



CYBERPLEX INC.

Management Discussion and Analysis For the three months and year ended December 31, 2009

March 30, 2010

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MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2009

The following discussion and analysis of the financial condition and results of Cyberplex Inc. (also referred to as “we”, “us”, “our”, “Cyberplex”, or the “Company”), prepared as of March 30, 2010, has been reviewed and approved by the Company’s Board of Directors, on the recommendation of its Audit Committee, prior to filing and should be read in conjunction with the Company’s audited consolidated financial statements (and related notes) as at December 31, 2009 and 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are reported in Canadian dollars. Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company’s website at www.cyberplex.com.

Certain statements in this MD&A may constitute forward-looking information, including future-oriented financial information and financial outlooks, within the meaning of applicable securities laws. Forward-looking statements may relate to the Company’s future outlook and anticipated events or results and may include statements regarding the Company’s future financial position, projected revenue, earnings, growth rates, revenue mix, product plans and objectives. In some cases, forward-looking statements can be identified by terms such as “could”, “expect”, “may”, “will”, “anticipate”, “believe”, “intend”, “estimate”, “plan”, “potential”, “project” or other expressions concerning matters that are not historical facts. Readers are cautioned not to place undue reliance upon any such forward-looking statements. Such forward-looking statements are not promises or guarantees of future performance and involve both known and unknown risks and uncertainties that may cause the actual results, performance, achievements or developments of Cyberplex to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements, by their nature, are based on certain assumptions regarding expected growth, management’s current plans, estimates, projections, beliefs, opinions and business prospects and opportunities (collectively, the “Assumptions”). While the Company considers these Assumptions to be reasonable, based on the information currently available, they may prove to be incorrect.

It is important to note that:

- There is no assurance that any forward-looking statements will materialize.*
- The results or events predicted herein may differ from actual results or events.*
- Unless otherwise indicated, forward-looking statements describe expectations as of March 30, 2010.*
- Cyberplex disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

Many risks, uncertainties and other factors could cause the actual results of Cyberplex to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. These risks, uncertainties and other factors

include, but are not limited to, the following: overall economic conditions, rapid technological changes, dependence on the internet, demand for our product, the introduction of competing technologies, competitive pressures, network restrictions, fluctuations in foreign currency exchange rates and other similar factors that may cause the actual results, performance or achievements of Cyberplex to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. Additional information concerning risks and uncertainties affecting Cyberplex' business and other factors that could cause financial results to fluctuate is set forth below in "Risk Factors", as well as elsewhere herein, and is contained in Cyberplex' filings with Canadian securities regulatory authorities, including the Company's most recent Annual Information Form available on SEDAR. Readers are cautioned not to place undue diligence on such statements. We do not intend, and disclaim any obligation to update or revise any forward-looking statements at any particular time whether as a result of new information, future events or otherwise. All forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.

OVERVIEW

Cyberplex is a leader in performance-based advertising solutions and online customer acquisition strategies. The Company, through its subsidiaries, leverages its proprietary publisher network, technology solutions specialists and online marketing expertise to assist advertisers and other customers by designing, developing and promoting online programs and campaigns that deliver results. The performance-based web advertising model that is offered through the CX Digital Media division ("CXD") is focused on a core value proposition - advertisers only pay for results. Advertisers define the desired consumer "actions", which may include qualified leads, registrations, downloads, inquiries or actual sales, and advertisers only pay for those defined actions. CXD's virtual network of performance-based advertising brings together advertisers seeking distribution for their campaigns with thousands of publishers who wish to monetize their web properties and various forms of distribution, all on a single technology platform that ensures the most targeted and efficient traffic and state-of-the-art tracking and reporting for every campaign. Through its deep industry experience and partnerships, world-class technology and operations, and track record for delivering high quality results to its advertising clients, CXD has emerged as an important player in the performance advertising sector. As online advertising spending continues to grow and greater attention is paid to measurable results, performance-based models are becoming more important to direct marketers, online retailers and other advertisers focusing on customer acquisition strategies. The Company is well positioned to meet the needs of this growing market, as it continues to build out its Web Advertising division, focusing on solutions that provide the greatest return for its advertising client base.

The Technology Services division is comprised of management and technology consultants who assist clients through all areas of the applications lifecycle; re-engineering and optimization of their current technology, developing and delivering new applications using the most current productions and technologies, and monitoring and supporting applications to ensure their performance and reliability. With over a decade of experience serving Fortune

1000 clients and small to mid-sized businesses, Cyberplex is frequently the provider of choice for business leaders looking to grow their business with reliable solutions and is able to deliver quality solutions to customers in a timely, cost effective and efficient manner.

Cyberplex serves clients across North America and internationally from its headquarters in Toronto, Canada.

SELECTED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information of Cyberplex for the periods indicated. Each investor should read the following information in conjunction with those financial statements and related notes. The selected financial information for the three months ended December 31, 2009 and 2008 and the years ended December 31, 2009, 2008 and 2007 have been prepared in accordance with Canadian GAAP. The operating results for any past period are not necessarily indicative of results for any future period. The selected financial information set out below as at, and for the three months ended December 31, 2009 and 2008 and the years ended December 31, 2009, 2008 and 2007 respectively, has been derived from the consolidated financial statements.

CYBERPLEX INC.
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

	Three months period ended		December 31, 2009 (unaudited)	December 31, 2008 (unaudited)	December 31, 2009 (unaudited)	Year ended December 31, 2008 (unaudited)	December 31, 2007 (unaudited)
	December 31, 2009 (unaudited)	December 31, 2008 (unaudited)					
Revenue	\$ 24,347,585	\$ 28,893,768	\$ 110,411,215	\$ 57,279,766	\$ 17,651,509		
Cost of revenue	17,512,801	18,577,022	78,070,649	37,488,239	10,643,665		
	<u>6,834,784</u>	<u>10,316,746</u>	<u>32,340,566</u>	<u>19,791,527</u>	<u>7,007,844</u>		
Expenses							
Sales and marketing	2,313,821	4,933,990	12,907,348	10,353,421	4,093,673		
General and administrative	2,554,171	1,683,438	8,450,937	4,661,071	3,260,549		
Foreign exchange (gain) loss	975,472	(1,293,444)	3,423,700	(1,539,548)	425,687		
	<u>5,843,464</u>	<u>5,323,986</u>	<u>24,781,985</u>	<u>13,474,944</u>	<u>7,779,909</u>		
Income (loss) before the undernoted	991,320	4,992,761	7,558,581	6,316,583	(772,065)		
Amortization of capital assets	108,561	80,692	392,641	310,790	281,132		
Amortization of intangible assets	12,500	4,814	12,500	187,157	418,630		
Gain on disposal of capital assets	-	-	-	-	(68,072)		
Income (loss) from operations	870,259	4,907,255	7,153,440	5,818,636	(1,403,755)		
Interest expense	(852)	(27,599)	(75,370)	(76,182)	(19,561)		
Interest income	25,834	535	48,521	29,285	56,243		
Gain on sale of short-term investment	53,259	-	53,259	-	16,252		
Dividend income	-	-	-	-	30,776		
Income (loss) before income taxes	948,500	4,880,191	7,179,851	5,771,739	(1,320,045)		
Income tax expense (recovery)	(306,226)	-	78,231	-	(177,189)		
Net income (loss)	1,254,726	4,880,191	7,101,620	5,771,739	(1,142,856)		
Unrealized gain (loss) on available-for-sale-securities net of tax of nil	(135,974)	-	172,706	-	-		
Amount reclassified to earnings during the year	(53,259)	-	(53,259)	-	-		
Comprehensive income	\$ 1,065,493	\$ 4,880,192	\$ 7,221,067	\$ 5,771,739	\$ (1,142,856)		
Income per share:							
Basic	\$ 0.02	\$ 0.09	\$ 0.11	\$ 0.11	\$ (0.03)		
Diluted	0.02	0.09	0.11	0.11	(0.03)		
Weighted average number of common shares used in income per share							
Basic	68,450,054	53,621,060	62,680,694	51,525,909	42,474,497		
Diluted	70,380,964	56,734,110	64,905,988	52,859,402	42,474,497		

UNAUDITED CONSOLIDATED BALANCE SHEETS

	as at December 31, 2009 (unaudited)	as at December 31, 2008 (audited)
ASSETS		
Current Assets:		
Cash, cash equivalents and short-term investments	\$ 21,762,643	\$ 5,364,384
Accounts receivable, net of allowance for doubtful accounts of \$ 2,270,977 (2008 - \$1,531,229)	9,930,149	14,079,236
Prepaid expenses and other assets	3,303,819	668,503
	<u>34,996,611</u>	<u>20,112,123</u>
Capital assets	1,432,309	993,868
Intangible assets	287,500	-
Goodwill	14,095,708	13,936,813
Future tax assets	582,740	-
	<u>\$ 51,394,868</u>	<u>\$ 35,042,804</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness	\$ -	\$ 3,535,264
Accounts payable and accrued liabilities	4,270,080	11,529,047
Unearned revenue	668,255	153,813
Deferred lease inducements	106,618	62,323
Income tax payable	631,465	-
	<u>5,676,418</u>	<u>15,280,447</u>
Deferred lease inducements	156,119	153,774
Shareholders' equity	45,562,331	19,608,583
	<u>\$ 51,394,868</u>	<u>\$ 35,042,804</u>

Overall Performance

We evaluate our revenue performance based on two reportable operating segments: Web Advertising and Technology Services. Web Advertising, through CXD, leverages its publisher network to help clients with targeted customer acquisition and lead generation campaigns. Technology Services provides consulting, design, development and usability expertise to manage all aspects of a client's web-based application.

The Web Advertising division generates revenue from customers that work with us on a performance basis. As a result, revenue is recognized from these customers based on the execution or completion of an agreed upon "action", as defined in advance by both parties, using an agreed upon rate per action. The Company recognizes revenue on a gross basis, based on the number of actions performed in the period. An important judgment we make is our assessment of the whether collection of the related accounts receivable balance on a customer-by-customer basis is reasonably assured. In cases where collectibility is not deemed reasonably assured, revenue is recognized upon receipt of cash, assuming all other criteria have been met.

Our focus for the Web Advertising division is to continue building relationships with both advertisers and publishers. Along with our proprietary and unique forms of distribution, we continue to work towards delivering the highest quality results, which is key to our current and future success. Revenue growth year over year consisted of many new advertising campaigns from a variety of industries and was fulfilled by a number of new publishers as well as our own internal initiatives. Our main verticals continue to include health and wellness, business opportunities, retail, dating, mobile and personal finance.

The Company has performed well and continues to believe the focus on "pay for performance" is a powerful alternative to traditional online advertising pricing models, especially during the current market conditions.

The Technology Services division generates revenue by performing consulting services to clients on either a project-by-project basis, or in some cases, as the agency or vendor of record. The future revenue growth from our Technology Services division will depend upon superior quality and delivery of our consulting and development projects, as well as the expansion of our client base and technology diversification through new offerings. As in the past, a client may still terminate its services on fairly short notice and given that a significant amount of costs are fixed, a material variation in the number of, or value of, any significant engagements, or the early termination of an account on short notice, can cause significant variations in operating results from quarter to quarter.

Throughout 2009, the Technology Services division has spent a significant amount of time and effort on growing the interactive side of our business and supported various internal initiatives for our Web Advertising division.

Revenue from our Web Advertising division is generally denominated in U.S. dollars while a significant portion of our Technology Services division's revenue is denominated in Canadian dollars. Our expenses are denominated in either Canadian or U.S. dollars. Our

earnings are impacted by fluctuations in the exchange rates between the Canadian and U.S. dollar in which we trade. An increase in the value of the Canadian dollar relative to the U.S. dollar would reduce the amount of revenue and margins in Canadian dollar terms realized by the Company from sales made in U.S. dollars. This would reduce the Company's operating margin and the cash flow available to fund its operations.

Revenue for the year ended December 31, 2009 totaling \$110.4 million increased \$53.1 million or 93% compared to the \$57.3 million generated in 2008. Web Advertising revenue for the year ended December 31, 2009 totaled \$105.9 million compared to \$52.2 million for the same period last year, an increase of \$53.7 million or 103%. Revenue from Technology Services for the year ended December 31, 2009 generated \$4.5 million as compared to \$5.0 million in 2008, a decrease of 490,000 or 10%.

Gross profit for the year ended December 31, 2009 was \$32.3 million resulting in a gross margin of 29% compared to \$19.8 million (35%) for the same period last year. Gross profit for the Web Advertising division for the year ended December 31, 2009 was \$30.3 million resulting in a gross margin of 29% compared to \$17.8 million (34%) for the same period last year. Gross profit for Technology Services of \$2.0 million resulted in a gross margin of 45% for the year ended December 31, 2009 compared to \$2.0 million and 39% gross margin for the same period last year. The overall gross margin percentage decreased year over year as a result of our drive to aggressively grow the business and expand into new verticals and into competitive international markets.

Comprehensive income for the year ended December 31, 2009 was \$7.2 million compared to income of \$5.8 million in 2008. This improvement was due to the various factors including the increase in revenue and gross profit from our Web Advertising business.

During the fourth quarter, the Company addressed the type of revenue we wanted to attract through our network and began its transition to a higher quality of revenue. During the year, as we became more engaged with brand advertisers and the agencies that represent them, we had to implement certain changes in order to attract these higher tier advertisers to either participate in performance based marketing, or to increase their existing performance marketing budgets. Brand protection, quality distribution and consumer messaging are of paramount importance to these advertisers. While the performance based marketing industry is still very young, we believe that these factors must be the primary focus of every campaign and the primary focus of every network in order to ensure that we continue to attract quality advertisers and brands. With these initiatives at the forefront, the Company proactively sought to address these concerns and worked to reposition itself and the industry. These changes resulted in ceasing to work with some advertisers and certain publishers - to prioritize quality clients and a higher quality of revenue stream. While we fully expected that these changes would impact the Company in the short term, we firmly believe that this will make Cyberplex and the industry much stronger over time. We are already seeing the impact of our initiatives resonate through the industry. It is an exciting and important juncture in the performance marketing industry, and we are extremely pleased that we were able to have such a positive impact in the industry and that the message is being well received.

Our focus has always been, and continues to be, delivering value to our clients. We believe that our focus on performance based advertising, our expertise in targeted technology and distribution, and our commitment to the most efficient online marketing strategies, position us extremely well moving forward.

In recognition of the Company's leadership role in the industry, the Company was pleased to have been selected to hold a seat on the advisory board of a newly formed organization, the Brand Protection Group, designed to promote and ensure enforcement of industry guidelines for advertisers seeking to participate in this industry. We are currently working on a series of other initiatives to be rolled out in the coming months also targeted at brand and consumer protection and the promotion of best practices in the CPA industry.

The Company strengthened its balance sheet in June 2009 by closing a \$17.2 million public offering (the "Public Offering") resulting in the issuance of 10,781,000 common shares of the Company (the "shares") at a price of \$1.60 per share, resulting in net proceeds of \$15.9 million, net of issuance costs of \$1.3 million. Along with an operating line of \$5.5 million available with a Canadian chartered bank, management believes that the current cash position combined with the operating line of credit is sufficient to cover any additional operational needs in the foreseeable future.

Each of these segments, including the proportion of our total revenue attributable to each, is outlined in the following table:

Years ended December 31,

2009	Web Advertising	Technology Services	Total
Revenue	\$105,857,805	\$4,553,410	\$110,411,215
Gross margin	29%	45%	29%

2008	Web Advertising	Technology Services	Total
Revenue	\$52,236,488	\$5,043,278	\$57,279,766
Gross margin	34%	39%	35%

Three months ended December 31,

2009	Web Advertising	Technology Services	Total
Revenue	\$23,328,961	\$1,018,624	\$24,347,585
Gross margin	28%	36%	28%

2008	Web Advertising	Technology Services	Total
Revenue	\$27,332,311	\$1,561,457	\$28,893,768
Gross margin	35%	54%	36%

The Company's assets and operations are substantially located in Canada; however, the Company services many customers in the United States and abroad. Information relating to revenue by geography is outlined below:

Years ended December 31,	2009	2008
United States	\$89,801,810	\$52,277,031
Canada	4,405,040	5,002,735
Outside North America	16,204,365	
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Three months ended December 31,	2009	2008
United States	\$16,984,775	\$21,676,116
Canada	995,173	1,550,528
Outside North America	6,367,637	5,667,124

The top 10 clients accounted for 75% of revenue for the year ended December 31, 2009, whereas the top 10 clients accounted for 47% of revenue for 2008. As a result of some very successful campaigns, for the year ended December 31, 2009, there were two clients that comprised 38% and 15% respectively of our total revenue. One client comprised 13% of our total revenue in 2008. No other client exceeded 10% of revenue during these periods. The top 10 clients accounted for 76% of revenue during the three months ended December 31, 2009, whereas the top 10 clients accounted for 62% of revenue during the three months ended December 31, 2008. It is possible that in the future a few accounts will continue to comprise a significant portion of the revenue, and therefore, any cancellation or variation in the number of accounts could have an adverse effect on the financial results.

Direct costs include publisher payments, salaries, contractor costs, bonuses, benefits, source deductions, billable and non billable out-of-pocket expenses and other costs associated with the generation of revenue.

Sales and marketing expenses relate to all salaries, commissions and costs associated with building a sales force, maintaining a brand, attending marketing events and online advertising initiatives.

General and administrative expenses consist primarily of personnel costs, occupancy costs, professional fees, accounting and legal advice, development and maintenance of information systems, as well as bad debt expenditures.

Foreign exchange gains or losses consist of the realized and unrealized exchange differences due to fluctuations between the Canadian and U.S. dollar exchange rates.

COMPARISON OF THE THREE MONTHS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

Revenue

Revenue for the three months ended December 31, 2009 totaling \$24.3 million decreased \$4.5 million or 16% compared to the \$28.9 million generated in 2008.

Web Advertising revenue for the three months ended December 31, 2009 totaled \$23.3 million compared to \$27.3 million for the same period last year, a decrease of \$4.0 million or 15%. The decrease was attributed to our transition to aggressively improve the quality of the customer base and the quality of campaigns along with our concentration on the higher producing publishers. The Company seeks to develop relationships with agencies and with higher quality clients. This transition should result in increased revenue stability going forward. During the fourth quarter of 2009, our main verticals continued to include health and wellness, business opportunities, retail, dating, mobile and personal finance.

Revenue from Technology Services for the three months ended December 31, 2009 generated \$1.0, down from the \$1.6 million generated in the fourth quarter of 2008. During the fourth quarter of 2009, the Technology Services division continued to spend a significant amount of time and effort on growing the interactive side of our business and supported various internal initiatives for our Web Advertising division.

Direct Costs and Gross Profit

Direct costs of \$17.5 million decreased by \$1.1 million for the fourth quarter ended December 31, 2009, compared to the \$18.6 million incurred for the same period in 2008. This decrease is the direct result of \$16.9 million in publisher costs relating to the Web Advertising division compared to \$17.9 million in the fourth quarter of 2008. The Web Advertising division utilizes a publisher network to connect advertisers with potential customers and pays the publishers on a performance basis. Direct costs for the Technology Services division for the fourth quarter ended December 31, 2009 were \$656,000, a decrease of \$63,000 from the \$719,000 for the same period last year due to the decrease in revenue quarter over quarter.

Gross profit for the fourth quarter ended December 31, 2009 was \$6.8 million resulting in a gross margin of 28% compared to \$10.3 million or 36% for the same period last year. Gross profit for the Web Advertising division for the fourth quarter ended December 31, 2009 was \$6.4 million resulting in a gross margin of 28% compared to \$9.5 million or 35% for the same period last year. The decrease in gross margin from the fourth quarter of 2008 is the result of our continued growth initiatives and push into the international and competitive markets around the world. Gross profit for Technology Services of \$362,000 resulted in a gross margin of 36% in the fourth quarter of 2009 compared to \$842,000 or 54% for the same period last year.

Sales & Marketing

Sales and marketing expenses, consisting primarily of salaries and commission costs for our sales team along with advertising and promotion expenses, were \$2.3 million for the fourth quarter ended December 31, 2009, a decrease of \$2.6 from the \$4.9 million incurred for the same period in 2008. The reduced revenue had a direct impact on this figure along with reduced advertising and promotion expenses incurred in 2009 due to all the industry changes. Sales and marketing expenses for the fourth quarter ended December 31, 2009 represented 10% of revenue as compared to 17% for the fourth quarter ended December 31, 2008.

General & Administrative

General and administrative expenses were \$2.5 million for the fourth quarter ended December 31, 2009, an increase of \$870,000 compared to the \$1.7 million incurred for the same period in 2008. The increase quarter over quarter is the result of a \$955,000 increase in bad debt provision and a \$545,000 increase in legal and litigation settlement fees. The increase in bad debt was the result of a prudent decision by management to provide for an outstanding receivable from a certain advertiser against whom we have commenced litigation. The increase in legal resulted from certain expenses relating to M&A opportunities no longer being pursued and the settlement of a patent infringement claim. General and administrative expenses for the fourth quarter ended December 31, 2009 represented 10% of revenue as compared to 6% for the fourth quarter ended December 31, 2008.

Foreign Exchange (gain) loss

A foreign exchange loss of \$975,000 was generated in the fourth quarter of 2009 as compared to a foreign exchange gain of \$1.3 million in the fourth quarter of 2008. Foreign exchange gains and losses consist of the realized and unrealized exchange differences due to fluctuations between the Canadian and the U.S. dollar exchange rates. The value of the U.S. dollar relative to the Canadian dollar decreased by 2.4% to 1.047 Canadian dollars at December 31, 2009, down from 1.072 Canadian dollars at September 30, 2009. We have adopted a disciplined hedging strategy to minimize, where practical, the economic impact due to foreign exchange fluctuations. There were no outstanding derivatives at year end and derivatives currently have been purchased and settled within the same quarter.

Other Income and Expenses

Amortization is comprised of amounts relating to the amortization of capital assets and intangible assets. Amortization of capital assets was \$109,000 in the fourth quarter of 2009 versus \$81,000 in 2008 and amortization of intangible assets in the fourth quarter of 2009 was \$12,500 versus \$5,000 in 2008. Technology-related intangibles were being amortized on a straight-line basis over 2 years. Customer-related intangibles were being amortized on a straight-line basis over 1 year.

Interest income, resulting from interest earned on short-term investments over the course of the year, amounted to \$26,000 for the fourth quarter of 2009, as compared to \$1,000 in 2008.

Interest expense of \$1,000 in the fourth quarter of 2009 was a decrease from the \$28,000 recorded in 2008.

Gain in sale of Short-term investments and Unrealized loss on Available-for-Sale Securities

During 2009 the Company acquired an investment in common shares and bonds of publicly traded company which was designated as available-for-sale securities. During the fourth quarter ended December 31, 2009, the Company disposed a portion of the common shares and realized a gain on sale of \$53,000. For the remaining portion of the investment as of December 31, 2009, a loss of \$189,000 was recorded to adjust the carrying amount of the securities to fair value with the offsetting unrealized loss recorded in other comprehensive income. The securities and bonds are classified within short term investments on the consolidated balance sheet. There were no available-for-sale securities held in 2008.

Income Taxes

For the three months ended December 31, 2009, the Company incurred \$277,000 in tax expense. The total income for taxation purpose was primarily offset by the utilization of tax loss carry forwards and other temporary differences, and the benefit of tax incentives. The Company had no tax expenses for the year ended December 31, 2008, as income was offset by the utilization of the loss carry forwards and other temporary differences. The provision for income taxes as at December 31, 2009 is \$631,000 and the Company has future tax assets of \$583,000. As at December 31, 2009, the Company had accumulated income tax losses of approximately \$850,000 available for its US subsidiaries. As at December 31, 2008, the Company had accumulated income tax losses of approximately \$5.9 million that substantially was all used to reduce taxable income during 2009.

Comprehensive Income

Comprehensive income for the fourth quarter ended December 31, 2009 was \$1.1 million compared to \$4.9 for the same period in 2008. This decrease was due to the various factors discussed above including the decrease in revenue from our Web Advertising business, the competitive pressures on margins and certain significant charges in the fourth quarter of 2009 for litigation settlements and bad debt as discussed earlier that increased our general and administration expenses.

Liquidity and Capital Resources

Along with an operating line of \$5.5 million available with a Canadian chartered bank, management believes that the current cash position combined with the operating line of credit is sufficient to cover operational needs in the foreseeable future.

Cash flow from operating activities resulted in a source of cash of \$857,000 in the fourth quarter of 2009, down from the \$1.7 million source of cash required in the fourth quarter of 2008. Net income for the fourth quarter of 2009 was at \$1.3 million compared to \$4.9 million in 2008. The change in non-cash operating assets and liabilities resulted in a use of cash of \$365,000 for the fourth quarter ended December 31, 2009 compared to a use of cash

of \$2.9 million for the same period last year. The non-cash operating assets and liabilities in the fourth quarter of 2009 were the result of an increase in prepaid expenses and sundry assets of \$1.8 million based on an increase in publisher prepayments and a decrease in accounts payable and accrued liabilities of \$203,000 partially offset by a decrease in accounts receivable of \$1.3 million and an increase in income taxes payable of \$247,000. There was an increase in future tax assets of \$583,000 as compared to nil in 2008. The unrealized foreign exchange loss was \$265,000 in the fourth quarter of 2009 as compared to an unrealized foreign exchange gain of \$326,000 in 2008.

There were no significant financing activities during the fourth quarter ended December 31, 2009. Financing activities during the fourth quarter ended December 31, 2008 resulted in a source of cash of \$3.5 million due an increase in bank indebtedness.

Investing activities for the Company are impacted by acquisitions and the purchase or sale of various short-term investments. During the quarter ended December 31, 2009, investing activities resulted in a source of cash of \$2.8 million due to the sale in short-term investments. During the fourth quarter of 2008, investing activities resulted in a use of cash of \$1.7 million due to the payout of \$1.4 million for the Earnout payments for our Incentaclick acquisition, the purchase of short-term investments of \$145,000, the purchase of capital assets of \$54,000 and the Earnout payments for our Eidenai acquisition of \$40,000. Investment activities exposes the Company to various business risks with respect to acquisitions and market risks with short-term securities, which can include foreign exchange rate risk and interest rate risk. Management does not expect that net income, liquidity and cash flows will be materially affected by the risks associated with the financial instruments we are currently invested in.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

Revenue

Revenue for the year ended December 31, 2009 totaling \$110.4 million increased \$53.1 million or 93% compared to the \$57.3 million generated in 2008.

Web Advertising revenue for the year ended December 31, 2009 totaled \$105.9 million compared to \$52.2 million for the same period last year, an increase of \$53.7 million or 103%. Revenue growth year over year consisted of many new advertising campaigns from a variety of industries, especially from the health and wellness vertical, and was fulfilled by a number of new publishers as well as our own internal initiatives. Our main verticals continue to include health and wellness, business opportunities, retail, dating, mobile and personal finance.

Revenue from Technology Services for the year ended December 31, 2009 generated \$4.6 million as compared to \$5.0 million in 2008, a decrease of 490,000 or 10%. Throughout 2009, the Technology Services division has spent a significant amount of time and effort on growing the interactive side of our business and supported various internal initiatives for our Web Advertising division.

Direct Costs and Gross Profit

Direct costs of \$78.1 million increased by \$40.6 million for the year ended December 31, 2009, compared to the \$37.5 million incurred for the same period in 2008. This increase is the direct result of \$75.5 million in publisher costs relating to the Web Advertising division compared to \$34.4 million for the same period for 2008. The Web Advertising division utilizes a publisher network to connect advertisers with potential customers and pays the publishers on a performance basis. Direct costs for the Technology Services division for the year ended December 31, 2009 were \$2.5 million, a decrease of \$549,000 from the \$3.1 million for the same period last year.

Gross profit for the year ended December 31, 2009 was \$32.3 million resulting in a gross margin of 29% compared to \$19.8 million or 35% for the same period last year. Gross profit for the Web Advertising division for the year ended December 31, 2009 was \$30.3 million resulting in a gross margin of 29% compared to \$17.8 million or 34% for the same period last year. The decrease in gross margin for the year ended December 31, 2009 as compared to the same period for 2008 is the result of our drive into new competitive verticals and international markets. Gross profit for Technology Services of \$2.0 million resulted in a gross margin of 45% for the year ended December 31, 2009 compared to \$2.0 million or 39% for the same period last year.

Sales & Marketing

Sales and marketing expenses, consisting primarily of salaries and commission costs for our sales team along with advertising and promotion expenses, were \$12.9 million for the year ended December 31, 2009, an increase of \$2.5 million from the \$10.4 million incurred for the same period in 2008. This increase is reflective of higher commission costs as a direct result of the growth in revenue and due to the building of a stronger sales and business development organization. In addition to the increased personnel, the Company has continued to invest in brand awareness by attending tradeshow, industry events and other marketing initiatives. Sales and marketing expenses for the year ended December 31, 2009 represented 12% of revenue as compared to 18% for the year ended December 31, 2008.

General & Administrative

General and administrative expenses were \$8.4 million for the year ended December 31, 2009, an increase of \$3.7 million compared to the \$4.7 million incurred for the same period in 2008. The increase in general and administrative expenses was the result from our rapid growth including growing infrastructure requirements, higher legal fees and a settlement for a patent infringement claim, higher bad debt expense and the hiring of additional senior resources. General and administrative expenses represented 8% for the year ended December 31, 2009 and December 31, 2008.

Foreign Exchange (gain) loss

A foreign exchange loss of \$3.4 million was generated for the year ended December 31, 2009 as opposed to a foreign exchange gain for the year ended December 31, 2008 of \$1.5 million. Foreign exchange gains and losses consist of the realized and unrealized exchange differences due to fluctuations between the Canadian and the U.S. dollar exchange rates. The value of the U.S. dollar relative to the Canadian dollar decreased by 14.5% to 1.047 Canadian dollars at December 31, 2009, down from 1.22 Canadian dollars at December 31, 2008. There were no outstanding derivatives at year end and derivatives currently have been purchased and settled within the same quarter.

Other Income and Expenses

Amortization is comprised of amounts relating to the amortization of capital assets and intangible assets. Amortization of capital assets was \$393,000 for the year ended December 31, 2009 versus \$311,000 in 2008 and amortization of intangible assets for the year ended December 31, 2009 was \$12,500 versus \$187,000 in 2008. Technology-related intangibles are being amortized on a straight-line basis over 2 years. Customer-related intangibles are being amortized on a straight-line basis over 1 year.

Interest income, resulting from interest earned on our invested cash balances over the course of the year, amounted to \$49,000 for the year ended December 31, 2009, an increase from the \$29,000 recorded in 2008. Interest expense of \$75,000 for the year ended December 31, 2009, was a slight decrease from the \$76,000 recorded in 2008.

Gain in sale of Short-term investments and Unrealized gain on Available for Sale Securities

During 2009 the Company acquired and continued to hold an investment in common shares and bonds of publicly traded company which was designated as available-for-sale securities. During the year ended December 31, 2009, the Company disposed a portion of the common shares and realized a gain on sale of \$53,000. For the remaining investment as of December 31, 2009, a gain of \$119,000 was recorded to adjust the carrying amount of the securities to fair value. The securities and bonds are classified within short term investments on the consolidated balance sheet. There were no available-for-sale securities held in 2008.

Income Taxes

For the year ended December 31, 2009, the Company incurred \$661,000 in tax expenses. The total income for taxation purpose was primarily offset by the utilization of tax loss carry forwards, and other temporary differences, and the benefit of tax incentives. The Company had no tax expenses for the year ended December 31, 2008, as income was offset by the utilization of the loss carry forwards and other temporary differences. The future income tax asset as at December 31, 2009 is \$583,000. As at December 31, 2009, the Company had accumulated income tax losses of approximately \$850,000 available for its US subsidiaries. As at December 31, 2008, the Company had accumulated income tax losses of approximately \$5.9 million that substantially was all used to reduce taxable income during 2009.

Comprehensive Income

Comprehensive income for the year ended December 31, 2009 was \$7.2 million compared to \$5.8 million in 2008. This increase was due to the various factors discussed above including the growth in revenue from our Web Advertising division.

Liquidity and Capital Resources

The Company strengthened its balance sheet in 2009 by closing a \$17.2 million Public Offering in June 2009 resulting in the issuance of 10,781,000 common shares of the Company resulting in net proceeds of \$15.9 million. Along with an operating line of \$5.5 million available with a Canadian chartered bank, management believes that the current cash position combined with the operating line of credit is sufficient to cover operational needs in the foreseeable future. The final earn-out obligation relating to the acquisition of CXD of \$3.6 million was paid during the second quarter of 2009 through a combination of shares and cash.

Cash flow from operating activities resulted in a source of cash of \$7.2 million for the year ended December 31, 2009, up from the \$509,000 source of cash for the year ended December 31, 2008. Net income for the year ended December 31, 2009 was at \$7.1 million as compared to \$5.8 million in 2008. The change in non-cash operating assets and liabilities resulted in a use of cash of \$1.0 million for the year ended December 31, 2009 as compared to a use of cash of \$5.1 million for the same period last year. The non-cash operating assets and liabilities for the year ended December 31, 2009 were the result of a decrease in accounts payable and accrued liabilities of \$3.4 million and an increase in prepaid expenses and sundry assets of \$2.6 million based on an increase in publisher prepayments partially offset by a decrease in accounts receivable of \$3.7 million, an increase in income taxes payable of \$631,000 and an increase in unearned revenue of \$514,000. There was an increase in stock-based compensation in 2009 of \$735,000 as compared to \$155,000 for 2008. The future tax assets increased by \$583,000 as compared to nil in 2008. The amortization of capital assets in 2009 was at \$393,000 as compared to \$311,000 in 2008 while in 2008 and the amortization of intangible assets totaled \$187,000 as compared to 12,500 in 2009. The unrealized foreign exchange loss was \$667,000 for the year ended December 31, 2009 as compared to an unrealized foreign exchange gain of \$783,000 in 2008.

Financing activities resulted in a source of cash of \$12.8 million as the Company closed a \$17.2 million gross Public Offering in June 2009 resulting in the issuance of 10,781,000 common shares of the Company at a price of \$1.60 per share, resulting in net proceeds of \$15.9 million. During the year ended December 31, 2009, \$3.5 million of bank indebtedness was repaid. The Company intends to use the net proceeds of the offering for working capital and general corporate purposes and to pursue potential acquisitions of complementary services, technologies or businesses. The timing, amount and allocation of actual expenditures will be based on various factors including the Company's growth, strategic initiatives, potential acquisitions, opportunistic business opportunities and research and development initiatives. At this time, however, the Company has no definitive plans for the expenditure of the funds. In addition, during the year ended December 31, 2009, \$244,000 from the exercise of stock options and \$217,000 from the exercise of warrants contributed to

the source of cash from financing activities. For the year ended December 31, 2008, financing activities produced a source of cash of \$7.5 million as the Company closed a \$5.0 million private placement in February 2008 resulting in net proceeds of \$4.6 million. This private placement resulted in the issuance of 8,333,333 common shares of the Company at a price of \$0.60 per share. In 2008, there was also a source of cash by an increase in the bank indebtedness of \$2.9 million and the exercise of stock options for \$84,000.

Investing activities for the Company are impacted by acquisitions and the purchase or sale of various short-term investments. During the year ended December 31, 2009, investing activities produced a use of cash of \$14.1 million due to the purchase of \$11.1 million in short-term investments, \$2.0 million due to earn-out payments for our Incentaclick acquisition, \$202,000 due to earn-out payments for our Eidenai acquisition, the addition to intangible assets of \$300,000 and \$555,000 for the purchase of capital assets. For the year ended December 31, 2008, investing activities resulted in a use of cash of \$4.2 million due to the payout of \$3.7 million due to earn-out payments for our Incentaclick and Eidenai acquisitions, the purchase of short-term investments of \$274,000 and the purchase of capital assets of \$265,000. Investment activities exposes the Company to various business risks with respect to acquisitions and market risks with short-term securities, which can include foreign exchange rate risk and interest rate risk. Management does not expect that net income, liquidity and cash flows will be materially affected by the risks associated with the financial instruments in which we are currently invested.

BALANCE SHEET

At December 31, 2009, our holdings of cash and cash equivalents, short-term investments and bank indebtedness were a net \$21.7 million, an increase of \$19.9 million from the \$1.8 million held at December 31, 2008. This increase was mainly due to the gross \$17.2 million Public Offering closed in June 2009. Short-term investments were \$11.5 million as at December 31, 2009 from \$367,000 on December 31, 2008. Our short-term investments are comprised of money market instruments, maturing in 30 to 180 days with high quality and low risk with an average return rate of 1.25%. All short-term securities held have credit ratings of at least R1 Mid or AA.

Accounts receivable, net of allowance for doubtful accounts, of \$9.9 million at December 31, 2009 decreased by \$4.2 million when compared to the \$14.1 million at December 31, 2008. This decrease is a direct result of the increased cash collection efforts in 2009 as the days sales outstanding basis for the quarter ended December 31, 2009 were at 38 days as compared to 45 days calculated as at December 31, 2008. The allowance for doubtful accounts at December 31, 2009 was \$2.2 million compared to \$1.5 million at December 31, 2008 as a result of the 93% growth in revenue year over year.

Prepaid expenses and other assets totaled \$3.3 million at December 31, 2009, an increase of \$2.6 million from the \$669,000 recorded at December 31, 2008. Strategic investments were made into new and existing publishers and publishing properties reflecting the increase in prepaid expenses and other assets.

Capital assets at December 31, 2009 totaled \$1.4 million as compared to \$994,000 as at December 31, 2008. Capital asset additions for the year ended December 31, 2009 total \$555,000 as compared to \$265,000 for the year ended December 31, 2008.

Intangible assets at December 31, 2009 totaled \$288,000 as compared to nil as at December 31, 2008 as \$300,000 in direct development costs associated with the development of the CXD software platform that met the criteria for capitalization. Amortization of the costs commenced once the projects were completed such that they were available for use.

Future tax assets at December 31, 2009 totaled \$583,000 as compared to nil as at December 31, 2008. The Company recognizes its requirement to recognize a future income tax asset at each balance sheet date for all deductible temporary differences, unused tax losses and income tax reductions. The amount of the future tax asset recognized is limited to the amount that is more likely than not to be realized.

Goodwill of \$14.1 million at December 31, 2009 increased by \$159,000 from \$13.9 million a December 31, 2008 due to the recognition of additional purchase price consideration relating to the acquisition of Eidenai. The final contingent consideration relating to the acquisition of Eidenai was finalized in the second quarter of 2009. The Company performed its annual goodwill impairment test in Q4 2009 and concluded that no impairment existed for its two reporting units.

Accounts payable and accrued liabilities of \$4.3 million at December 31, 2009 decreased by \$7.2 million from \$11.5 million at December 31, 2008. The additional purchase price consideration relating to the acquisition of IncentaClick was paid in the second quarter ended June 30, 2009 for a total of \$3.6 million. Trade payables outstanding at December 31, 2009 totaled \$1.5 million compared to \$5.5 million as at December 31, 2008 due to the timing of the Web Advertising division's publisher costs.

Unearned revenue of \$668,000 as at December 31, 2009 increased by \$514,000 from the \$154,000 as at December 31, 2008. Advance payments are recorded as unearned revenue. In determining the credit worthiness of customers, it may be determined that a customer is required to make an advance payment prior to services being performed.

Income taxes payable as at December 31, 2009 totaled \$631,000. For the year ended December 31, 2009, the Company incurred \$661,000 in tax expenses. The total income for taxation purpose was primarily offset by the utilization of tax loss carry forwards, and other temporary differences, and the benefit of tax incentives. The Company had no tax expenses for the year ended December 31, 2008, as income was offset by the utilization of the loss carry forwards and other temporary differences. The future income tax asset as at December 31, 2009 is \$583,000. As at December 31, 2009, the Company had accumulated income tax losses of approximately \$850,000 available for its US subsidiaries. As at December 31, 2008, the Company had accumulated income tax losses of approximately \$5.9 million that substantially was all used to reduce taxable income during 2009.

The Company has credit facilities under credit agreements with a Canadian chartered bank to be used for general operating requirements. The aggregate of borrowings under all facilities

described below cannot exceed \$5.5 million at any time. The primary facility is a revolving demand facility of up to \$5.5 million by way of Canadian and U.S. dollar currency loans. The facility bears interest at the bank's prime rate plus 1%. Borrowings outstanding under this facility plus a \$500,000 business credit card allocation must not exceed 75% of accounts receivable, as defined in the agreement. Amounts outstanding are repayable upon demand. In addition, a credit card facility up to a maximum of \$1.0 million is available to the Company. Borrowings under the credit agreements require the maintenance of certain financial and non-financial covenants and are secured by a general security interest in the Company's assets.

MANAGEMENT OF CAPITAL

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. Cyberplex defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income and retained earnings. The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue shares, repurchase shares, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements as at December 31, 2009.

As a general practice, we have not entered into off-balance balance sheet financing arrangements. Except for operating leases, bank guarantees, letters of credit and other low probability and/or contingent liabilities for which we cannot reasonably estimate the outcome (not accrued in accordance with Canadian GAAP), all of our commitments are reflected on our balance sheet.

OUTSTANDING SHARE DATA

The following information on Cyberplex's share capital and options outstanding is updated to March 29, 2010:

	<u>Outstanding</u>	<u>Authorized</u>
Common Shares	68,486,468	unlimited
Stock Options	5,139,102	6,848,646

On June 4, 2009, the Company announced that it has closed its public offering of common shares for gross proceeds of \$15 million. A total of 9,375,000 common shares were sold at a price of \$1.60 per common share.

The offering was led by GMP Securities L.P. with a syndicate of underwriters including M Partners Inc., Paradigm Capital Inc., Genuity Capital Markets, Scotia Capital Inc. and

Thomas Weisel Partners Canada Inc. The Company granted to the underwriters an over-allotment option, exercisable in whole or in part, for a period of 30 days from the closing date to purchase up to 1,406,250 additional common shares at a price of \$1.60 per additional common share on the same terms and conditions of the offering, to cover over-allotments, if any, and for market stabilization purposes.

The common shares issued under the public offering were qualified by a short form prospectus filed with the Securities Regulatory Authority in each province of Canada, other than Québec, and were not offered in the United States.

On June 12, 2009, the Company announced that it has completed the sale of an additional 1,406,000 common shares of the Company, at a price of \$1.60 per common share, for gross proceeds of \$2,249,600, pursuant to the exercise of the underwriters' over-allotment option. The exercise of the over-allotment option brings the gross proceeds of the offering to \$17,249,600.

The Company intends to use the net proceeds of the offering for working capital and general corporate purposes and to pursue potential acquisitions of complementary services, technologies or businesses. The timing, amount and allocation of actual expenditures will be based on various factors including the Company's growth, strategic initiatives entered into, potential acquisitions depending on size and scope, opportunistic business opportunities and research and development initiatives. At this time, however, the Company has no definitive plans for the expenditure of the funds.

On February 21, 2008, the Company closed a \$5.0 million Private Placement resulting in the issuance of 8,333,334 common shares of the Company at a price of \$0.60 per share, resulting in net proceeds of \$4.6 million, net of issuance costs of \$423,884. The Private Placement was undertaken by a syndicate of agents (the "Agents"). For consideration of the Agents' services, the Agents received a cash commission of 6% of the gross proceeds raised and compensation options to purchase an aggregate of 333,333 common shares of the Company (the "Compensation Shares") equal to 4% of the aggregate number of shares issued pursuant to the Private Placement. Each compensation option was exercisable to purchase one Compensation Share at a price of \$0.65 per Compensation Share at any time on or before August 21, 2009. These compensation options were fully exercised. A portion of the proceeds of the Private Placement totaling \$61,605 was allocated to the compensation options based on their fair value, determined using a Black-Scholes-Merton option pricing model.

RELATED PARTY TRANSACTIONS

Certain of the Company's customers are considered related parties due to their relationship with directors of the Company. Arrangements with these customers were entered into during the normal course of operations at negotiated fair value amounts consistent with similar transactions with unrelated customers. Total revenue for the year ended December 31, 2009, while these customers were related parties, totaled \$1,426 (2008 - \$4,932). Accounts receivable from these customers at December 31, 2009 were \$1,426 (2008 - \$1,528).

A partner of an external legal firm used by the Company was, until November 2009, a director of the Company. Fees incurred during 2009 with this external legal firm while the partner was a director, totaled \$205,389 (2008 - \$149,786). Fees with this legal firm included in accounts payable and accrued liabilities as at December 31, 2009 were nil (2008 - \$21,910).

A director of the Company has been providing consulting services. Fees incurred with this external firm are at negotiated exchange amounts during 2009 totaled \$60,000 (2008 – nil) of which \$5,000 (2008 – nil) was included in accounts payable and accrued liabilities as at December 31, 2009.

The Company completed a public offering in 2009 and a private placement in 2008, of which various members of the Board of Directors participated in the private placement.

CONTRACTUAL OBLIGATIONS

	<u>< 1 Year</u> (000's)	<u>1 - 3 Yrs</u> (000's)	<u>4 - 5 Yrs</u> (000's)	<u>> 5 Yrs</u> (000's)	<u>Total</u> (000's)
Operating Leases	\$ 656	\$ 857	\$ 446	\$ 152	\$ 2,111

SUMMARY OF SEASONALITY AND QUARTERLY RESULTS

Quarterly results and statistics for the previous eight quarters are outlined following this section. Our revenue and operating results may fluctuate quarter to quarter depending on sales cycles, network performance and customer demand, thus one quarter's operating results may not necessarily be indicative of a subsequent quarter's operating results. In addition to the seasonal trends, revenue and operating profit can fluctuate from general economic conditions.

	2009				2008			
	Q1 (unaudited)	Q2 (unaudited)	Q3 (unaudited)	Q4 (unaudited)	Q1 (unaudited)	Q2 (unaudited)	Q3 (unaudited)	Q4 (unaudited)
Revenue	\$ 32,141,538	\$ 25,723,174	\$28,198,918	\$24,347,585	\$7,896,880	\$9,471,604	\$11,017,514	\$28,893,768
Cost of revenue	22,287,473	17,932,852	20,337,523	17,512,801	5,336,946	6,255,891	7,318,380	18,577,022
	9,854,065	7,790,322	7,861,395	6,834,784	2,559,934	3,215,713	3,699,134	10,316,746
Operating expenses	6,075,189	5,256,620	5,158,484	4,867,992	2,413,117	2,835,810	3,148,137	6,617,428
Foreign exchange (gain) loss	(472,584)	1,285,175	1,635,637	975,472	(74,363)	29,775	(201,516)	(1,293,444)
Income (loss) before income taxes	4,133,111	1,138,986	959,254	948,500	51,858	206,522	633,167	4,880,192
Comprehensive income	\$ 4,183,851	\$ 1,051,727	\$919,996	\$1,065,493	\$51,858	\$206,522	\$633,167	\$4,880,192

NON-GAAP MEASURES

Income (loss) before the undernoted items ("EBITDA") as defined by Management equates to income from operations plus amortization. This measure is reconciled to net income (loss) in the Company's statement of operations. As Canadian GAAP does not define a method of calculating EBITDA, the measure as calculated by the Company might not be comparable to

similarly titled measures reported by other entities. The Company focuses on EBITDA, as the Company believes this measure enables comparison of its results between periods without regard to debt service, income taxes, and capital expenditure requirements. As such, the Company believes it would be useful for investors and other users to be aware of this measure so that they can better access the Company's operating performance. EBITDA should not be considered by an investor as an alternative to net income (loss), an indicator of the financial performance of the Company, or an alternative to cash flows as a measure of liquidity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

The Company offers certain of its products and services as part of multiple element arrangements. Deliverables within multiple element arrangements are separately accounted for provided the delivered elements have stand alone value to the customer, and the fair value of any undelivered elements can be objectively and reliably determined. Provided the separation criteria are met, total arrangement fees are measured and allocated to each element based on their relative fair value and then the Company applies its relevant revenue recognition policy to each individual element. The Company recognizes revenue once persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, fees are fixed or determinable and collectability is reasonably assured.

Revenue from sales of third-party supplier products or services is recorded on a gross basis when the Company is a principal to the transaction and net of costs when the Company is acting as an agent between the customer and supplier. Several factors are considered to determine whether the Company is an agent or principal, most notably whether the Company is the primary obligor to the customer, has credit risk and adds meaningful value of the supplier's product or service. Consideration is also given to whether the Company was involved in the selection of the supplier's product or service, has latitude in establishing the sale price and has inventory risk.

The Company's Web Advertising segment recognizes revenue from advertisers based upon the execution or completion of an agreed upon action, as defined in advance by both parties, using an agreed upon rate per action. The Company recognizes revenue on a gross basis, based on the number of actions performed in the period. In circumstances where the criteria for revenue recognition are not met, direct and incremental advertising campaign costs are deferred, up to the amount of the contractual revenues, to the extent deemed recoverable. An important judgment we make is our assessment of the whether collection of the related accounts receivable balance on a customer-by-customer basis is reasonably assured. In cases where collectability is not deemed reasonably assured, revenue is recognized upon receipt of cash, assuming all other criteria have been met. Technology Services revenue is based on either time and materials or fixed fee engagements. Revenue related to time and materials arrangements is recognized as services are performed.

Revenue from fixed fee arrangements is recognized using the percentage-of-completion method based on the ratio of total labour hours incurred to date to total estimated labour hours. Changes in job performance, job conditions, estimated profitability and final settlement may result in revisions to costs and income, and are recognized in the period in which the revisions are determined. Costs include direct material and labour costs. Provisions for estimated losses on incomplete arrangements are made in the period in which such losses are determined.

Revenue from hosting services is recognized on a straight-line basis over the term of the hosting arrangement.

Amounts billed in excess of revenue recognized to date on a contract-by-contract basis are classified as unearned revenue, whereas revenue recognized in excess of amounts billed is classified as work in progress within prepaid expenses and other assets.

Allowance for Doubtful Accounts

The allowance for doubtful accounts receivable is based on our assessment of the collectability of specific customer balances, considering general and industry economic and market conditions as well as other credit information available for the customer. If, based on an evaluation of individual customer accounts, we conclude that a customer will not be able to pay all amounts due, we provide for the estimated uncollectible amount in the allowance. Recoveries of the allowances are recorded when payment is received.

If there is deterioration in a customer's credit worthiness or actual defaults under terms of the sale are higher than our historical experience, our estimates of recoverability for the accounts receivable could be adversely affected.

Goodwill and Long-Lived Assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in

a business combination, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statements of operations. Management has determined that there has been no impairment in goodwill based on its last annual impairment test as at December 31, 2009.

Long-lived assets, comprised of capital assets and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of an asset group to be held and used is measured by a comparison of the carrying amount of the asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

Income Taxes

Significant management judgment is required in determining our provision for income taxes, our income tax assets and liabilities, and any valuation allowance recorded against our net income tax assets. Our effective tax rate may be affected by changes in, or interpretations of, tax laws, the level of profitability, utilization of net operating losses and tax credit carry forwards, changes in geographical or legal entity mix of income and expense, intercompany charges between Cyberplex entities and changes in management's assessment of matters, such as the ability to realize future tax assets. As a result of these considerations, we must estimate our income taxes on a quarterly basis. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes.

We record a valuation allowance to reduce our future tax assets recorded on our balance sheet to the amount of future tax benefit that is likely to be realized. A valuation allowance is based on our estimates of taxable income and the period over which our income tax assets will be recoverable, also considering whether there are cumulative losses in recent years and inherent uncertainties in forecasts of future taxable income. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance will not need to be increased to cover additional future tax assets that may not be realizable. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. Any change in the valuation allowance or assessment of provisions required for tax uncertainties could have a material adverse impact on our income tax provision and net income reflected in our consolidated statement of operations in the period in which such determination is made.

Stock-Based Compensation

The Company uses the fair value-based method of accounting for its stock-based compensation arrangements. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options and the corresponding expected volatility of our stock.

Under the fair value-based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period, with a corresponding adjustment recorded within contributed surplus. The fair value of stock options is determined using the Black-Scholes-Merton option pricing model. Upon exercise of the option, the related amount recorded in contributed surplus is transferred to common shares. Forfeitures of awards are accounted for in the period they occur. Compensation cost recognized for unvested awards that are forfeited prior to vesting is reversed in the period when the forfeiture occurs.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include revenue and related cost recognition, the allowance for doubtful accounts, the valuation of capital assets and goodwill and other intangible assets, the identification and valuation of intangible assets in business acquisitions, estimates of useful lives of tangible and intangible assets, valuation of stock-based compensation and warrants, valuation allowance for future income taxes and provision for tax uncertainties. Actual results could differ from those estimates.

ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On January 1, 2008, the Company adopted Section 3862, Financial Instruments - Disclosures ("Section 3862"), and Section 3863, Financial Instruments - Presentation ("Section 3863"), which replaced Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. Section 3862 requires companies to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance, and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have any impact on the classification and measurement of the Company's financial instruments.

In October 2008, the CICA issued Section 1582, Business Combinations ("Section 1582"), concurrently with Sections 1601, Consolidated Financial Statements ("Section 1601"), and 1602, Non-controlling Interests ("Section 1602"). Section 1582, which replaces Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual periods commencing January 1, 2011 with earlier adoption permitted as at the beginning of a fiscal year. We are currently assessing the impact of the new standards on our consolidated financial statements.

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IAS 38, Intangible Assets. Adoption of CICA 3064 did not impact the consolidated financial statements.

In December 2009, the Emerging Issues Committee Abstract of the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. This new standard is effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standard on its consolidated financial statements.

International Financial Reporting Standards

In January 2006, the Accounting Standards Board (the "AcSB") announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to use IFRS, as issued by the International Accounting Standards Board, unless modifications or additions to the requirements of IFRS are issued by the AcSB. For the Company, these new standards will be effective for the interim and annual financial statements commencing on January 1, 2011, with retrospective presentation of the comparative fiscal 2010 results. The Company's first financial statements to be reported under IFRS will be for the three month period ending March 31, 2011, with restatement of comparative periods.

The following table illustrates the key elements of our conversion plan, our major milestones and current status. Our conversion plan is organized in phases over time and by area. We have completed all activities to date per our detailed project plan and expect to meet all milestones through to completion of the conversion to IFRS. During the first quarter of 2010,

we expect to finalize the significant changes to our systems and processes required for implementation to ensure we are ready for our conversion strategy to produce a parallel set of IFRS financial records during 2010.

<u>Activity</u>	<u>Milestones</u>	<u>Status</u>
<p>Financial reporting:</p> <ul style="list-style-type: none"> • Assessment of accounting and reporting differences. • Selection of IFRS accounting policies and IFRS 1 elections. • Development of IFRS financial statement format, including disclosures. • Quantification of effects of conversion. 	<ul style="list-style-type: none"> • Senior management and Audit Committee sign-off for policy recommendations and IFRS 1 elections. • Senior management and Audit Committee sign-off on financial statement format during 2010. • Final quantification of conversion effects on 2010 comparative period by Q1 2011. 	<ul style="list-style-type: none"> • Senior management and Audit Committee preliminary approval to be obtained for IFRS accounting policies and IFRS 1 elections. Management has completed its IFRS 1 elections and has made preliminary policy elections that are being presented to the audit committee in Q2 2010. • Monitoring of impacts on policy recommendations of new or amended IFRS standards issued ongoing. • Preliminary IFRS financial statement format and disclosures being drafted in Q2 2010.
<p>Systems and processes:</p> <ul style="list-style-type: none"> • Assessment of impact of changes on systems and processes. • Implementation of any system and process design changes including training appropriate personnel. • Documentation and testing of internal controls over new systems and processes. 	<ul style="list-style-type: none"> • Systems, process and internal control changes implemented and training complete in time for parallel run in 2010. • Testing of internal controls for 2010 comparatives completed by Q1 2011. 	<ul style="list-style-type: none"> • Systems and process changes completed substantively completed in Q1 2010 in preparation for parallel run. Internal reporting changes underway. • Internal controls for impacted process and transition are being updated in preparation for parallel run. • Training on new systems, processes and internal controls for key finance team in progress.
<p>Business:</p> <ul style="list-style-type: none"> • Assessment of impacts on all areas of the business, including contractual arrangements and implement changes as necessary. • Communicate conversion plan and progress internally and externally. 	<ul style="list-style-type: none"> • Contracts updated/renegotiated by the end of 2010. • Communication at all levels throughout the conversion process. 	<ul style="list-style-type: none"> • Preliminary assessment of impacts on other areas of the business completed. • Communication is ongoing. • Training for employees on expected impacts is in progress.

We have allocated sufficient resources to our conversion project, which include contributions by employees on a part-time or as needed basis. We have completed the delivery of training to key employees with responsibilities in the conversion process. As well, training for all other employees who will be impacted by our conversion to IFRS is underway. Our training efforts have focused on updating those individuals whose roles and responsibilities are directly impacted by the changes being implemented and providing general training to employees on the impacts transition to IFRS will have on the Company.

Although our IFRS accounting policies are to be approved by senior management and the Audit Committee, such approval is contingent upon the realization of our expectations regarding the IFRS standards that will be either effective at the time of transition or standards that are effective in 2012-2013 but allow for early adoption where it may be beneficial to do so. Consequently, we are unable to make a final determination of the full impact of conversion until all of the IFRS standards applicable at the conversion date are known. When we are able to preliminarily determine the areas of significant impact on our financial reporting, including on our key performance indicators, systems and processes, and other areas of our business, we will disclose such impacts in our future MD&As. Our preliminary analysis of the impacts of transition to IFRS on specific areas is as follows:

Changes in Accounting Policies

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standard Board (“IASB”) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS that are mandatorily or optionally applicable at the conversion date are known. Consequently, our analysis of changes and policy decisions have been made based on our expectations regarding the accounting standards that we anticipate will be effective at the time of transition. The future impacts of IFRS will also depend on the particular circumstances prevailing in those years. At this stage, we are only able to preliminarily estimate the anticipated impacts expected on our IFRS opening balance sheet for certain identifiable differences. In other areas we are not yet able to reliably quantify the impacts to the consolidated financial statements for these differences. These quantifications will be completed throughout 2010.

Set out below is the key area where changes in accounting policies are expected to impact our consolidated financial statements. The list and comments should not be regarded as a complete list of changes that will result from transition to IFRS and are intended to highlight those areas we believe to be most significant.

Impairment of Assets

International Accounting Standard 36, Impairment of Assets (“IAS 36”), uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). Canadian GAAP however, uses a two-step approach to

impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. The difference in methodologies may potentially result in additional asset impairments upon transition to IFRS.

Additionally, under Canadian GAAP assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for impairment testing purposes. IFRS requires that assets be tested for impairment at the level of cash generating units, which is the lowest level of assets that generate largely independent cash inflows.

However, with the exception of goodwill, new write-downs may potentially be offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed. Canadian GAAP prohibits reversal of impairment losses.

At this time we have not yet finalized the impairment testing for the opening balance sheet under IFRS and are unable to state whether or not the results would differ from our Canadian GAAP impairment tests.

Stock-based compensation

IFRS requires an estimate of forfeitures due to failure to meet continued service vesting conditions, with a true up to actual results once known. Canadian GAAP allows for the impact of forfeitures for service conditions to be accounted for in the period when the forfeiture occurs. The Company's policy under Canadian GAAP is to account for forfeitures when they occur. While the final amount of compensation cost recognized once a forfeiture (or non-forfeiture) is known is the same under Canadian GAAP and IFRS, the use of estimated forfeiture rates under IFRS will impact the amount of compensation cost recognized during the vesting period for awards with service vesting conditions. The Company is currently analyzing the impact of this difference on the opening balance sheet under IFRS.

First-Time Adoption of International Financial Reporting Standards

Our adoption of IFRS will require the application of IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does include certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the significant optional exemptions available under IFRS 1 that we expect to apply in preparing our first financial statements under IFRS:

- Fair value or revaluation as deemed cost – we expect to elect to not restate the cost of an item of capital asset to be measured based on deemed cost prospectively from January 1, 2010.

- Estimates – we expect not to revisit any estimates previously recognized made under Canadian GAAP.

The information above is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

RISK FACTORS

Although management has a confident outlook for Cyberplex and continually improves and adapts the Company's risk mitigation strategies, operating in the technology industry inherently involves a certain level of risk and uncertainty. The Company continues to expand and refine management controls, reporting systems, cost controls, and overall policies and procedures in order to minimize the impact of potential risks and uncertainties. In management's opinion, the following factors, among others, should be considered when evaluating the Company's business and its results of future operations.

Integrating our Acquired Operations

Acquisitions generally involve significant risks including diversion of management's attention from other business concerns. Integration challenges include finance, information technology, facilities and customer support. The diversion of management attention and any difficulties encountered in the integration process could harm our business.

Concentration of Customers

The Company has established relationships with certain customers who account for a large amount of revenue. The loss of certain customers could have a material impact on the results of the Company's operations.

General Economic Weakness

The general economic environment, especially those of the technology sector, impacts the Company and its customers. The general economy impacts client spending, capital availability, sustained profitability, and overall operating difficulties.

Dependence on Key Personnel

Cyberplex' success depends to a significant extent on the abilities and efforts of its senior management and technical personnel. The loss of, or inability to attract and retain an executive officer, senior manager or key employee could have a material effect on our business. Although the Company has non-competition and non-disclosure agreements with all its executive officers and senior managers, any loss of key personnel could have an

adverse effect on the Company's business. The loss of the services of any member of our senior management team, or of any other key employees, could divert management's time and attention, increase our expenses and adversely affect our ability to conduct our business efficiently. Our future success depends on our continuing ability to attract, retain and motivate key personnel.

Demand for Cyberplex' Products and Services

The market for technology products and consulting services is constantly evolving and becoming increasingly competitive. Cyberplex' success depends on our ability to create, develop and deploy interactive strategies and solutions that service existing clients and attract new ones.

Intellectual property actions

We may be subject to legal actions alleging intellectual property infringement, unfair competition or similar claims against us. Companies may apply for or be awarded patents or have other intellectual property rights covering aspects of our technologies or businesses. Such legal actions may be costly and could require us to defend unmeritorious claims without recourse for legal costs incurred, even if we are successful, change our business practices, or could potentially hinder or prevent our ability to deliver our products and services and could divert management's attention.

Dependence on the Internet

A significant portion of the sales of Cyberplex' products and services depend on the growth in the use of the Internet. However, sales of our on-line advertising rely, in large part, on the industry and infrastructure that has developed around Internet access and traffic. Inadequate development of a reliable network backbone or the lack of timely delivery of complementary products could affect the overall commercial viability of the Internet marketplace. Reliance on the Internet service affects our performance with interruptions in service and other delays on websites. Global e-commerce and information exchange is constantly changing and evolving and it is difficult to predict with any assurance its long-term commercial success.

Trade Credit to its Customers

The Company extends trade credit to most of its customers to facilitate the purchase of its services. The Company relies on the creditworthiness of such customers. Some of the Company's customers operate in a highly competitive, cyclical or low margin business. Some are highly levered financially or experiencing negative cash flows such that they may need to refinance, restructure, file for bankruptcy protection or go bankrupt. The failure of such customers to pay the Company promptly and in full under the terms of the trade credit the Company extends to them could have a material adverse effect on its business, financial condition, results of operations and cash flow.

One of the effects of the severe global economic recession is that businesses are tending to maintain their cash resources and delay in paying their creditors whenever possible. As a

trade creditor, we lack leverage unlike secured lenders and providers of essential services. Should the economy further deteriorate, we may find that advertisers, their representative agencies or both may delay in paying us. Additionally, we may find that advertisers will reduce Internet advertising which would reduce our future revenues. These events will result in a number of adverse effects upon us including increasing our borrowing costs, reducing our gross profit margins, reducing our ability to borrow under our line of credit, and reducing our ability to grow our business. These events would have a material and adverse effect upon the Company.

Advertising on the Internet Loses its Appeal to Direct Marketing Companies

Our Web Advertising segment accounted for 96% of our revenue for the year ended December 31, 2009 in part by delivering advertisements that generate leads and actions to our advertiser customers' websites. This business model may not continue to be effective in the future for a number of reasons, including the following: click and conversion rates have always been low and may decline as the number of advertisements and ad formats on the Web increases; Internet users can install “filter” software programs which allow them to prevent advertisements from appearing on their computer screens or email inboxes; Internet advertisements are, by their nature, limited in content relative to other media; direct marketing companies may be reluctant or slow to adopt online advertising that replaces, limits or competes with their existing direct marketing efforts; direct marketing companies may prefer other forms of Internet advertising we do not offer; advertisers may become adverse to certain forms of online promotions that may conflict with their brand objectives; and some advertisers have experienced issues with “click-fraud”, particularly with search engine placements, and perceived lead quality.

Business Model is not Accepted by Internet Advertisers or Web Publishers

Our Web Advertising division provides services that are based on a click per action pricing model. Our ability to generate significant revenue from advertisers will depend, in part, on our ability to demonstrate the effectiveness of our model to advertisers and to publishers; and, on our ability to attract and retain advertisers and publishers by differentiating our technologies and services from those of our competitors. Intense competition among websites, Internet search services and Internet advertising services has led to the proliferation of a number of alternative pricing models for Internet advertising. These alternatives, and the likelihood that additional pricing alternatives will be introduced, make it difficult for us to project the levels of advertising revenue or the margins that we or the Internet advertising industry in general, will realize in the future. Moreover, an increase in the amount of advertising on the Web may result in a decline in click or conversion rates. Since we rely heavily on performance-based pricing models to generate revenue, any decline in click or conversion rates may make our pricing models less viable or less attractive for publishers and advertisers.

Government regulation of the Internet

Companies engaging in online search, commerce and related businesses face uncertainty related to future government regulation of the Internet. Due to the rapid growth and

widespread use of the Internet, federal and state governments are enacting and considering various laws and regulations relating to the Internet. Furthermore, the application of existing laws and regulations to Internet companies remains somewhat unclear. Our business and operating results may be negatively affected by new laws, and such existing or new regulations may expose us to substantial compliance costs and liabilities and may impede the growth in use of the Internet. Additionally, our third party data partners may be adversely affected by any new or existing laws.

As a company that provides services over the Internet, we may be subject to an action brought under any or future laws governing online services. We may also be subject to costs and liabilities with respect to privacy issues. Several Internet companies have incurred costs and paid penalties for violating their privacy policies. Further, it is anticipated that new legislation may be adopted by federal and state governments with respect to user privacy. Additionally, foreign governments may pass laws which could negatively impact our business or may prosecute us for our products and services based upon existing laws. The restrictions imposed by and cost of complying with, current and possible future laws and regulations related to our business could harm our business and operating results. Further, any such laws that affect our third party data partners could indirectly harm our business and operating results.

Recently, the United States Federal Trade Commission (“FTC”) issued guidelines recommending that companies that engage in behavioral targeting engage in self-regulation in order to protect the privacy of consumers who use the Internet. If notwithstanding this report, the FTC were in the future to issue regulations, it may adversely affect what we perceive to be a competitive advantage. This could increase our costs and reduce our future revenues.

Failure to Properly Measure Impressions, Clicks and Actions on Advertisements could Impact our Relationship with Advertisers and Publishers

Our Web Advertising division earns revenue from advertisers and makes payments to Web publishers based on the number of impressions, clicks and actions from advertisements delivered on our networks of websites and email lists. Advertisers’ and publishers’ willingness to use our service and join our network will depend on the extent to which they perceive our measurements of impressions, clicks and actions to be accurate and reliable. Advertisers and affiliates often maintain their own technologies and methodologies for counting impressions, clicks and actions, and from time to time we have had to resolve differences between our measurements and theirs. Any significant dispute over the proper measurement of user responses to advertisements could cause us to lose customers or advertising inventory.

System Failures

Our success depends on the continuing and uninterrupted performance of our systems. Sustained or repeated system failures that interrupt our ability to provide services to customers, including failures affecting our ability to deliver advertisements quickly and accurately and to process visitors' responses to advertisements, would significantly reduce

the attractiveness of our services to advertisers and publishers. Our business, results of operations and financial condition could also be materially and adversely affected by any systems damage or failure that impacts data integrity or interrupts or delays our operations. Our computer systems are vulnerable to damage from a variety of sources, including telecommunications failures, power outages, malicious or accidental human acts, and natural disasters. Moreover, despite network security measures, our servers are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems in part because we cannot control the maintenance and operation of our third-party data centers. Despite the precautions taken, unanticipated problems affecting our systems could cause interruptions in the delivery of our solutions in the future and our ability to provide a record of past transactions. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures in our systems.

Competition

The Internet advertising markets are characterized by rapidly changing technologies, evolving industry standards, frequent new product and service introductions, and changing customer demands. The introduction of new products and services embodying new technologies and the emergence of new industry standards and practices could render our existing products and services obsolete and unmarketable or require unanticipated technology or other investments. Our failure to adapt successfully to these changes could harm our business, results of operations and financial condition.

The market for Internet advertising and related products and services is highly competitive. We expect this competition to continue to increase, in part because there are no significant barriers to entry to our industry. Increased competition may result in price reductions for advertising space, reduced margins and loss of market share. Our principal competitors include other companies that provide advertisers with Internet advertising solutions and companies that offer pay-per-click search services. We compete in the performance-based marketing segment and we compete with other large Internet display advertising networks.

Competition for advertising placements among current and future suppliers of Internet navigational and informational services, high-traffic websites and Internet service providers (“ISPs”), as well as competition with other media for advertising placements, could result in significant price competition, declining margins and reductions in advertising revenue. In addition, as we continue our efforts to expand the scope of our Web services, we may compete with a greater number of Web publishers and other media companies across an increasing range of different Web services, including in vertical markets where competitors may have advantages in expertise, brand recognition and other areas. If existing or future competitors develop or offer products or services that provide significant performance, price, creative or other advantages over those offered by us, our business, results of operations and financial condition could be negatively affected. We also compete with traditional advertising media, such as direct mail, television, radio, cable, and print, for a share of advertisers’ total advertising budgets. Many current and potential competitors enjoy competitive advantages over us, such as longer operating histories, greater name recognition, larger customer bases, greater access to advertising space on high-traffic websites, and significantly greater financial, technical, sales, and marketing resources. As a result, we may

not be able to compete successfully. If we fail to compete successfully, we could lose customers or advertising inventory and our revenue and results of operations could decline.

Rapid Technological Change

Cyberplex uses many different technologies to develop and deploy strategic solutions for its customers. These technologies are rapidly changing. While we continuously research and evaluate the tools we use, there is no assurance that these technologies and the expertise we build around them will continue to be applicable in the future. Our success will depend on our ability to adapt to rapidly changing technologies, to enhance existing solutions and to develop and introduce a variety of new solutions to address our customers' and affiliates' changing demands. If we fail to keep pace with technological developments and the introduction of new industry and technology standards on a cost-effective basis, our expenses could increase and we could lose customers.

Length of Sales Cycle

The development and implementation of our technology solutions is often an enterprise-wide decision for prospective clients. This usually requires a lengthy sales cycle that includes an analysis of customer needs, a written proposal, presentations and contract negotiations. Since these initiatives can involve a substantial commitment of capital, there are often delays in approving such large expenditures. The sales cycle varies, but typically it has ranged from one to nine months. During that time, the sales cycle can be affected by the client's budgetary constraints, internal acceptance reviews and the overall economic climate, factors over which Cyberplex has little or no control.

Foreign Exchange Fluctuations

Revenue from our Web Advertising division is generally denominated in U.S. dollars while significant portions of our Technology Services division's revenue are denominated in Canadian dollars. Our expenses are denominated in either Canadian or U.S. dollars. Our results of operations and financial condition are reported in Canadian dollars. Our earnings are impacted by fluctuations in the exchange rates between the Canadian and U.S. dollar in which we trade. An increase in the value of the Canadian dollar relative to the U.S. dollar would reduce the amount of revenue in Canadian dollar terms realized by the Company from sales made in U.S. dollars. This would reduce the Company's operating margin and the cash flow available to fund its operations.

Content

We may be subject to third-party claims relating to content in the advertising we deliver on our networks as it relates to violations of copyright, trademark, or other intellectual property rights of third-parties or if the content is defamatory. Any claims or counterclaims could be time-consuming, could result in costly litigation and could divert Management's attention.

Stock Price Volatility

The stock market can be extremely volatile, especially regarding the securities of technology companies. As a result, the market price of our common stock may materially decline, regardless of our operating performance, which may result in litigation to be brought against the Company.

Periodic Litigation

The Company may from time to time become party to claims and litigation proceedings, which are generally related to contract disputes. Such matters are subject to many uncertainties and the Company cannot predict with assurances the outcome and ultimate financial impact from them. There can be no guarantee that actions that may be brought against the Company in the future will be resolved in its favour or that the insurance the Company carries will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to the Company.

FINANCIAL RISK MANAGEMENT

Overview:

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. The finance department identifies and evaluates the financial risks and is charged with the responsibility of establishing controls and procedures to ensure the financial risks are mitigated in accordance with the approved policies.

Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from the Company's accounts receivables, short-term investments and cash and cash equivalents. The Company believes that the concentration of credit risk of accounts receivable is limited due to its broad customer base, dispersed across varying industries and geographic locations throughout Canada and United States of America.

The majority of the Company's customers are located in the United States and Canada. At December 31, 2009, the gross accounts receivable balance was \$12,201,126 million. At December 31, 2009 and 2008, one customer represented 11% and 21% of the accounts receivable balance, respectively. No other individual customer represented more than 10% of the net accounts receivable. The Company invests its excess cash in short-term investments with the objective of maintaining safety of planned capital expenditures and with the secondary objective of maximizing the overall yield of the portfolio. The company's cash is not subject to external restrictions. Investments must be rated at least investment grade by recognized rating agencies. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risk by continuously monitoring forecast and actual revenues and expenditures and cash flows from operations. Management is also actively involved in the review and approval of planned expenditures. All of the Company's financial liabilities have contracted maturities of less than one year. The Company has several credit facilities under credit agreements with a Canadian chartered bank to be used for general operating requirements. The aggregate of borrowings under all facilities cannot exceed \$5.5 million at any time.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or value of its financial instruments.

Interest rate risk:

Based on Management's knowledge and experience of the financial markets, Management does not believe that the Company's current financial instruments will be significantly affected by interest rate risk. Interest rate risk is remote as interest rates on the Company's short-term investments are fixed with maturity dates of less than one year. A change of 1% in interest rates at December 31, 2009 would not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

Currency risk:

The Company operates internationally with the Canadian dollar as its functional currency and therefore is exposed to foreign exchange risk from various currencies, primarily the U.S. dollar. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies. The Company's main objective in managing its foreign exchange risk is to maintain Canadian cash on hand to support Canadian forecasted obligations and cash flows. To achieve this objective, the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of cash and cash equivalents held. During fiscal 2009 and 2008, the Company maintained a portion of its cash resources in both U.S. and Canadian dollar cash and cash equivalents. The Company did not have any foreign currency derivative instruments outstanding at December 31, 2009 and December 31, 2008.

Balances in foreign currencies at December 31, 2009 are as follows:

U.S. dollar cash and cash equivalents of \$7,138,159, accounts payable and accrued liabilities of \$1,579,863 and U.S. dollar accounts receivable of \$10,998,153.

Fluctuations in the U.S. dollar exchange rate could have potentially significant impact on the Company's results from operations. However, they would not impair or enhance the ability of the Company to pay its foreign currency-denominated expenses as such items would be similarly affected.

OUTLOOK

As discussed above, the transition to aggressively improve the quality of our customer base and the quality of campaigns along with our concentration on the higher producing publishers should result in increased revenue stability going forward. The Company seeks to develop relationships with agencies and with higher quality clients which will help strengthen Cyberplex. As any industry begins the transition from early adopters to more of a mainstream client base, there will be challenges and it's up to the leaders in the field to address and tackle these challenges head on to ensure the industry is successful. We are helping lead that charge. Our pipeline of tier one accounts continues to build, and our systems and operations are designed to help address and overcome any concerns that potential advertising clients may have had in the past. We continue to win key accounts and attract the best publishers in the performance marketing sector, and are excited about the changes that we have implemented to ready our organization for the future players in performance marketing.

While organic growth and continued innovation is at the very core of our business strategy, mergers and acquisitions are expected to play a key role in our future. Although we were not successful in completing a merger or acquisition during 2009, despite significant efforts and a very strong balance sheet, we continue to focus on many exciting opportunities that we feel will better position Cyberplex for the next phase in our evolution. We will however be very diligent to ensure that any such opportunity meets the strict criteria that we have instituted, which is to benefit the company and the further creation of shareholder value.

DISCLOSURE CONTROLS AND PROCEDURES

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the design and effectiveness of the Company's disclosure controls and procedures as at the year ended December 31, 2009. Management has concluded that these disclosure controls and procedures, as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), are adequate and effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Our management, under the supervision and with the participation of our CEO and CFO, has designed and evaluated the effectiveness of the Company's internal controls over financial reporting ("ICFR") to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with GAAP. Management has concluded that ICFR, as defined in NI 52-109 and using the Committee of Sponsoring Organization of the Treadway Commission ("COSO") Framework are effective as at the year ended December 31, 2009.

During 2008, we undertook a comprehensive effort in preparation for compliance in accordance with NI 52- 109. This effort included the documentation, testing and review of our ICFR and disclosure controls and procedures under the direction of senior management. The following weaknesses were noted as at December 31, 2008 and have since been remediated in 2009:

Income Taxes

Income tax is a highly technical area that requires an in-depth understanding of federal and provincial tax laws and the Company's accounting staff has only a fair and reasonable knowledge of the rules related to income tax accounting and reporting. The Company's CFO and Corporate Controller possess a fair understanding of income tax accounting. To supplement and support our internal tax accounting, during 2009 the Company implemented retaining the services of external tax advisors to assist in the preparation and review of the income tax accounting and disclosures within the consolidated financial statements.

Complex and non-routine transactions

At times, the Company records complex and non-routine transactions which are extremely technical in nature and require an in-depth understanding of GAAP. The Company's CFO and Corporate Controller, each holding professional accounting designations, implemented in the second half of 2009 a more robust and formalized process to identify and analyze complex and non-routine transactions and financial reporting disclosures in compliance with GAAP. This includes an enhanced process over identification of new accounting pronouncements that could impact the company, and an assessment of their impact on the organization and its financial reporting disclosures. After a preliminary identification/assessment is made by management, our auditors or other external advisors, for both annual and interim periods, are consulted as deemed necessary by management prior to Board approval of the financial statements in connection with the recording and reporting of these complex and non-routine transactions and disclosures. This assists in ensuring appropriate accounting literature and alternatives have been considered.

Under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the internal controls over financial reporting as at December 31, 2009 and have concluded that those internal controls were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

ADDITIONAL INFORMATION

Additional information, including the quarterly and annual consolidated financial statements, annual information form, management proxy circular and other disclosure documents may be examined by accessing the SEDAR website at www.sedar.com.