

Consolidated Financial Statements of

**CYBERPLEX INC.**

Years ended December 31, 2006 and 2005



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## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Cyberplex Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

March 30, 2007

# CYBERPLEX INC.

## Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 610,337	\$ 449,786
Short-term investments (note 2)	2,825,068	4,834,644
Accounts receivable, net of allowance for doubtful accounts of \$272,665 (2005 - \$92,575)	1,340,884	1,461,381
Prepaid expenses and other assets	500,254	160,587
	<u>5,276,543</u>	<u>6,906,398</u>
Capital assets (note 4)	841,271	1,478,489
Intangible assets (note 5)	490,469	-
Goodwill (note 6)	3,851,507	-
	<u>\$ 10,459,790</u>	<u>\$ 8,384,887</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 1,049,271	\$ 252,598
Accrued liabilities	668,068	996,643
Notes payable (note 3(b))	143,566	-
Unearned revenue	36,742	8,967
Future income taxes (note 8)	137,347	-
Deferred lease inducements	45,383	-
	<u>2,080,377</u>	<u>1,258,208</u>
Future income taxes (note 8)	39,842	39,000
Deferred lease inducements	198,484	-
Other long-term liabilities (note 10)	-	1,292,798
Shareholders' equity	8,141,087	5,794,881
Commitments and guarantees (notes 13 and 15)		
	<u>\$ 10,459,790</u>	<u>\$ 8,384,887</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

/s/ Geoffrey Rotstein Director

/s/ Vernon Lobo Director

# CYBERPLEX INC.

## Consolidated Statements of Operations

Years ended December 31, 2006 and 2005

	2006	2005
Revenue	\$ 5,333,221	\$ 7,241,945
Cost of revenue	2,879,533	4,002,367
	2,453,688	3,239,578
Expenses:		
Sales and marketing	875,362	736,089
General and administrative	2,041,180	3,131,616
	2,916,542	3,867,705
Loss before the undernoted	(462,854)	(628,127)
Amortization of capital assets	1,054,613	309,219
Amortization of intangible assets	109,637	—
Goodwill impairment (note 6)	—	449,136
Loss from operations	(1,627,104)	(1,386,482)
Interest income	244,498	132,207
Interest expense	(4,300)	—
Loss before income taxes	(1,386,906)	(1,254,275)
Income tax recovery (note 8):		
Current	(20,618)	—
Future	(76,775)	(123,019)
	(97,393)	(123,019)
Loss for the year	\$ (1,289,513)	\$ (1,131,256)
Loss per share (note 12):		
Basic	\$ (0.03)	\$ (0.03)
Diluted	(0.03)	(0.03)
Weighted average number of shares outstanding (note 12):		
Basic	37,183,511	32,361,023
Diluted	37,183,511	32,361,023

See accompanying notes to consolidated financial statements.

# CYBERPLEX INC.

## Consolidated Statements of Shareholders' Equity

Years ended December 31, 2006 and 2005

	Common shares		Escrowed common shares		Warrants		Contributed surplus	Deficit	Total shareholders' equity
	Number	Amount	Number	Amount	Number	Amount			
Balance, December 31, 2004	32,208,027	\$ 70,235,018	–	\$ –	500,000	\$ 51,121	\$ 272,925	\$ (63,715,490)	\$ 6,843,574
Loss for the year	–	–	–	–	–	–	–	(1,131,256)	(1,131,256)
Stock-based compensation	–	–	–	–	–	–	15,481	–	15,481
Exercise of stock options	228,222	67,082	–	–	–	–	–	–	67,082
Transfer from contributed surplus upon exercise of stock options	–	32,460	–	–	–	–	(32,460)	–	–
Expiry of warrants (note 3(a))	–	–	–	–	(500,000)	(51,121)	51,121	–	–
Balance, December 31, 2005	32,436,249	70,334,560	–	–	–	–	307,067	(64,846,746)	5,794,881
Loss for the year	–	–	–	–	–	–	–	(1,289,513)	(1,289,513)
Stock-based compensation	–	–	–	–	–	–	54,247	–	54,247
Exercise of stock options	16,000	4,186	–	–	–	–	–	–	4,186
Transfer from contributed surplus upon exercise of stock options	–	140	–	–	–	–	(140)	–	–
Deficit reduction (note 7(c))	–	(64,997,231)	–	–	–	–	–	64,997,231	–
Proceeds from private placement net of issuance costs (note 7(b))	8,125,000	2,675,429	–	–	4,062,500	282,676	–	–	2,958,105
Issuance costs for private placement paid in shares (note 7(b))	650,000	235,154	–	–	–	24,846	–	–	260,000
Shares issued for acquisition of WebAffairs (note 3(b))	457,143	175,756	–	–	–	–	–	–	175,756
Shares issued for acquisition of Incentaclick (note 3(c))	340,000	155,825	–	–	–	–	–	–	155,825
Shares issued and held in escrow (note 3(c))	–	–	59,999	27,600	–	–	–	–	27,600
Balance, December 31, 2006	42,024,392	\$ 8,583,819	59,999	\$ 27,600	4,062,500	\$ 307,522	\$ 361,174	\$ (1,139,028)	\$ 8,141,087

See accompanying notes to consolidated financial statements.

# CYBERPLEX INC.

## Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from (used in) operating activities:		
Loss for the year	\$ (1,289,513)	\$ (1,131,256)
Items not involving cash:		
Amortization of capital assets	1,054,613	309,219
Amortization of intangible assets	109,637	—
Goodwill impairment (note 6)	—	449,136
Future income taxes	(76,775)	(123,019)
Amortization of deferred lease inducements	(4,326)	(10,482)
Gain on disposal of capital assets	(8,917)	—
Stock-based compensation	54,247	15,481
Accretion of interest	3,218	—
Unrealized foreign exchange loss (gain)	(1,039)	8,013
Change in non-cash operating assets and liabilities (note 11)	(806,424)	582,733
	(965,279)	99,825
Cash flows from (used in) financing activities:		
Repayments of notes payable	(100,000)	—
Proceeds from exercise of stock options	4,186	67,082
Proceeds from private placement, net of issuance costs	3,218,106	—
	3,122,292	67,082
Cash flows from (used in) investing activities:		
Net purchase of short-term investments	2,009,576	(1,659,707)
Acquisition of WebAffairs, net of cash acquired (note 3(b))	(428,551)	—
Acquisition of Incentaclick, net of cash acquired (note 3(c))	(3,255,954)	—
Additions to capital assets	(344,572)	(74,690)
Proceeds from disposal of capital assets (note 4)	22,000	—
	(1,997,501)	(1,734,397)
Foreign exchange gain (loss) on cash held in foreign currency	1,039	(8,013)
Increase (decrease) in cash and cash equivalents	160,551	(1,575,503)
Cash and cash equivalents, beginning of year	449,786	2,025,289
Cash and cash equivalents, end of year	\$ 610,337	\$ 449,786

Supplemental cash flow information (note 11)

See accompanying notes to consolidated financial statements.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

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The Company is a technology firm focused on providing application expertise and web-based solutions to its customers. The Company, through its subsidiaries, offers teams of technology consultants and design, usability and solution specialists to assist customers with all aspects of their web-based applications as they design, develop and promote solutions that improve business.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries. The results of operations of acquired subsidiaries are included in these consolidated financial statements from the date of acquisition. Intercompany transactions and balances are eliminated on consolidation.

### (b) Financial instruments:

The fair values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and notes payable approximate their carrying values due to the short-term nature of these instruments.

### (c) 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 standalone 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.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 1. Significant accounting policies (continued):

Revenue from sales of third-party supplier products or services is recorded gross 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 inventory risk or adds meaningful value to 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 sales price and has credit risk.

Technology Services revenue is based on time and materials arrangements or fixed fee arrangements. 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 year in which the revisions are determined. Costs include direct material and labour costs. Provisions for estimated losses on incomplete arrangements are made in the year in which such losses are determined.

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

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.

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.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 1. Significant accounting policies (continued):

### (d) Cash and cash equivalents and short-term investments:

Cash consists of deposits with major financial institutions. Cash equivalents are highly liquid investments with an initial maturity of less than 90 days. Short-term investments include highly liquid marketable securities and investments with an initial maturity of between 90 days and one year and are carried at the lower of cost and market value.

### (e) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Computer software	Declining balance	30% - 50%
Leasehold improvements	Straight line	Over term of lease

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### (f) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives as follows:

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Technology-related intangibles	2 years
Customer-related intangibles	1.5 years

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# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 1. Significant accounting policies (continued):

The amortization methods and estimated useful lives of intangible assets are reviewed annually.

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

### (g) Goodwill:

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 described in the preceding paragraph, 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 (note 6).

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 1. Significant accounting policies (continued):

### (h) Impairment of long-lived assets:

Long-lived assets, comprised of capital assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

### (i) Loss per share:

Basic loss per share is computed by dividing loss for the year by the weighted average shares outstanding during the year. Diluted loss per share is computed similarly to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

### (j) 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 year. Significant items subject to such estimates and assumptions include revenue recognition, the allowance for doubtful accounts, the valuation of capital assets and goodwill, the identification and valuation of intangible assets in business acquisitions, estimates of useful lives of tangible and intangible assets, valuation allowances for receivables and future income taxes. Actual results could differ from those estimates.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 1. Significant accounting policies (continued):

### (k) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

### (l) Foreign currency translation:

Monetary assets and liabilities of the Company and its wholly owned subsidiaries, which are integrated foreign operations that are denominated in foreign currencies, are translated into Canadian dollars at the exchange rates prevailing at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at the historical exchange rates. Transactions included in operations are translated at the average rates for the year. Exchange gains and losses resulting from the translation of these foreign-denominated amounts are reflected in the consolidated statements of operations in the year in which they occur. For the year ended December 31, 2006, the Company recorded a foreign exchange gain of \$44,390 (2005 - loss of \$33,266), which is recorded within general and administrative expenses.

### (m) Lease inducements:

Lease inducements include periods of reduced rent for leased premises, leasehold improvements paid for by the landlord and the value of rent-free periods. The benefit of lease inducements received is amortized over the term of the related lease. The unamortized portion of lease inducements received is recorded as deferred lease inducements on the consolidated balance sheets.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 1. Significant accounting policies (continued):

(n) Stock-based compensation:

The Company uses the fair value-based method of accounting for its stock-based compensation arrangements as prescribed by The Canadian Institute Chartered Accountants Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments.

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 the offset recorded within contributed surplus. Upon exercise of the option, the related amount recorded in contributed surplus is transferred to common shares. Compensation cost recognized for unvested awards that are forfeited prior to vesting is reversed in the year when the forfeiture occurs.

## 2. Cash and cash equivalents and short-term investments:

The major components of cash and cash equivalents are as follows:

	2006	2005
Cash on deposit	\$ 610,337	\$ 449,786

The major components of the Company's short-term investments are as follows:

	2006		2005	
	Cost	Fair market value	Cost	Fair market value
Marketable securities	\$ 14,907	\$ 59,109	\$ 14,907	\$ 66,736
Corporate notes, at annual rates of interest of approximately 3%	2,810,161	2,810,161	4,819,737	4,834,644
	\$ 2,825,068	\$ 2,869,270	\$ 4,834,644	\$ 4,901,380

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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### 3. Acquisitions:

#### (a) CyberSecure Inc.:

On August 31, 2004, the Company acquired CyberSecure Inc. ("CyberSecure"), a security-focused technology consulting organization, located in Fredericton, New Brunswick. The Company acquired all of the issued and outstanding shares of CyberSecure in exchange for a maximum of 1,500,000 common shares of the Company, of which 600,000 were issued on closing, and a warrant to purchase an additional 500,000 common shares of the Company at a price of \$0.90 per share. The warrant was valued at \$51,121, and expired unexercised on August 31, 2005. The issuance of the remaining 900,000 common shares, or any part thereof, was contingent upon CyberSecure meeting certain specified revenue results. In 2005, the Company determined that none of the potential 900,000 contingent shares was payable.

#### (b) WebAffairs Inc.:

On June 7, 2006, the Company acquired all of the issued and outstanding shares of WebAffairs Inc. ("WebAffairs"), a Toronto based internet solutions and services company that delivers creative and technology solutions to its clients. Purchase consideration consists of \$300,000 in cash payable on closing, \$250,000 in notes payable, and 457,143 common shares of the Company. The notes payable are non-interest bearing and mature in instalments over an 18-month period. The long-term note payable was recorded at a discounted value of \$90,348 and is being accreted to its maturity amount of \$100,000 in December 2007. The carrying amount of the notes payable as at December 31, 2006, after adjusting for accretion of interest and installment payments made, was \$143,566. Share consideration was valued based on the market price of the Company's common shares over a short period before and after the date of acquisition. The shares were issued upon closing and time-based restrictions on resale will be released over a 24-month period. In all other respects, the restricted common shares have the same rights as non-restricted common shares of the Company. The Company incurred \$47,982 in acquisition costs related to this transaction.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

### 3. Acquisitions (continued):

The acquisition of WebAffairs has been accounted for using the purchase method. The consideration paid has been allocated to the net assets acquired based on their respective fair values and the excess has been recorded as goodwill. The allocation of the purchase price is preliminary and is subject to finalization of the valuation of acquired intangible assets, which is expected to occur in the first quarter of 2007. The preliminary purchase price allocation detailed below reflects management's best estimate as at the date of preparation of these consolidated financial statements. In addition, the purchase price consideration payable to the former shareholder is subject to certain working capital adjustments, which will be finalized by December 31, 2007. The preliminary purchase price allocation is as follows:

Net assets acquired:	
Current assets	\$ 45,144
Capital assets	12,493
Customer-related intangible assets	240,658
Goodwill	816,953
Bank indebtedness	(80,569)
Other current liabilities	(185,494)
Future income taxes	(85,099)
<b>Fair value of net assets acquired</b>	<b>\$ 764,086</b>
Purchase consideration consists of:	
Cash	\$ 300,000
Common shares	175,756
Notes payable	240,348
Acquisition costs	47,982
<b>Total purchase consideration</b>	<b>\$ 764,086</b>

#### (c) Incentaclick Media Group Inc.:

On December 1, 2006, the Company acquired all of the issued and outstanding shares of Incentaclick Media Group Inc. ("Incentaclick"), a Toronto based firm that specializes in on-line advertising and customer acquisition. Purchase consideration consists of \$3,000,000 in cash payable on closing, and 340,000 common shares of the Company. The shares were valued at \$155,825 based on the market price of the Company's common shares over a short period before and after the date of acquisition. The shares were issued on closing and have time-based restrictions on resale that are released in eight equal quarterly instalments over a 24-month period.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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### 3. Acquisitions (continued):

A further potential 660,000 shares were contingently issuable based on achievement of certain revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") targets in November and December 2006. The Company had issued the former shareholders of Incentaclick an advance of 59,999 common shares from treasury in connection with this contingent arrangement on closing. The targets were not achieved and these common shares were determined not to be issuable. The shares are currently being held in escrow and will be released if and when future contingent consideration targets are achieved as discussed below. The value of these escrowed common shares has currently been recorded at the fair value of the Company's common shares on the date of closing, with the offset recorded within prepaid expenses and other assets on the consolidated balance sheets. The Company expects these escrowed common shares will become issuable in accordance with future contingent consideration targets within the next 12 months. At such time, the escrowed common shares will be released to the former shareholders and the balance recorded in prepaids and other assets will be reclassified and remeasured as additional purchase consideration.

The former shareholders of Incentaclick may earn up to an additional \$11,500,000 in cash and common shares of the Company, based on achievement of certain predetermined revenue and EBITDA targets, including positive EBITDA results ("Earnout"). The contingent consideration that is payable is determined quarterly over a 24-month period ending December 2008 based achievement of the Earnout. For any common shares issued pursuant to the Earnout, there are time-based restrictions on resale that are released in eight equal quarterly instalments over a 24-month period following issuance of the common shares. In all other respects, the restricted common shares have the same rights as other non-restricted common shares of the Company. The Company has determined that any contingent consideration payable in common shares or cash will be measured and recorded as additional purchase consideration payable in the period the targets are achieved.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

### 3. Acquisitions (continued):

The acquisition of Incentaclick has been accounted for using the purchase method. The consideration paid has been allocated to the net assets acquired based on their respective fair values and the excess has been recorded as goodwill. The allocation of the purchase price is preliminary and is subject to finalization of the valuation of acquired intangible assets, which is expected to occur in the first half of 2007. The preliminary purchase price allocation detailed below reflects management's best estimate as at the date of preparation of these consolidated financial statements:

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Net assets acquired:		
Current assets	\$	552,946
Capital assets		73,413
Customer-related intangible assets		301,670
Technology-related intangible assets		57,778
Goodwill		3,034,554
Bank indebtedness		(197,178)
Other current liabilities		(478,717)
Future income taxes		(129,865)
<b>Fair value of net assets acquired</b>	<b>\$</b>	<b>3,214,601</b>
Purchase consideration consists of:		
Cash	\$	3,000,000
Common shares		155,825
Acquisition costs		58,776
<b>Total purchase consideration</b>	<b>\$</b>	<b>3,214,601</b>

### 4. Capital assets:

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2006	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 683,144	\$ 549,626	\$ 133,518
Computer equipment	2,279,781	1,966,669	313,112
Computer software	1,135,648	1,058,906	76,742
Leasehold improvements	652,764	334,865	317,899
	<b>\$ 4,751,337</b>	<b>\$ 3,910,066</b>	<b>\$ 841,271</b>

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# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 4. Capital assets (continued):

2005	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 1,725,034	\$ 1,558,627	\$ 166,407
Computer equipment	4,033,229	3,706,379	326,850
Computer software	1,660,911	1,562,452	98,459
Leasehold improvements	5,273,695	4,386,922	886,773
	<u>\$ 12,692,869</u>	<u>\$ 11,214,380</u>	<u>\$ 1,478,489</u>

During 2006, the remaining net book value of the leasehold improvements related to the exited Toronto facility (note 10) of approximately \$784,000 was written down to nil as accelerated depreciation within the Company's Technology Services segment. In addition, the gross cost and accumulated depreciation of capital assets disposed of during the facility exit, most of which had been fully depreciated in prior years, was written off at the time of disposition. Proceeds from disposition totalled \$22,000 in the year.

## 5. Intangible assets:

During 2006, the Company acquired \$57,778 in technology-related intangibles and \$542,328 in customer-related intangibles, respectively, through the acquisitions described in notes 3(b) and 3(c). Technology-related intangibles are being amortized on a straight-line basis over 2 years and the customer-related intangibles are being amortized on a straight-line basis over 1.5 years.

2006	Cost	Accumulated amortization	Net book value
Technology-related intangibles	\$ 57,778	\$ 2,407	\$ 55,371
Customer-related intangibles	542,328	107,230	435,098
	<u>\$ 600,106</u>	<u>\$ 109,637</u>	<u>\$ 490,469</u>

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 6. Goodwill:

The changes in the carrying amount of goodwill by reportable segment during 2006 are as follows:

	Balance, January 1, 2006	Additions	Purchase price adjustments	Impairment	Balance December 31, 2006
Technology Services	\$ -	\$ 657,226	\$ 159,727	\$ -	\$ 816,953
Web Advertising	-	3,034,554	-	-	3,034,554
	\$ -	\$ 3,691,780	\$ 159,727	\$ -	\$ 3,851,507

The goodwill associated with the acquisition of WebAffairs in June 2006 as described in note 3(b) was allocated to the Company's Technology Services reporting unit. The acquisition of IncentaClick in December 2006 as described in note 3(c) created a new reporting unit, Web Advertising, and the goodwill associated with the acquisition was fully allocated to this new reporting unit as expected synergies between the two reporting units were not considered significant.

	Balance, January 1, 2005	Additions	Purchase price adjustments	Impairment	Balance December 31, 2005
Technology Services	\$ -	\$ -	\$ -	\$ -	\$ -
CyberSecure	449,136	-	-	(449,136)	-
	\$ 449,136	\$ -	\$ -	\$ (449,136)	\$ -

During fiscal 2005, a triggering event occurred for the goodwill associated with the CyberSecure reporting unit. As the CyberSecure office was closed during 2005, the Company determined that the fair value of the goodwill was nil and recorded a goodwill impairment charge of \$449,136.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 7. Shareholders' equity:

### (a) Share capital:

#### (i) Authorized:

Unlimited common shares.

#### (ii) Escrowed common shares:

Escrowed common shares do not have rights associated with common shares, such as voting rights or rights to dividend or distribution upon liquidation, until such time as they are released from escrow in accordance with the terms of their arrangement.

### (b) Private placement and warrants:

On June 29, 2006, the Company completed a private placement in which it issued 8,125,000 units at \$0.40 per unit for gross proceeds of \$3,250,000. Each unit is comprised of one common share and one-half warrant, each whole warrant entitling the holder to acquire one additional common share at the price of \$0.60 for a period ending December 29, 2007.

Warrants issued in association with the private placement totalled 4,062,500. The fair value of the warrants as of the date of the private placement was measured at \$310,570, using a Black-Scholes option pricing model and the following valuation assumptions: expected life - 1.5 years; volatility - 63%; and risk-free interest rate - 4.4%. The residual amount of the proceeds from the private placement was allocated to the common shares.

Cash issuance costs incurred in connection with the private placement totalled \$31,894. In addition, certain financial advisor fees were paid by issuance of 650,000 common shares of the Company. These common shares were valued at \$260,000 based on the market price of the Company's common shares at the time of announcement of the private placement and recorded as issuance costs. The total costs incurred in connection with the private placement were allocated between the common shares and warrants issued via the private placement units on a pro rata basis.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 7. Shareholders' equity (continued):

### (c) Deficit reduction:

At the Company's Annual and Special Meeting of Shareholders on May 24, 2006, approval was obtained for a reduction in the Company's stated capital of \$64,997,231. This reduction in capital occurred effective April 1, 2006 and was applied to reduce the Company's deficit, resulting in no change to total shareholders' equity.

### (d) Stock-based compensation:

The Company's stock option plan (the "Plan") provides for the granting of options to employees, officers, directors and consultants of the Company. The maximum number of common shares which may be set aside for issuance under the Plan is 3,600,000 shares. Options issued under the Plan vest annually over a three or four-year period. The common shares issuable upon exercise of any option that is cancelled or terminated prior to its exercise will become available again for grant under the Plan. In accordance with the Plan, the exercise price of options is determined based on the fair market value per share on the day preceding the grant date.

Options granted under the Plan may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination if the optionee ceases to be an employee, officer or director of the Company. Options issued under the Plan are non-transferable.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 7. Shareholders' equity (continued):

The following table summarizes the continuity of options issued under the Plan:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,038,834	\$ 0.28	2,663,668	\$ 0.30
Granted	40,000	0.41	640,000	0.27
Forfeited or cancelled	(501,500)	0.26	(1,036,612)	0.34
Exercised	(16,000)	0.26	(228,222)	0.29
Outstanding, end of year	1,561,334	0.29	2,038,834	0.28
Options exercisable, end of year	1,063,000	\$ 0.29	1,285,166	\$ 0.28

A summary of the status of the Company's options under the Plan is as follows:

Range of exercise prices	2006			2005		
	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable	Number of options	Weighted average remaining contractual life (years)	Number of options exercisable
\$0.20 - \$0.28	1,390,334	2.25	932,000	1,907,834	2.57	1,157,834
\$0.30 - \$0.38	31,000	0.98	31,000	31,000	1.98	30,666
\$0.40 - \$0.48	100,000	2.99	60,000	60,000	3.04	56,666
\$0.57 - \$0.59	30,000	2.72	30,000	30,000	3.72	30,000
\$0.70	10,000	2.58	10,000	10,000	3.58	10,000
	1,561,334		1,063,000	2,038,834		1,285,166

During the year ended December 31, 2006, the Company recorded compensation expense related to stock options granted to employees of \$54,247 (2005 - \$15,481).

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 7. Shareholders' equity (continued):

The fair value of each stock option on the date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement date:

	2006	2005
Risk-free interest rate (%)	4.23	3.85
Expected life (years)	2.60	3.19
Dividend yield (%)	—	—
Expected volatility (%)	64	59

The weighted average estimated grant date fair value of the options issued during the year was \$0.41 (2005 - \$0.27).

### (e) Normal course issuer bid:

On November 18, 2005, the Company announced it had filed a normal course issuer bid ("NCIB"), under which it could purchase up to 2,627,150 of its common shares. No common shares were purchased under the NCIB prior to its expiration.

## 8. Income taxes:

Total income tax expense differs from the amount that would be computed by applying the effective income tax rate to the loss before income taxes for the following reasons:

	2006	2005
Effective income tax rate	36.1%	36.1%
Income tax recovery based on effective rate	\$ (500,673)	\$ (452,793)
Increase (decrease) in income taxes resulting from:		
Non-taxable portion of unrealized foreign exchange gains	98,570	(37,992)
Change in the valuation allowance	(222,866)	480,643
Change in enacted tax rates	581,047	—
Difference due to tax rates in foreign jurisdictions	(33,724)	(33,000)
Other items	(19,747)	(79,877)
Actual income tax recovery	\$ (97,393)	\$ (123,019)

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 8. Income taxes (continued):

The income tax effects of temporary differences that give rise to significant portions of the future income tax assets and future tax liabilities at December 31 are presented below:

	2006	2005
Future income tax assets:		
Non-capital loss carryforwards	\$ 5,138,099	\$ 5,703,449
Net capital loss carryforwards	4,111,590	4,367,960
Capital assets	819,577	661,854
Share issue costs	78,770	—
Net unrealized foreign exchange losses	1,343,222	889,252
Other assets	275,545	367,154
	11,766,803	11,989,669
Less valuation allowance	11,766,803	11,989,669
Total future income tax assets	—	—
Future income tax liabilities:		
Current portion	(137,347)	—
Long-term portion	(39,842)	(39,000)
Total future income tax liabilities	(177,189)	(39,000)
Net future income tax liabilities	\$ (177,189)	\$ (39,000)

The Company has accumulated income tax losses of approximately \$14,792,429 as at December 31, 2006 that may be used to reduce future taxable income. The benefit of these losses has not been reflected in these consolidated financial statements. The loss carryforwards expire as follows:

Canada:

2007	\$ 2,067,916
2008	8,807,379
2009	1,080,590
2013	633,710
2014	74,420
2015	1,103,179
2026	205,580
	\$ 13,972,774

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 8. Income taxes (continued):

United States:

2020	\$ 43,484
2021	381,388
2022	359,107
2023	18,215
2026	17,461
	<hr/>
	\$ 819,655

The Company's net capital loss carryforwards are available indefinitely to offset taxable capital gains realized by the entity which incurred such losses.

## 9. Segment information:

(a) Operating segments:

The Chief Executive Officer, the chief operating decision maker of the Company, has reviewed its operations and determined that the Company currently has two reportable operating segments: Technology Services, providing consulting, design, development and usability expertise to manage all aspects of a client's web-based application; and Web Advertising, through its Incentaclick division, which utilizes its affiliate network to focus on helping clients with targeted customer acquisition and lead generation. The Web Advertising segment originated in December 2006 with the acquisition of Incentaclick described in note 3(c). In 2005 and prior to the Incentaclick acquisition in 2006, the Company operated in a single reportable operating segment, Technology Services. Management measures segment performance based on operating loss defined as loss before interest, taxes, depreciation and amortization. Information relating to these two reportable segments is outlined below:

	Technology Services	Web Advertising	Total
Revenue	\$ 4,970,731	\$ 362,490	\$ 5,333,221
Gross margin	48%	18%	46%
Operating loss	(399,643)	(63,211)	(462,854)
Capital assets	768,515	72,756	841,271

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 9. Segment information (continued):

(b) Geographic segments:

The Company's assets and operations are all located in Canada; however, during the year, many customers in the United States do benefit from its services. Information relating to the geographical segments is outlined below:

	2006	2005
Revenue by geographic location of customer:		
Canada	\$ 3,289,921	\$ 3,032,643
U.S.	2,043,300	4,209,302
	<u>\$ 5,333,221</u>	<u>\$ 7,241,945</u>

In 2006, three customers accounted for 41% of revenue and 45% of accounts receivable. In 2005, three customers accounted for 36% of revenue and 26% of accounts receivable.

## 10. Other long-term liabilities:

During 2001, the Company recorded charges relating to estimated costs to exit certain leased premises. The charges were based on management's best estimates of net cash flows for the affected premises, including lease and operating payments, estimated sublease income, lease termination fees and the anticipated time to sublease and/or terminate the lease.

The remaining lease exit accrual as at December 31, 2005 was \$1,519,427, of which \$1,277,832 was included within other long-term liabilities. During 2006, a lease termination settlement agreement was reached with the landlord. Total lease settlement costs were \$1,485,357. The difference between the carrying amount of the lease exit cost accrual on the date of settlement and the total settlement costs of \$56,770 was recorded as a credit to general and administrative expenses during the year.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 11. Consolidated statements of cash flows:

	2006	2005
Change in non-cash operating assets and liabilities:		
Accounts receivable	\$ 708,792	\$ 666,620
Prepaid expenses and other assets	(54,080)	131,346
Accounts payable and accrued liabilities	(196,113)	(92,799)
Unearned revenue	27,775	(2,190)
Other long-term liabilities	(1,292,798)	(120,244)
	<u>\$ (806,424)</u>	<u>\$ 582,733</u>
Supplemental cash flow information:		
Interest paid	\$ 391	\$ 1,272
Interest received	240,197	133,479
Income taxes paid	4,965	11,186
Supplemental disclosure relating to investing activities:		
Acquisition of WebAffairs through issuance of common shares	175,756	—
Acquisition of WebAffairs through issuance of notes payable	240,348	—
Acquisition of Incentaclick through issuance of common shares	155,825	—
Issuance of escrowed common shares	27,600	—
Issuance costs of private placement paid through issuance of common shares	260,000	—

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 12. Loss per share:

The computations for basic and diluted loss per share are as follows:

	2006	2005
Loss for the year	\$ (1,289,513)	\$ (1,131,256)
Weighted average number of shares outstanding:		
Basic	37,183,511	32,361,023
Effect of dilutive securities	—	—
Diluted	37,183,511	32,361,023
Loss per share:		
Basic	\$ (0.03)	\$ (0.03)
Diluted	(0.03)	(0.03)

Due to the net loss in 2006 and 2005, all dilutive securities were considered anti-dilutive.

Details of potentially dilutive securities as at each year end that were excluded from diluted loss per share because their inclusion would have been anti-dilutive, but could be dilutive in future periods, are as follows:

	2006	2005
Options	1,561,334	2,038,834
Warrants	4,062,500	—
	5,623,834	2,038,834

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 13. Commitments:

The Company is required to make minimum payments under the terms of operating leases for premises and equipment expiring on various dates to September 2014. The Company also has notes payable with stated maturity dates. Minimum commitments are as follows:

	Lease commitments	Notes payable	Total
2007	\$ 429,254	\$ 150,000	\$ 579,254
2008	447,548	—	447,548
2009	456,860	—	456,860
2010	372,465	—	372,465
2011	283,097	—	283,097
Thereafter	96,231	—	96,231
	<u>\$ 2,085,455</u>	<u>\$ 150,000</u>	<u>\$ 2,235,455</u>

## 14. Related party transactions and balances:

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 in 2006, while these customers were related parties, totalled \$8,325 (2005 - \$285,891). Accounts receivable from these customers at December 31, 2006 totalled \$2,263 (2005 - \$394,830).

In May 2005, a partner of an external legal firm used by the Company became a director of the Company. Fees incurred with the legal firm during 2006 and 2005, while it was a related party, totalled \$133,878 (2005 - \$89,000), of which \$62,029 (2005 - \$16,000) was included in accounts payable and accrued liabilities as at December 31, 2006.

As disclosed in note 7(b), the Company completed a private placement in 2006, of which various members of the Board of Directors participated. In addition, as a result of the private placement, an arm's length party that negotiated the terms of the transaction became a significant shareholder and related party of the Company.

# CYBERPLEX INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 14. Related party transactions and balances (continued):

In 2006, a significant shareholder of the Company purchased certain capital asset items for total consideration of \$20,000, all of which had been collected by year end. The terms of this purchase were negotiated by the parties and were consistent with prices charged in similar transactions with unrelated parties.

## 15. Guarantees:

The Company has entered into agreements that contain features which meet the definition of a guarantee under generally accepted accounting principles. A description of the major types of such agreements is provided below:

### (a) Business or asset purchase/sale agreements:

As part of transactions involving business combinations or dispositions or other sales of assets, the Company may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties, intellectual property right infringement, loss or damages to property, environmental liabilities, changes in laws and regulations (including tax legislation), litigation against the counterparties, contingent liabilities of a disposed business or reassessments of previous tax filings of the corporation that carries on the business.

The Company is unable to make a reasonable estimate of the maximum potential amount it could be required to pay counterparties. The amount also depends on the outcome of future events and conditions, which cannot be predicted. Historically the Company has not made any significant payments under these indemnifications or guarantees, and no amount has been accrued in the consolidated financial statements relating to these types of indemnifications or guarantees.

### (b) Other indemnifications:

The Company indemnifies its directors, officers and employees and certain advisors against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers as well as those of its subsidiaries. Historically the Company has not made any significant payments under these indemnifications, and no amount has been accrued in the consolidated financial statements relating to these types of indemnifications.