Cardinal Factor Corporation

Consolidated Financial Statements

January 31, 2003 and 2002

D M C T LLP

Chartered Accountants

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AUDITORS' REPORT

To the Shareholders of
Cardinal Factor Corporation

We have audited the consolidated balance sheets of **Cardinal Factor Corporation** as at **January 31, 2003 and 2002** and the consolidated statements of operations and deficit 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 **January 31, 2003 and 2002** and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DMCT, LLP

DMCT, LLP

June 6, 2003

Cardinal Factor Corporation

Consolidated Balance Sheets
As at January 31, 2003 and 2002

	Note	2003	2002
Assets			
Current			
Accounts receivable		**$ 523**	$ 3,294
Prepaid expenses and other		**2,525**	3,865
		3,048	7,159
Property, plant and equipment	3	**9,494**	14,996
		$ 12,542	$ 22,155
Liabilities			
Current			
Bank indebtedness	4	**$ 47,245**	$ 49,399
Accounts payable and accrued liabilities		**124,937**	66,620
Deferred revenue		**3,000**	-
		175,182	116,019
Shareholders' Deficiency			
Capital stock	5	**397,637**	384,137
Deficit		**(560,277)**	(478,001)
		(162,640)	(93,864)
		$ 12,542	$ 22,155

Going Concern (Note 1)

Approved by the Board "Tom Reber" (Signed) Director "Andrew C. Colebeck" (Signed) Director

See accompanying notes.

Cardinal Factor Corporation

Consolidated Statements of Operations and Deficit
For the Year Ended January 31, 2003 and 2002

	2003	2002	From the Date of Incorporation to January 31, 2003
Revenue	**$ 60,635**	$ 18,114	$ 82,049
Expenses			
Consulting and development	**19,335**	130,435	195,092
Website hosting	**33,324**	15,084	63,708
Occupancy costs	**31,495**	30,150	77,454
Office and administrative	**21,669**	26,434	75,637
Professional fees	**20,221**	58,688	108,090
Transfer agent and shareholder costs	**11,365**	24,076	53,534
Amortization	**5,502**	6,482	16,448
	142,911	291,349	589,963
Loss before write-down of goodwill	**(82,276)**	(273,235)	(507,914)
Write-down of goodwill	**-**	-	52,363
Loss for the year	**(82,276)**	(273,235)	(560,277)
Deficit at beginning of year	**(478,001)**	(204,766)	-
Deficit at end of year	**$ (560,277)**	$ (478,001)	$ (560,277)
Loss per share	**$ (0.004)**	$ (0.015)	$ (0.037)

See accompanying notes.

Cardinal Factor Corporation

Consolidated Statements of Cash Flows
For the Year Ended January 31, 2003 and 2002

	2003	2002	From the Date of Incorporation to January 31, 2003
Cash flows from operating activities			
Loss for the year	**$ (82,276)**	$ (273,235)	$ (560,277)
Add items not affecting cash			
Amortization	**5,502**	6,482	16,448
Non-monetary transaction	**-**	6,500	6,500
Write-down of goodwill	**-**	-	52,363
	(76,774)	(260,253)	(484,966)
Changes in non-cash working capital items			
Accounts receivable	**2,771**	(3,294)	(523)
Prepaid expenses and other	**1,340**	-	(2,525)
Accounts payable and accrued liabilities	**58,317**	4,598	113,354
Deferred revenue	**3,000**	-	3,000
	(11,346)	(258,949)	(371,660)
Cash flows from investing activities			
Purchase of property, plant and equipment	**-**	(2,820)	(16,652)
Acquisition, net of cash acquired	**-**	-	(50,069)
	-	(2,820)	(66,721)
Cash flows from financing activity			
Issuance of capital stock	**13,500**	243,900	391,136
Increase (decrease) in cash during the year	**2,154**	(17,869)	(47,245)
Bank indebtedness at beginning of year	**(49,399)**	(31,530)	-
Bank indebtedness at end of year	**$ (47,245)**	$ (49,399)	$ (47,245)

See accompanying notes.

1. GOING CONCERN

The consolidated financial statements of Cardinal Factor Corporation ("Cardinal" or the "Company") have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Since inception, the Company has incurred losses and has negative working capital. The Company is in breach of banking covenants with respect to its line of credit. The bank has cancelled the facility and called the loan as described in Note 4.

The Company's ability to continue as a going concern depends on its ability to generate sufficient cash flows through successful completion of its development programs and to finance its cash requirements through equity financing. It is not possible to predict the outcome of future development programs or the Company's ability to fund its cash requirements over the term of its development stage. These financial statements do not reflect any adjustments that would be necessary if the going concern basis were not appropriate.

Cardinal is a development stage enterprise focused on the development of internet technology and internet business. The Company seeks to capitalise on the growth in internet based business to business technology. The Company's mission is to target lucrative opportunities to develop and market internet network based technologies through the synergies created by its wholly-owned subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Policy - Stock Based Compensation

Effective February 1, 2002, the Company adopted CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash and other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. The new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees but to disclose on a pro forma basis net earnings and earnings per share had the Company adopted the fair value method for accounting for options granted to employees. No restatement of prior periods will be required as a result of the adoption of the new standard.

Basis of Consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cardinal Factor Inc., Bware Software Inc., Reallyfastfood.com Inc. and xguru.com Inc.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized over their estimated useful lives at the following annual rates:

Furniture and fixtures	- 20%, declining balance basis
Computer equipment	- 30%, declining balance basis
Leasehold improvements	- straight-line over the term of the lease

Share Issuance Costs

Costs incurred in respect of raising capital are charged to capital stock as a reduction of the equity proceeds.

Future Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 amount of revenue and expenses during the year. Actual results could differ from those estimates.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2003	Net 2002
Furniture and fixtures	$ **7,307**	$ **3,098**	$ **4,209**	$ 5,261
Computer equipment	**9,913**	**6,019**	**3,894**	5,562
Leasehold improvements	**8,345**	**6,954**	**1,391**	4,173
	$ **25,565**	$ **16,071**	$ **9,494**	$ 14,996

4. BANK INDEBTEDNESS

At January 31, 2003, the Company had $48,968 outstanding on a line of credit which carried an interest rate of the bank's prime rate plus 1.5% per annum. The line of credit is secured by a general security agreement covering all assets of the Company and personal guarantees from certain officers and directors of the Company. Subsequent to the year-end, the bank cancelled the facility and demanded payment on the loan. The bank has also increased the interest rate to the bank's prime rate plus 8.5% per annum until the loan is repaid.

5. CAPITAL STOCK

Authorized
unlimited common shares

	Number of Shares	Amount
Issued		
Balance at January 31, 2001	16,605,216	$ **133,737**
Issued for cash on exercise of common share purchase warrants	2,645,000	**243,900**
Issued as consideration for intellectual property(i)	475,000	**6,500**
Balance at January 31, 2002	19,725,216	**384,137**
Issued for cash on exercise of common share purchase warrants	153,500	**13,500**
Balance at January 31, 2003	19,878,716	$ **397,637**

(i) During the prior year, the Company acquired certain assets from Nika-Elke Corp., including domain names and their related Website technology. As consideration, the Company issued 475,000 treasury shares. The Company is committed to issuing a further 175,000 treasury shares upon completion of certain conditions for no additional consideration.

6. STOCK OPTIONS AND WARRANTS

The Company has the following stock options outstanding to officers and directors, employees and service providers:

Number of Options	Exercise Price	Expiry Date
70,000	$2.50	May 30, 2003[(i)]

(i) These options expired subsequent to year-end.

During the current year, the Company had 1,092,500 options and 10,561,500 warrants expire.

7. LOSS PER SHARE

The loss per share amounts were calculated using the weighted average number of shares outstanding of 19,846,334 (2002 - 18,254,627).

8. INCOME TAXES

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in the consolidated financial statements:

	2003	2002
Loss before income taxes	**$ (82,276)**	$ (273,235)
Statutory rate	**39%**	42%
Expected income tax recovery	**(32,088)**	(114,700)
Property, plant and equipment	**413**	-
Share issuance costs	**(1,927)**	-
Tax losses	**33,602**	114,700
Income tax expense	**$ -**	$ -

The temporary differences that give rise to future income tax assets are presented below:

Future tax assets		
Amounts related to tax losses	**$ 206,263**	$ 204,800
Property, plant and equipment	**1,112**	-
Share issue costs	**4,998**	16,300
	212,373	221,100
Valuation allowance(i)	**(212,373)**	$ (221,100)
Balance at end of period	**$ -**	$ -

(i) The benefit of future tax assets has not been recognized in these financial statements as realization is uncertain.

As at January 31, 2003, loss carryovers of approximately $626,900 (2002 - $480,000) are available to reduce future taxable income. The losses expire between 2007 and 2009.

9. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed to by the respective parties.

The Company paid consulting and development fees of $14,072 (2002 - $75,061) to shareholders and directors or companies owned by directors and shareholders.

10. FINANCIAL INSTRUMENTS

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate fair values due to the relatively short term to maturity of these instruments.

11. COMMITMENTS

The Company and its subsidiaries are committed to non-cancelable operating leases for premises. Minimum payments are required as follows:

2004	**$ 18,830**