



2nd Quarter Report 2002

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Cyberplex Inc.
Management Discussion and Analysis
For the 3 month period ended June 30, 2002

The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Company and notes thereto, which have been prepared in accordance with generally accepted accounting principals (GAAP) in Canada for interim financial statements.

RESULTS OF OPERATIONS

Quarter ended June 30, 2002 compared to quarter ended June 30, 2001.

Revenue

Revenue for the three months ended June 30, 2002 was \$2.4 million, down \$2.8 million, or 54%, when compared to the same period a year earlier. As cited in previous quarters, the decline in revenue can be directly attributed to the reduced demand for technology services.

Direct Costs

Direct costs for the quarter were \$985,000, down \$1.9 million, or 66%, when compared to the same quarter in 2001. The decreased costs are a result of the reductions to production staff over the last 12 months. These reductions were required to appropriately align direct costs with revenues and return gross margins to historical levels.

Sales & Marketing Expenses

Sales and marketing expenses, consisting primarily of salaries and other costs associated with our sales and marketing staff, were \$260,000 for the quarter. This represents a decrease of 1.2 million, or 82%, when compared to the same quarter in 2001. The decrease in spending reflects the changes the Company has made to its sales and marketing teams in terms of the number of employees and their reduced advertising and promotional spending budgets.

General & Administrative Expenses

General and administrative expenses for the quarter were \$800,000. This represents a decrease of \$1.5 million, or 65%, from \$2.3 million a year ago and is a direct result of the intense cost reduction efforts that the Company has applied to all overhead costs. In addition to the reduced number of non-billable personnel, cost savings have been realized by downsizing all facilities, reducing all discretionary spending, and ensuring greater efficiencies throughout our organization.

Amortization

Amortization expense decreased to \$167,000, down from \$750,000 for the quarter ended June 30, 2001. The decrease is due to the reduction in the carrying values of our amortizable assets that resulted from various write-downs carried out in 2001.

LIQUIDITY AND CASH POSITION

Operating Activities

For the three months ended June 30, 2002, the Company had net cash inflow from operations of \$35,000, compared to a net cash inflow from continuing operations of \$700,000 for the same quarter a year ago. This source of cash resulted from positive operational results combined with strong collection efforts and was offset by a reduction in accounts payable and an increase in prepaid expenses and sundry assets.

Financing Activities

Financing activities, which consisted entirely of capital lease obligations, represented a use of cash of \$143,000, compared to a use of cash of \$4.2 million for the same quarter in 2001. In 2001, the use of cash consisted of a \$4 million dollar payment made to LivGroup as part of a renegotiation of the \$15 million note and \$222,000 of capital lease payments.

Investing Activities

Investing activities produced a source of cash of \$185,000 this quarter, compared to a \$6,000 use of cash for the same period in 2001. The net source

of cash this quarter represents proceeds received from the sale of unutilized assets net of capital asset additions.

Cash Position

As at June 30, 2002, the company had cash, cash equivalents, and short-term investments of \$3.9 million, compared with \$7.1 million at June 30, 2001. This decrease in cash over the past 12 months relates predominately to our poor operating results in 2001, cash used for various restructuring initiatives, as well as cash used to settle the debt associated with the Procure acquisition.

RISKS AND UNCERTAINTIES

Cyberplex has not had any significant changes to its risks and uncertainties from those that were disclosed in the Company's 2001 MD&A.

OUTLOOK

Cyberplex has not had any significant changes to its outlook from those that were disclosed in the Company's 2001 MD&A.

CYBERPLEX INC.
CONSOLIDATED BALANCE SHEETS

	<u>as at June 30, 2002 (unaudited)</u>	<u>as at December 31, 2001 (unaudited)</u>
ASSETS		
Current Assets:		
Cash, cash equivalents and short-term investments	\$ 3,919,709	\$ 6,147,219
Accounts receivable, net of allowance for doubtful accounts of \$436,786 (December 31, 2001 - 2000 - \$350,751)	1,740,002	1,590,282
Note receivable	600,000	600,000
Income taxes recoverable	70,181	237,377
Prepaid expenses and sundry assets	314,357	320,627
Current portion of deferred lease benefit	-	85,725
	<u>6,644,249</u>	<u>8,981,230</u>
 Capital Assets	 3,026,145	 3,550,097
Long-term portion of deferred lease benefit	34,289	34,290
 TOTAL ASSETS	 <u>\$ 9,704,683</u>	 <u>\$ 12,565,617</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,955,051	\$ 4,122,747
Current portion of obligations under capital leases	387,079	541,613
Current portion of deferred lease inducements	48,252	133,577
Unearned revenue	44,043	308,719
	<u>4,434,425</u>	<u>5,106,656</u>
 Long-term notes payable	 -	 4,079,107
Obligations under capital leases	44,603	196,373
Deferred lease inducements	82,858	34,268
Future income taxes	295,662	295,662
Other long-term liabilities	1,511,892	1,724,221
	<u>1,935,015</u>	<u>6,329,631</u>
 SHAREHOLDERS' EQUITY		
Capital stock	68,039,644	66,589,568
Contributed surplus	324,000	-
Commitment to issue capital stock	-	1,774,076
Warrants	473,114	473,114
Equity component of financial instruments	-	734,259
Deficit	(65,501,515)	(68,441,687)
	<u>3,335,243</u>	<u>1,129,330</u>
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 <u>\$ 9,704,683</u>	 <u>\$ 12,565,617</u>

CYBERPLEX INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Three months ended		Six months ended	
	June 30, 2002 (unaudited)	June 30, 2001 (unaudited)	June 30, 2002 (unaudited)	June 30, 2001 (unaudited)
Revenue	\$ 2,398,328	\$ 5,151,235	\$ 5,134,912	\$ 12,075,947
Direct Costs	984,447	2,935,762	2,204,934	6,826,727
Gross Margin	1,413,881	2,215,473	2,929,978	5,249,220
Sales and marketing expenses	262,863	1,498,826	647,736	3,084,170
General and administrative expenses	817,620	2,272,635	1,757,917	4,684,933
	1,080,483	3,771,461	2,405,653	7,769,103
EBITDA, before undernoted items	333,398	(1,555,988)	524,325	(2,519,883)
Amortization - Capital assets	166,018	359,595	342,374	995,938
Amortization - Goodwill	-	389,441	-	722,508
EBIT, before undernoted items	167,380	(2,305,024)	181,951	(4,238,329)
Write-down of investment	-	(301,793)	-	(752,813)
Gain on settlement of long-term note	-	2,752,878	2,567,438	2,752,878
EBIT	167,380	146,061	2,749,389	(2,238,264)
Interest income	8,745	32,212	30,834	69,835
Interest on long term debt	(20,846)	(180,286)	(258,797)	(598,545)
INCOME/(LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS	155,279	(2,013)	2,521,426	(2,766,974)
PROVISION FOR INCOME TAXES	-	-	-	-
INCOME/(LOSS) FROM CONTINUING OPERATIONS	155,279	(2,013)	2,521,426	(2,766,974)
Loss from discontinued operations	-	(2,203,163)	-	(4,929,834)
NET INCOME/(LOSS)	\$ 155,279	\$ (2,205,176)	\$ 2,521,426	\$ (7,696,808)
Deficit - Beginning of the Period	(65,656,794)	(37,158,472)	(68,441,687)	(31,666,840)
Gain on settlement of equity component of note	-	-	418,746	-
Deficit - End of Period	\$ (65,501,515)	\$ (39,363,648)	\$ (65,501,515)	\$ (39,363,648)
Weighted average number of common shares	29,344,670	27,979,944	29,333,428	26,116,695
Basic earnings (loss) per share from continuing operations	\$ 0.01	\$ (0.00)	\$ 0.09	\$ (0.11)
Basic earnings (loss) per share	\$ 0.01	\$ (0.08)	\$ 0.09	\$ (0.29)
Diluted earnings (loss) per share from continuing operations	\$ 0.01	\$ (0.00)	\$ 0.08	\$ (0.11)
Diluted earnings (loss) per share	\$ 0.01	\$ (0.08)	\$ 0.08	\$ (0.29)

CYBERPLEX
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Three Month Period Ended</u>		<u>Six Month Period Ended</u>	
	<u>June 30, 2002</u> <u>(unaudited)</u>	<u>June 30, 2001</u> <u>(unaudited)</u>	<u>June 30, 2002</u> <u>(unaudited)</u>	<u>June 30, 2001</u> <u>(unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss) for continuing operations	\$ 155,279	\$ (2,013)	\$ 2,521,426	\$ (2,766,974)
Items not involving cash				
Amortization	166,018	749,036	342,374	1,718,446
Unrealized foreign exchange gain/loss	(94,865)	245,928	(93,086)	(91,497)
Amortization of lease inducements	(22,869)	(64,554)	(36,734)	(129,108)
Gain on settlement of Liv Group note	-	(2,752,878)	(2,567,438)	(2,752,878)
Accretion of interest	-	122,786	158,434	159,786
Changes in non-cash working capital				
Accounts receivable	619,625	4,392,964	(74,148)	4,120,303
Prepaid expenses and sundry assets	(101,640)	(254,711)	6,270	(186,879)
Accounts payable and accrued liabilities	(369,513)	(1,196,812)	(65,257)	(4,111,532)
Income taxes recoverable	1,244	(139,565)	167,196	(140,435)
Unearned revenue	(318,020)	(378,721)	(264,676)	77,013
Cash flows from (used in) continuing operating activities	<u>35,259</u>	<u>721,460</u>	<u>94,361</u>	<u>(4,103,755)</u>
Cash flows (used in) discontinued operations	-	(1,722,716)	-	(3,555,691)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from stock options	-	-	-	26,429
Proceeds from leasehold benefit	-	31,385	-	422,632
Cash payment on settlement of long-term note	-	(4,043,063)	(2,250,000)	(4,043,063)
Principal payments under capital leases	(143,611)	(222,215)	(306,305)	(447,647)
	<u>(143,611)</u>	<u>(4,233,893)</u>	<u>(2,556,305)</u>	<u>(4,041,649)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of capital assets, net	185,462	(6,785)	181,578	(439,496)
	<u>185,462</u>	<u>(6,785)</u>	<u>181,578</u>	<u>(439,496)</u>
Foreign exchange gain/(loss) on cash held in foreign currency	53,853	(312,764)	52,856	223,883
Change in cash, cash equivalents & short-term investments	130,963	(5,554,698)	(2,227,510)	(11,916,708)
Cash, cash equivalents & short-term investments, beginning of period	<u>3,788,746</u>	<u>12,660,921</u>	<u>6,147,219</u>	<u>19,022,931</u>
Cash, cash equivalents & short-term investments end of period	<u>\$ 3,919,709</u>	<u>\$ 7,106,223</u>	<u>\$ 3,919,709</u>	<u>\$ 7,106,223</u>

Cyberplex Inc.
Notes to Consolidated Financial Statements
For the three month period ended June 30, 2002
(unaudited)

1. Nature of business:

The Company, through its subsidiaries, is in the business of designing and delivering Internet strategies and solutions to corporate and institutional clients.

2. Significant accounting policies:

The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principals for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2001. Except for those described in notes four and five, these unaudited interim consolidated financial statements are based upon accounting principals consistent with those used and described in the annual consolidated financial statements.

The unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary to present fairly the financial position of the Company as of June 30, 2002 and December 31, 2001 and the results of operations and cash flows for the three and six months ended June 30, 2002 and 2001. Interim results are not necessarily indicative of results for a full year.

3. Outstanding Shares

As of June 30, 2002, there were 29,664,951 common shares issued and outstanding. In addition, there were 1,999,217 options and 815,714 warrants outstanding to acquire common shares of the Company.

4. Business Combinations, Goodwill, and Other Intangible Assets

In July 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1581, "Business Combinations" and Section 3062, "Goodwill and Other Intangible Assets". Section 1581 requires Business Combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting, as the pooling of interests method is no longer permitted. It also expands upon the specific criteria for which goodwill should be recorded separately from other intangible assets. Under Section 3062, goodwill and intangible assets with an indefinite-life are no longer amortized, but rather tested for impairment on a periodic basis. An impairment loss will be recognized when the fair value of goodwill or the intangible asset is less than the carrying amount of those items. These changes will be applied prospectively.

5. Stock-based Compensation

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870, which requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to direct awards of stock to employees. As permitted by Section 3870, the Company has chosen to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of pro forma information. The Company has applied the pro forma information on a prospective basis for all awards granted on or after January 1, 2002. The pro forma effect of awards granted prior to January 1, 2002 has not been included.

5. Stock-based Compensation (continued)

Had compensation cost for the Company's stock-based compensation plans been determined using the fair value method at the grant dates of the awards, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	For the period ended June 30, 2002	
	Three months	Six months
<u>Net Income</u>		
As reported	\$ 155,279	\$ 2,521,426
Pro forma	145,521	2,504,722
<u>Basic earnings per share</u>		
As reported	\$ 0.01	\$ 0.09
Pro forma	0.01	0.09
<u>Diluted earnings per share</u>		
As reported	\$ 0.01	\$ 0.08
Pro forma	0.01	0.08

The Company's calculations for options granted were made using the Black Scholes option-pricing model using the following average assumptions:

	For the period ended June 30, 2002	
	Three months	Six months
Risk-free interest rate	4.21%	4.18%
Expected life (years)	3.67	3.50
Expected dividend yield	0%	0%
Expected volatility	101%	101%

6. Segmented Information

The Company operates in one business segment – Internet professional services. Financial information by geographic segment is as follows:

Revenue by geographic location:

	Three months ended	
	June 30, 2002	June 30, 2001
Canada	\$ 529,535	\$ 2,051,767
U.S.	1,868,794	3,099,468
	<u>\$ 2,398,328</u>	<u>\$ 5,151,235</u>

Capital Assets and Goodwill by geographic location:

	As at	
	June 30, 2002	December 31, 2001
Canada	\$ 2,873,858	\$ 3,345,739
U.S.	152,287	204,358
	<u>\$ 3,026,145</u>	<u>\$ 3,550,097</u>