opening deficit of \$168,900 for stock options granted to employees on or after January 1, 2002. During the three months ended September 30, 2004, the Company recorded compensation expense of approximately \$17,263, and during the nine months ended September 30, 2004 the Company recorded compensation expense of approximately \$78,737 related to stock options granted to employees. As a result of the above transactions, approximately \$247,637 was recorded in contributed surplus during the nine months ended September 30, 2004.



CYBERPLEX INC.

MANAGEMENT DISCUSSION AND ANALYSIS FOR
THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2004

RISKS AND UNCERTAINTIES

Cyberplex has not had any significant changes to its risks and uncertainties from those that were disclosed in the Company's 2003 MD&A.

OUTLOOK

Cyberplex has not had any significant changes to its outlook from those that were disclosed in the Company's 2003 MD&A.



CELEBRATING TEN YEARS

CYBERPLEX INC.

CONSOLIDATED BALANCE SHEETS

	as at September 30, 2004 <u>(unaudited)</u>	as at December 31, 2003 <u>(unaudited)</u>
ASSETS		
Current Assets:		
Cash, cash equivalents and short-term investments	\$ 4,353,686	\$ 3,077,930
Accounts receivable, net of allowance for doubtful accounts of \$252,357 (December 31, 2003 - \$208,935)	2,588,770	1,804,460
Prepaid expenses and sundry assets	<u>302,329</u>	<u>294,300</u>
	7,244,785	5,176,690
Capital assets	1,767,089	1,987,040
Goodwill	449,136	-
TOTAL ASSETS	<u>\$ 9,461,010</u>	<u>\$ 7,163,730</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,353,654	\$ 1,618,975
Deferred lease inducements	22,545	58,733
Unearned revenue	<u>5,943</u>	<u>180,743</u>
	1,382,142	1,858,451
Future income taxes	162,019	162,019
Other long-term liabilities	<u>1,386,168</u>	<u>1,118,136</u>
	1,548,187	1,280,155
SHAREHOLDERS' EQUITY		
Capital stock	70,542,386	68,843,158
Deficit	<u>(64,011,705)</u>	<u>(64,818,034)</u>
	6,530,681	4,025,124
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 9,461,010</u>	<u>\$ 7,163,730</u>



CYBERPLEX INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2004 (unaudited)	September 30, 2003 (unaudited)	September 30, 2004 (unaudited)	September 30, 2003 (unaudited)
Revenue	\$ 2,304,196	\$ 2,053,231	\$ 6,713,669	\$ 5,631,590
Cost of sales	1,038,201	920,227	3,072,191	2,589,046
Gross profit	1,265,995	1,133,004	3,641,478	3,042,544
Sales and marketing expenses	159,738	163,676	475,873	551,276
General and administrative expenses	718,216	637,829	1,964,295	1,798,006
	877,954	801,505	2,440,168	2,349,282
Income before the undernoted	388,041	331,499	1,201,310	693,262
Amortization	(89,932)	(104,390)	(272,955)	(306,122)
Write-down of short-term investment	-	-	-	(9,772)
Interest income	13,853	25,742	46,874	70,799
Interest on long-term debt	-	(966)	-	(8,105)
Income before income taxes	311,962	251,885	975,229	440,062
Provision for income tax	-	-	-	-
Net income	\$ 311,962	\$ 251,885	\$ 975,229	\$ 440,062
Deficit - beginning of the period	(64,323,667)	(65,747,018)	(64,818,034)	(65,935,195)
Adjustment for stock based compensation	-	-	(168,900)	-
Deficit - end of period	\$ (64,011,705)	\$ (65,495,133)	\$ (64,011,705)	\$ (65,495,133)
Weighted average number of common shares - basic	31,803,679	29,677,994	30,641,997	29,669,347
Weighted average number of common shares - diluted	33,203,987	32,746,662	32,042,305	32,738,015
Basic earnings (loss) per share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.01
Diluted earnings (loss) per share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.01



CYBERPLEX INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Month Period Ended		Nine Month Period Ended	
	September 30, 2004 (unaudited)	September 30, 2003 (unaudited)	September 30, 2004 (unaudited)	September 30, 2003 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income from continuing operations	\$ 311,962	\$ 251,885	\$ 975,229	\$ 440,062
Items not involving cash:				
Amortization	89,932	104,390	272,955	306,122
Amortization of lease inducements	(12,063)	(12,063)	(36,188)	(36,188)
Stock based compensation	17,263	-	78,738	-
Unrealized foreign exchange (gain)/loss	73,968	308	36,727	9,249
Changes in non-cash working capital	(449,897)	(172,429)	(1,287,132)	(33,792)
Cash flows from (used in) operating activities	31,165	172,091	40,329	685,453
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in long-term liabilities	98,750	(92,085)	233,066	(268,170)
Proceeds from private placement, net	-	-	991,786	-
Change in obligations under capital lease	-	(44,150)	-	(195,919)
	98,750	(136,235)	1,224,852	(464,089)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of CyberSecure, net of cash acquired	55,662	-	55,662	-
Disposal/(addition) of capital assets, net	(6,090)	(87,400)	(35,363)	(105,035)
	49,572	(87,400)	20,299	(105,035)
Foreign exchange gain/(loss) on cash held in foreign currency	(34,442)	(7,493)	(9,724)	(131,972)
Change in cash, cash equivalents & short-term investments	145,045	(59,037)	1,275,756	(15,643)
Cash, cash equivalents & short-term investments, beginning of period	4,208,641	3,961,316	3,077,930	3,917,922
Cash, cash equivalents & short-term investments end of period	<u>\$ 4,353,686</u>	<u>\$ 3,902,279</u>	<u>\$ 4,353,686</u>	<u>\$ 3,902,279</u>



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 to turn their existing investments in people, process and technology into a source of competitive advantage.

2. Significant accounting policies

The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2003. These unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual audited consolidated financial statements, notes thereto, and Management Discussion and Analysis contained in the Company's Annual Report for the fiscal year ended December 31, 2003.

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, 2004 and December 31, 2003, and the results of operations and cash flows for the three and nine month periods ended September 30, 2004 and 2003. Interim results are not necessarily indicative of results for a full year.

3. Acquisitions

On August 31, 2004, the Company acquired CyberSecure, Inc. ("CyberSecure"), a security focused, technology consulting and solutions firm, headquartered in Fredericton, NB. The acquisition provides the Company with an expanded customer base and the ability to offer clients various security services including; penetration testing, information security consulting and security training.

The purchase price of \$452,000 was financed through the issuance of 600,000 common shares and a warrant to purchase another 500,000 common shares of Cyberplex. In addition, the Company may issue up to an additional 900,000 common shares within the next 12 months based on predetermined financial thresholds for the CyberSecure subsidiary. The value of the common shares issued was determined based on the weighted average closing market price of the Company's shares for a reasonable period before and after the date of the acquisition. The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 2.9%, an exercise price of \$0.90, a dividend yield of 0%, a volatility factor of 62%, and an expected option life of one year.

The consideration paid for the acquisition has been allocated to the net assets acquired based on their respective fair values and the excess has been recorded as goodwill.



CYBERPLEX INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2004

3. Acquisitions (continued)

The CyberSecure transaction is summarized as follows (\$000's):

Net assets acquired:	
Current assets	\$154.6
Capital assets	17.6
Current liabilities	(76.8)
Long-term liabilities	(84.8)
Fair value of identifiable assets	10.7
Goodwill	449.1
Purchase price	<u>\$459.8</u>

4. Outstanding shares

As of September 30, 2004, there were 32,208,027 common shares issued and outstanding. In addition, there were 2,515,668 options and 500,000 warrants outstanding to acquire common shares of the Company.

5. Stock-based compensation

On January 1, 2004, the Company adopted CICA Handbook Section 3870 and recorded a charge to its opening deficit of \$168,900 for stock options granted to employees on or after January 1, 2002. During the three and nine months ended September 30, 2004, the Company recorded compensation expense related to stock options granted to employees of approximately \$17,263 and \$78,737, respectively. As a result of the above transactions, approximately \$247,637 was recorded in contributed surplus during the nine months ended September 30, 2004.

The Company's calculations for calculating the "fair value" of options granted were made using the Black-Scholes option-pricing model with the following average assumptions:

	<u>For the period ended September 30, 2004</u>	
	<u>Three Months</u>	<u>Nine Months</u>
Risk-free interest rate	3.23%	3.21%
Expected life (years)	1.00	2.53
Expected dividend yield	0%	0%
Expected volatility	62%	62%



CYBERPLEX INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2004

6. Segmented Information

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

Revenue by geographic location of customer:

	Three months ended	
	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Canada	\$1,440,433	\$ 981,202
U.S.	<u>863,763</u>	<u>1,072,029</u>
	<u>\$ 2,304,196</u>	<u>\$ 2,053,231</u>

Capital Assets by geographic location:

	As at	
	<u>September 30, 2004</u>	<u>December 31, 2003</u>
Canada	\$ 1,750,151	\$ 1,965,873
U.S.	<u>16,938</u>	<u>21,167</u>
	<u>\$ 1,767,089</u>	<u>\$ 1,987,040</u>

