

CardinalFactor

Internet Business Development

Management Discussion and Analysis For The Year Ending January 31, 2003

The following discussion should be read in conjunction with the audited financial statements of Cardinal Factor Corporation for the year ending January 31, 2003, and accompanying notes.

The Corporation

Cardinal Factor Corporation is a Canadian-based Internet business development company whose shares trade on the Canadian Unlisted Board (CUB) with the symbol CAFA and in the United States on the NASDAQ exchange (OTC:BB) with the foreign clearing symbol CIFCF.

Cardinal Factor identifies commercial opportunities where Internet-based service technologies and managed services support can be delivered. The corporation's xguru, Inc. consulting business provides corporate clients with managed services, xml expertise and web application development. The corporation owns ReallyFastFood.com Inc., an online service for the take-out and delivery marketplace segment, and GardenSupply.com, an online gardening resource. Cardinal Factor Corporation operates in the small and mid-sized business management software marketplace through its wholly owned BWare Software Inc. subsidiary.

Fiscal 2003 Performance Highlights

March 2002

- ❑ xguru, Inc. launches new website tailored to provide xml educational resources for a growing audience

April 2002

- ❑ xguru, Inc. and Emallabs (a division of Uptilt Inc.) for partnership whereby xguru, Inc. becomes a technical resource for the company's web-based email tools.
- ❑ "The Corporate Web" white paper published by xguru, Inc.

May 2002

- ❑ "Content Management Systems" a two part series examining the latest developments in CMS is available published by xguru, Inc.
- ❑ xml tutorial

September 2002

- ❑ xguru, Inc. offers email tools to its customers in services form and through private label services

Cardinal Factor Corporation

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November 2002

- xguru, Inc. issues first newsletter containing xml training tips and information about xguru services offering

Operations

I. Revenue

Revenues continue to reflect the challenging operating environment within which the company conducts business. Year-end revenues from Cardinal Factor and its' subsidiaries grew 335%, totaling \$ 60, 635 compared with \$ 18,114 from the previous period. These revenues were derived primarily from the following sources:

- Fee for service revenues by xguru, Inc. customers (including web design, emallabs campaign services, recurring managed services support, application development)
- ISP hosting services
- Affiliate revenues from GardenSupply.com Inc. and xguru, Inc.

II. Expenses

Continued emphasis on maintaining strict cost control by management has continued from the previous year. The 51% decrease in overall expenses from the previous year's activities (\$ 142,911 in 2002/03 vs. \$291,349 in 2001/02) underscores continued alignment of revenues to expenses.

Business expenses (as a percentage of total expenses) are allocated as follows:

- Consulting and development (13.5% in 2002/03 vs. 43.5% in 2001/02)
- Website hosting (23.3% in 2002/03 vs. 5.1% 2001/2002)
- Occupancy costs (22.0% in 2002/03 vs. 11.7 % for 2001/02)
- Office and administrative expenses (15.2% in 2002/03 vs. 7.6% in 2001/02)
- Professional fees (14.1% in 2002/03 vs. 21.6% for 2001/02)
- Shareholder relations expenses (8.0% in 2002/03 vs. 8.2% for 2001/02)
- Amortization (3.8% in 2002/03 vs. 2.2% for 2001/02)

III. Share Capital

The company raised \$ 13, 500 through the exercise of warrants to fund business operations and invest in technology development.

IV. Liquidity and Capital Resources

The company lowered bank indebtedness to \$ 47, 245 from \$ 49, 399.

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Outlook

Cardinal Factor Corporation continues to operate in a challenging and competitive business environment.

The xguru, Inc. consulting services division remains the Corporation's primary source of revenue growth. The pace of growth of xguru, Inc. is dependent upon continued attention to the alignment of operating expenses with project costs, and further improvement to the revenue base through the acquisition of additional customers. Parallel to customer base growth, leveraging market exposure xguru, Inc. services, through greater client to client-audience visibility will be central a theme of business development efforts. For instance, branded email campaigns on behalf of corporate clients, with the xguru, Inc. stamp as a 'footer', offers high visibility and market exposure at nominal cost.

Recurring revenue streams support the Corporation's ISP hosting services division. In tandem with the business development efforts of xguru, Inc., a strategic focus on expanding this revenue source, by working with customers to establish ongoing managed services agreements, Internet hosting services, and commercial DSL accounts, will be pursued. It is an objective of the Corporation to further build the market visibility of its Internet support infrastructure, through the expansion of the 'cardinalfactor.net' brand.

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