xenos
2004 Annual Report

Xenos

2004

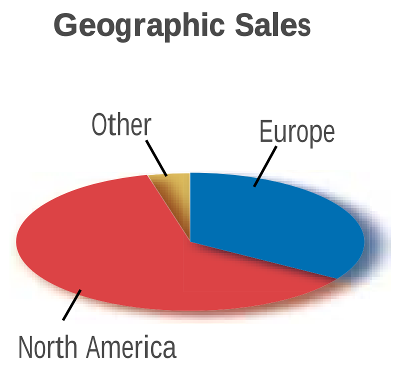
Market Specific Solutions from Xenos

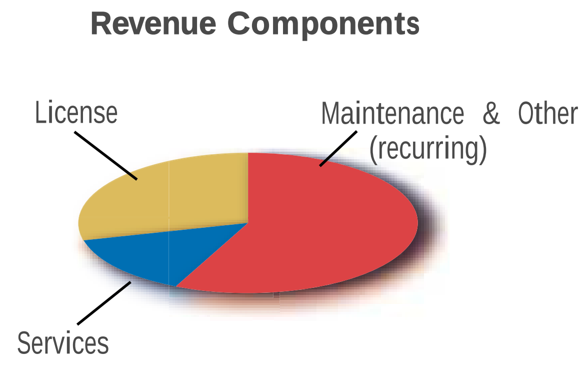
Xenos continues to expand its vertical market focus. This year we formed a Healthcare Division to concentrate on developing, marketing and selling to this significant market. In addition, we expanded into the e-government space using our successes in county governments as a base. Xenos also continues to grow in its traditional vertical markets of banking, brokerage, insurance, pharmaceuticals and telecommunication. While developing solutions for certain vertical markets, Xenos continues to build on its horizontal appeal across all markets.

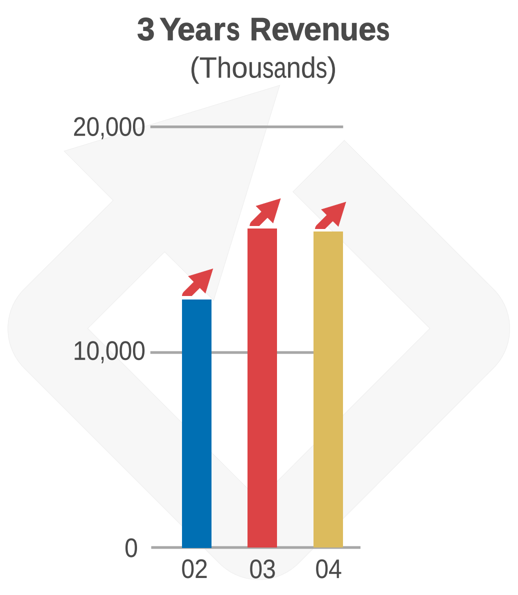
contents

- **Third consecutive year of profitability.**
- **Significant customer wins in Banking, Insurance, Financial Services and Healthcare.**
- **Launch of Xenos Healthcare Division.**
- **GoXML solution launched.**
- **Opened new markets in e-Government.**
- **Increasing market awareness of Xenos solutions.**

Highlights







Financial Highlights

Canadian dollars

		Fiscal 2004		Fiscal 2003
Sales	$	16,203,559	$	16,850,990
Gross Profit		13,318,325		13,417,272
EBITDA (i)		1,753,627		3,036,943
Net income		478,711		1,632,972
Net earnings per share	$	0.05	$	0.19
Cash per share (i)	$	1.28	$	1.57

(i) - The following are non-GAAP measures.

E x p a n d

Message to Shareholders

Fiscal 2004 was Xenos' third profitable year since its corporate turnaround, which began in 2001. 2004 was also marked by significant achievements, including the successful acquisition and integration of leading edge XML technology, new product upgrades and releases, tier-1 customer wins and exciting new solution implementations in government and healthcare.

Our aggressive research and development program, coupled with two strategic acquisitions, allows Xenos to offer a complete suite of integrated technologies to support our core vertical markets in health care, financial services, insurance and government. Xenos solutions make inherently incompatible information technologies inter-operate seamlessly. Our excellence in software and market-leading solutions received recognition in 2004 from important industry publications including the WebServices Journal, Insurance News and Canadian Healthcare Technology.

Xenos delivers data and document solutions to some of the biggest companies in the world. Our solutions allow users to share mission critical information across the entire enterprise and beyond--without changing existing computer applications. Xenos customers, including many Fortune 500 companies, use our software to bring proprietary legacy systems into the 21st century. Our non-invasive approach to consolidating disparate systems and our responsiveness to our customers' business and regulatory challenges give them a competitive advantage while placing Xenos on the leading edge of providing mission critical solutions. Our integrated solutions typically result in dramatic cost savings, enhanced security and a significant return on investment.

The financial services market, encompassing banking, brokerage and insurance, has historically been the core customer base for Xenos. Over time we have obtained a substantial market position working with marquee customers.

Notable customer successes continued in 2004 including a successful large-scale implementation at an international bank in Cleveland, where we integrated three different customer platforms to create one view of the customer and easier access to relevant information.

The response to our new health care initiative launched in our fiscal fourth quarter has been very gratifying. At the time of writing we were engaged in five new healthcare projects in one metropolitan region alone. We have recently recruited a US sales team of health care specialists to pursue the US market and announced the creation of the health care division in September. We will continue to add resources in support of this growing opportunity.

The healthcare market represents a large new opportunity for Xenos. It is estimated that the typical mid-sized hospital has 20 information silos that do not readily interact. The impetus for more cost effective ways to manage healthcare delivery, and the expected increase in IT spending to facilitate this objective, are mega trends that will benefit Xenos. Xenos is also helping health care organizations comply with increasing regulatory standards such as the HIPAA (Health Insurance Portability & Accountability Act). Xenos currently has in excess of twenty Healthcare customers including Blue Cross/Blue Shields, hospitals, regional healthcare authorities, pharmaceutical companies, health insurance and payer enterprises.

i n g our presence

The XML software acquired during fiscal 2004 has been further developed, enhanced and integrated into the Xenos software suite. Our GoXML Communication Server, Messaging, Registry and Transform products are helping Xenos open new markets as well as add additional value to our existing customers. These products play especially well in healthcare, as they provide connectivity across the wide diversity of clinical and administrative systems employed in the healthcare setting.

Our infoWEB solution gained momentum in fiscal 2004. infoWEB is a report delivery system that takes information from incompatible systems and allows companies to process, manage and distribute critical business information through a single end user interface. In addition to our traditional markets, we are now marketing to all levels of government, cost effective electronic report distribution as well as a backbone for other web-based e-government initiatives.

Xenos demonstrated infoWEB's natural fit in the government sector by automating and streamlining paper-intensive processes with a highly successful and visible implementation for the county government of Santa Cruz County in California. Monterey County has subsequently adopted the same solution based on the success of Santa Cruz. Our early success in the county government market in California is being followed up by focused campaigns in California, Texas, New York and Florida with other markets being targeted as resources permit.

New applications for the Xenos solution are continuously uncovered. We implemented, to great acceptance, a wireless application that has been successful in speeding communications and commerce at a major worldwide port in Europe. Our technology routes ship to shore communications through a central hub and delivers shipping documents to the 2600 trading partners at the Port in the appropriate IT protocol for each particular trading partner. Based on the success of the Port solution, we are marketing this solution worldwide as the problem overcome at this Port is common at all major ports.

A broad slowdown in the IT market and the strengthening of the Canadian dollar were the major factors in slowing of our sales growth during the year, resulting in revenues below our targets. However, by maintaining a careful focus on costs we remained profitable for the year. We ended our year with a strong balance sheet, reporting a cash position of $12.6 million, or $1.28 per share and no long-term debt.

Looking ahead, we are deepening our relationships with our existing customers, expanding our presence in new vertical markets and, with a strong professional services group, introducing new solutions that deliver value to our customers.

James Farmer
President and
Chief Operating Officer

Stuart Butts
Chairman of the Board
and Chief Executive Officer

Healthcare &

In our fourth quarter, we announced the formation of a Healthcare Solutions Division. The mandate of Xenos Healthcare Informatics is to deliver the benefits of Xenos' widely respected electronic data and document integration solutions to the healthcare sector.

Over the years, hospitals and other healthcare organizations have made investments in information technology and information systems and applications. In many cases, the platforms and applications are incompatible. Many are still paper based, and most have resulted in separate silos of information. The healthcare market is faced with the need to share information while under pressure to reduce costs and increase patient care and safety. This information sharing forms the basis for the Electronic Health Record, a universal electronic patient record that allows a patient's medical history to be readily accessible to all healthcare practitioners and organizations providing healthcare services. In order to accomplish the goal of a portable electronic health record, information must pass securely across different networks, platforms and applications between providers, payers, insurers, hospitals, pharmacies, physicians and the numerous ancillary care facilities. Xenos healthcare solutions address these critical needs.

Market Trends

Xenos has identified and is addressing three significant trends in the healthcare sector.

1. Movement towards the Electronic Health Record.
2. Eliminating paper burden.
3. Integrating incompatible information systems.

These three trends present opportunities for Xenos as they are connected by common challenges and can be addressed using Xenos middleware products and solutions.

Electronic Health Records

Many countries in the world have called for the creation of a universal electronic patient record. This would allow a patient's medical history to be readily accessible to all healthcare practitioners and organizations providing healthcare services. The problem with many current systems is that the health record is mostly print based and data is stored in multiple incompatible systems. This presents accessibility, mobility, confidentiality and privacy issues.

Eliminating the paper burden

Hospitals regularly connect with physicians' offices to exchange patient medical data. This exchange is largely of the print and deliver information paradigm. This paradigm can get in the way of timely, secure information exchange. Xenos products allow hospitals to communicate with physicians' offices electronically. The exchange of patient discharge summaries in a timely manner leads to improved patient care.

Moving from printed to electronic information exchange is a core Xenos strength. We have been helping organizations eliminate paper for many years and are focusing on bringing this solution to the healthcare market.

Before the advent of automated systems, hospitals used a myriad of manual print-intensive processes to order, track and bill for supplies and medications. In the past few years, there has been increasing emphasis on integrating these activities by using information systems designed to automate order processing, data capture and supply consumption for patient charging. The challenge has been integrating disparate systems.

Integrating incompatible IT systems

Due to incompatible information systems and applications, most hospitals are faced with the need to manually move data from one system to other systems by re-keying the data or by printing and scanning reports. Confidentiality of medical data is so strict that data entry clerks cannot be used to move this data. Instead, highly paid medical staff or nurses are responsible for data movement.

Xenos solutions are built to automate these manual processes and thus integrate incompatible software applications at the data level.

The healthcare market is one of the hottest verticals for technology spending. Gartner, Inc. predicts 14% growth in IT products and services spending by hospitals in 2004.

Examples of Xenos Solutions Include:

- Connecting a patient record system with electronic archives to eliminate manual scanning and indexing of paper records by hospital staff.
- Providing a regional healthcare system with secure electronic medical record transmission for timely access by physicians, pharmacies and hospitals.
- Converting print-based invoicing systems to electronic delivery solutions for both internal users and customers.
- Delivering medical records in HL7 format from any current output format.

These solutions, along with others offered by Xenos, are focused on addressing enhanced patient care and safety, productivity, compliance with mandatory privacy legislation and cost savings.

Chicago-based market data provider Sheldon I. Dorenfest & Associates, Ltd. says the healthcare information technology market will outperform all other segments of the technology industry, growing at about 9% per year for the next two years.

A Challenged World of Information Sharing

Client Stories

Pitt County Memorial Hospital

North Carolina's Pitt County Memorial Hospital is the flagship hospital for University Health Systems of Eastern Carolina and serves as the teaching hospital for the Brody School of Medicine. The concerted effort of a staff of over 500 physicians and 1,200 nurses provides comprehensive acute, intermediate, rehabilitation and outpatient health services to more than 1.2 million people in 29 counties.

Pitt County Memorial Hospital was using a manual process to transfer printed patient data from their GE clinical documentation system into their LanVision Imaging System. This manual process did not guarantee the accuracy of patient clinical information. To meet confidentiality requirements, registered nurses were tasked to perform the manual transfer.

In 2003, Xenos was contracted by the hospital to reduce costs and increase the accuracy of this process. Xenos d2e Platform was implemented to fully automate and secure the document transfer process.

This resulted in a savings of over 3,000 hours of nurses' time, the elimination of over 15 million printed pages per year and savings of over USD $600,000 per year in paper and toner supplies.

"Implementing our Xenos solution was successful and well received by all departments. Return on investment has been very easy to demonstrate and this model will be used in future integration efforts."

Robin Parkin
Manager Information Systems,
Pitt County Memorial Hospital

Grey Bruce Health Services

Grey Bruce Health Services was formed in 1998 when five Ontario hospital corporations came together. Its efforts have been focused on providing quality health care close to home.

Grey Bruce Health Services needed to integrate their Patient Care System with regional clinics. Xenos software was used to intelligently transfer and route HL7 Radiology patients' reports to their respective physicians upon their discharge, giving the physician immediate access to the patient report.

"Our physicians are extremely important to us and it is important we continue to improve our communication with them and improve their ability to deliver world-class patient care. The Xenos GoXML integrated solution allowed us to deliver this information quickly and gave us a foundation to build upon, and further improve, our delivery of information."

Rob Croft
Corporate Director, Systems Integration, Grey Bruce Health Services.

Insurance carriers often turn down claims because of incorrect patient information.

Financial &

Market Overview

Technology spending in Financial Services is now mostly about integration, not about building all-new applications. Most companies want to add onto their existing base of technology investment.

Initially, institutions focused integration efforts on service delivery channels – ATMs and the Internet. Now, the emphasis is shifting to integrating applications and data.

Financial services companies need to abide by new regulatory guidelines, such as the global BASEL II initiative for banking and the Patriot Act in the US. Hampered by business processes that have evolved around vertical integration and isolated silos of data, and by the need to merge disparate systems across organizations, these companies are moving rapidly to integrate their application portfolios and force a lot of data integration to manage risk.

Financial services companies have shifted IT priorities from long-term, discretionary projects aimed at improving customer service, to more strategic efforts geared toward lowering cost of ownership.

Xenos Solutions

Xenos content management solutions are used by some of the financial industry's largest organizations to consolidate multiple disparate document archives into a single database. This gives all users, both internal and external, a single access point to all critical business documents.

Insurance and financial services companies require fast, simple, on-line solutions for their agents and customers to access and complete forms in real time for policy and account applications, quotes, requests for information or trade confirmations.

A multinational banking client needed to consolidate multiple archives it had accumulated through mergers and acquisitions. The bank chose Xenos software to read documents from these incompatible archives, index and transform them into a common standard format and then load them into a consolidated document repository. As middleware, Xenos software was well suited to integrate repositories from many vendors, an integration that was not possible using any of the existing vendor's software.

Xenos

Client Stories

Insurance

"Our agents conduct business in a highly competitive industry. Expecting a client to wait for policies or information can result in lost business, so there's a definite need for faster transactions. GoXML allows agents to process quotes and customer account applications and receive an instantaneous response without ever leaving the client's side."

Carla Kelling
Assistant Vice President of Information Technology,
Grinnell Mutual Reinsurance Company.

Grinnell Mutual Reinsurance Company used standard insurance ACORD Forms in their business. Changes to an ACORD form, no matter how minor, required a costly and time consuming reprogram of a COBOL application. Using Xenos GoXML, ACORD Form changes are easily and quickly adapted, without changing the legacy programs.

Now, Grinnell field agents have real-time access to information and ACORD based insurance policy generation. With more streamlined processes, GoXML will increase Grinnell's competitiveness, efficiency and customer satisfaction.

"Implementing Xenos' d2e was minimally invasive and didn't require drastic customization whereas other vendors were unable to satisfy our needs without large-scale infrastructure changes."

Douglas Ackerman
Lead Systems Engineer
Fireman's Fund

Fireman's Fund wanted to reduce its Insurance Policy printing load by 25% and to deliver these policies electronically, with the goal of making it easier for agents to do business with Fireman's Fund. They have implemented a solution from Xenos to meet their objectives and will save an estimated $2.3 million per year.

e-government &

In Fiscal 03/04, the California Department of Motor Vehicles spent $192,000 to destroy documents, $1.3 million to ship them to and from field offices, $550,000 for microfilming equipment to capture images of the documents and $2.8 million to research records requests from the microfilm. Much of this cost could have been avoided if those documents had been in a central electronic repository.

Emerging issues for Governments

Current e-government strategy calls for a citizen-centric government built around services rather than government bureaucracy. However, incompatible systems impede the implementation of a citizen-focused government.

The adoption of the web infrastructure and standards (HTTP, XML) are a means to deliver information to citizens.

In the area of standards, governments are adopting common XML tags and building on private standards. A Citizen-Centered e-government requires interoperability across agencies and jurisdictions, linking incompatible systems and applications to collect, process and display government information. There is a need to exchange information across government agencies and jurisdictions.

Currently, government organizations distribute information to their clients in the form of paper reports. The increasing demands of citizens and other government clients require real-time access to timely information. These needs can no longer be met by using paper reports. Reports can now be distributed electronically so that the critical information in the reports is immediately available in real-time, while at the same time eliminating costly storage of paper reports.

Xenos Solutions

Xenos helps government departments deliver all information, reports and data to their clients. Because our solutions act as middleware, they can be implemented with no change to the underlying IT applications. This allows governments to preserve their IT investment and use their IT infrastructure as a base for e-government. Information from reports and disparate databases can be used for new purposes. This new information can be delivered without large IT investments and without replacing IT applications. Benefits are delivered while costs are contained – a combination that suits government funding models.

Xenos solutions help governments achieve their mandate to reduce costs and improve service to constituents while under budgetary constraints and increasing pressure from regulatory standards bodies. Return on investment in new technology must be offset with "hard cost" operational savings and promote achievable service improvements using the existing infrastructure.

Market researcher IDC predicts that the number of pages printed will continue to climb at least 6% annually, to 1.8 trillion by 2006. That is 4.9315 billion pages PER DAY. As a comparison, the Library of Congress has 29 million books.

Xenos solutions deliver information for government clients providing additional benefits:

- Security: prevent unauthorized access and protect privacy
- Budget: reduce the cost of handling paper work without sacrificing quality
- Service: deliver information faster than possible with paper

Xenos Case Study - Welfare Administration

A federal government department administers the healthcare benefits for the country. The department used a paper-based claim processing system, with paper claims being faxed or mailed, and IT support and business operations spread throughout multiple offices.

The department decided to migrate business-critical functions onto a modern ebXML solution. They implemented Xenos GoXML messaging to allow each of the 2,000 pharmacies in the country to communicate with the National Insurance Administration. The result is a secure reliable infrastructure for the electronic interchange of claims.

Xenos is Active in its Markets!

Industry Associations

Xenos is a member of selected Industry Associations (ACORD, HIMSS, MUSE, OASIS, Xplor). These include associations focused on print and electronic document technologies, e-business solutions and specific vertical market associations.

In the past year, Xenos has exhibited at industry-specific conferences:

- Web Services on Wall Street
- ACORD/LOMA Systems Forum
- Oracle PartnerWorld
- HIIPAA Summit
- MUSE
- OHA HealthAchieve
- CCISDA, California County Information Services Directors Association
- E-Financial WorldExpo
- AIIM, The Association for Information and Image Management

We will continue to showcase our products, solutions and professional services at conferences that are focused on specific industries and on specific issues within those industries.

Alliance Partnerships

Xenos has Alliance Partnerships with leading software vendors, enabling them to incorporate our re-purposing and transformation software as part of their solutions for electronic statement presentment, enterprise content management, archiving and print automation.

Value Added Resellers

Xenos partners with selected Value Added Reseller (VAR) partners in all major global markets. We have been very active with our VAR in the Far East markets this past year, responding to significant opportunities and winning business.

Professional Services

Xenos Professional Services teams implement document management and data integration solutions involving Xenos products.

Our deep knowledge and understanding of printed and electronic document management solutions help us provide our clients with rapid and successful implementations. We understand the full range of document management requirements, from document creation, content automation, delivery and archival, to retrieval and display of those documents electronically by end users.

Xenos integration skills are used to employ business process automation solutions across the enterprise. We develop successful XML implementation strategies for traditional systems, including EDI applications and relational databases, and we help organizations extend existing infrastructure by incorporating new Web Services and ebXML (electronic transactional data) solutions that interface with the existing business process. Solutions have been deployed across Health Care, Insurance, Finance, Brokerage and Government institutions.

By combining Xenos software with the expertise of our professional services teams, we solve the challenges companies face today due to mergers and acquisitions, rapid change in technology and the frequent changes in standards, initiatives, and government regulations. This is the value of Xenos Professional Services.

Document Solutions

Xenos document solutions enable organizations to automate, personalize and manage their business communications through document creation, content automation, ad-hoc correspondence and document archival/retrieval. We increase the value of highly personalized statements to our clients through our deep knowledge of customer communications. We have designed and created effective Polices & Contracts and Claims Correspondence for Insurance companies and High Value Statements for Wealth Management companies. Xenos document solutions provide total management of high value business documents and enhance an organization's ability to reduce cost, cross sell/up sell and improve customer satisfaction.

Xenos provides data and document solutions without the need to change existing applications.

Xenos solutions have broad horizontal appeal but have been successfully implemented in vertical industry-specific applications.

Xenos Data Solutions provide the integration of incompatible applications.

Xenos Document Solutions transform repurpose and distribute reports documents across the enterprise.

Horizontal cross-industry middleware products and services

Xenos products, solutions and services are implemented in a wide variety of industries. Our products accept all types of input in the form of data or documents or a combination of both, transforming and re-purposing the data for new business initiatives. Our solutions are implemented in a variety of architectures: batch, real-time, interactive, Web-based. Where performance is critical, Xenos products offer scalability to meet any high-volume situation. Our products are hardware and platform agnostic: they are supported on all popular operating systems, interface with widely installed systems and applications from IBM, Microsoft, Oracle, PeopleSoft and other vendors, integrate with common global standards and adapt into in-house applications. Xenos products require no changes to existing applications, thus preserving the enormous investment that has been made in IT infrastructure, systems, applications and procedures. As businesses world-wide seek to leverage their IT assets, they are implementing middleware software products, such as those provided by Xenos: solutions that bridge legacy systems to global trading circles operating interactively over the Internet and reaching out to customers, suppliers, trading partners and consumers.

Xenos products have been designed to be highly scalable. Many customers have praised this feature. It allows them to handle massive volumes of data and documents, to process and repurpose them in dynamic applications where thousands of users are making simultaneous real time, online requests.

Focusing on Growing Markets:

Aggressive development to maintain leadership in the industry.

Capabilities

Xenos d2e Product Suite: d2e Platform™ / d2e Vision™

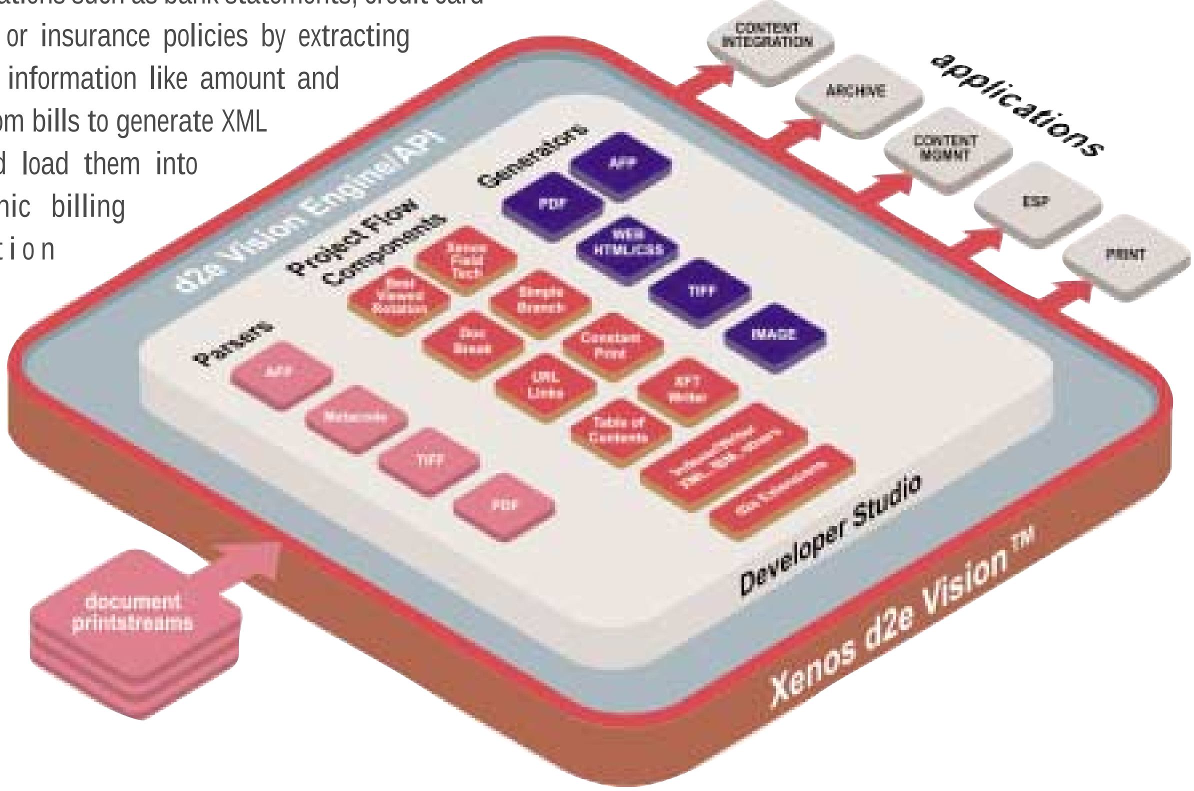
The Xenos d2e suite of products consists of d2e Platform and d2e Vision and a powerful Developer Studio Graphical User Interface (GUI) tool for rapid application development and maintenance. Xenos d2e products transform and repurpose documents from their printed formats into standard electronic formats (e-content).

Xenos d2e software enables business solutions for both e-business and print strategies for applications such as enterprise content integration, content management /archiving, electronic statement presentment, customer relationship management (CRM) and print automation, with no changes to existing applications. The software is easy to integrate with other print, archive or web applications.

Xenos d2e software can be used to repurpose existing print applications such as bank statements, credit card statements or insurance policies by extracting transaction information like amount and due date from bills to generate XML records and load them into an electronic billing application database.

With d2e software, our customers create electronic versions of documents in web formats such as PDF and HTML/CSS for Internet viewing and to attach in e-mail delivery applications. For archiving applications, d2e software is used to separate, index and transform large-volume printstreams, accepting all popular print formats such as Xerox Metacode, IBM AFP and HP PCL. For high-volume print applications, d2e is used to leverage installed printer hardware.

Xenos d2e Vision, our new Java-based product is designed to handle very high volume, high-speed transactions and is scalable and extensible for rapid integration with e-business solutions. Its support of double-byte character sets used by Asian languages has enabled Xenos to open up Asian markets for Xenos products and services.



Xenos

Xenos GoXML™ Product Suite

The Xenos GoXML Integration Solution, which includes GoXML Communication Server, Messaging, Registry and Transform, makes interactions with other companies more efficient and cost-effective by enabling the secure exchange of information over the Internet and streamlining business processes that involve multiple organizations. The Xenos Integration Solution helps to integrate:

- Business Processes
- Enterprise Systems
- Structured Data
- Databases
- Web services /Service Oriented Architectures (SOA)

GoXML Technologies are a Business Integration Framework with plug-n-play components that include data transformation, business process integration, meta-data management, ebXML messaging and Web services interoperability.

Business Systems Integration Solutions

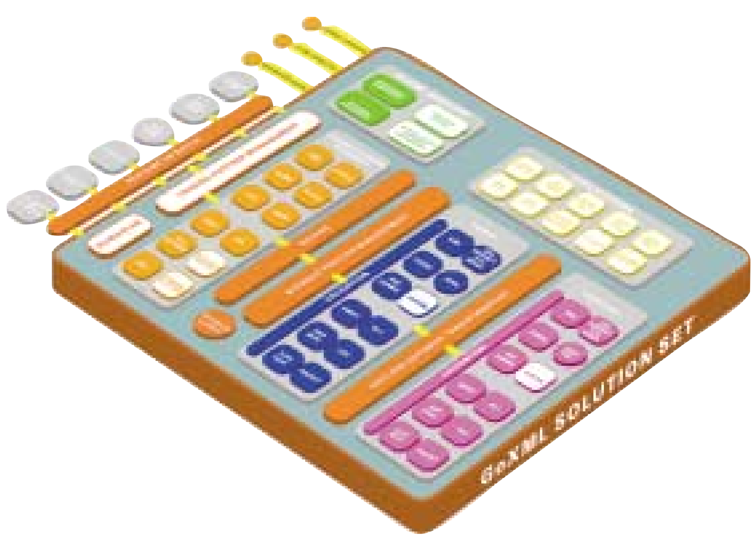
Xenos' GoXML Communication Server and Business and Communication Adapter Framework streamline service-oriented architecture and Web services development by providing an intuitive integration environment that eliminates costly custom coding. Our commitment to leading integration standards and platforms like J2EE™, .NET™, XML and SOAP ensures compatibility with leading EAI platforms, so choosing Xenos will complement your future technology decisions.

The standards-based, massively scalable integration platform is uniquely equipped to help build and manage enterprise-class integration networks. The breadth and depth of our XML/EDI transformation capabilities, combined with our support for B2B standards like EDIINT, UCCnet, SWIFT, ACORD and HIPAA, fosters easy Internet-based collaboration in all industries.

Data Integration and Transformation Solutions

Xenos' data integration solutions perform both real-time Enterprise Application Integration (EAI) and batch Extract Transform and Load (ETL) data-level integration. Xenos' GoXML Communication Server and GoXML Transform allow companies to define data architecture and time-sensitivity requirements based on real usage patterns and incrementally build architecture to support it, avoiding expensive data warehousing initiatives, while identifying where a warehouse can help.

GoXML provides data integration without custom coding, creates mapping between complex formats such as COBOL Copybooks, Adobe PDF Forms, EDI, X12, HIPAA, SWIFT and XML and deploys transformations via an embeddable Java engine, a transactional integration server or via Web services.



Capabilities

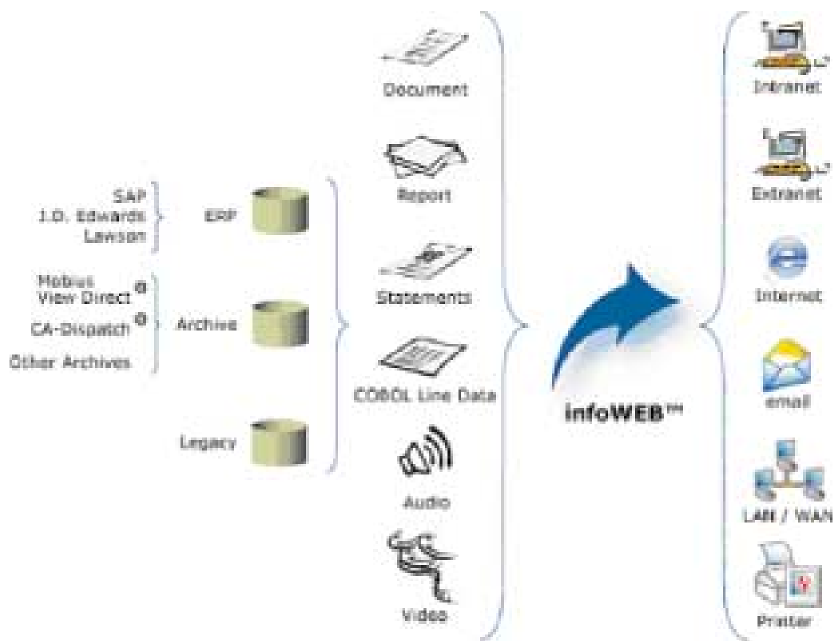
Xenos infoWEB™

Companies continue to print and distribute reports to their employees. The challenge is to address the costs (printing, distributing, mailing, hardware) of printing and the timely distribution of printed reports while preserving investments in the systems that generated the reports. Xenos report distribution solutions are used to reduce the printing and delivery costs while providing immediate distribution of the reports.

Employee productivity is improved because they receive immediate notification when a new report is available ensuring that they are always working with current information without the risk of using outdated paper reports. The cost of manually storing and retrieving paper reports is also reduced. Each department within a company specifies the distribution rules, which ensures secure and controlled delivery to only authorized users.

Xenos infoWEB allows a single Internet Browser interface to be used to receive information from disparate systems, with no changes to the underlying systems. This allows companies to process, manage and distribute critical business information, in the form of documents, reports, invoices, statements, images, audio files, multi-media files and other document types. Xenos infoWEB leverages the common Web interface and protocols and eliminates the need for multiple logins by employees, customers and suppliers.

Companies are seeking solutions that allow internal and external users to be connected to their information systems. Distribution solutions such as infoWEB are well suited to meet this demand.



Management's Discussion & Analysis

The following discussion and analysis should be read together with the Company's audited financial statements and related notes. The objective of the MD&A is to communicate the Company's vision and core business strategy as executed through key performance drivers. These drivers are enabled by the Company's capability to execute on the strategy through its resources and systems and are manifested in both the historical and prospective results.

Certain statements made in the Management's Discussion and Analysis, elsewhere in the annual report, in various filings with Canadian regulators, in reports to shareholders and in other communications, are forward-looking within the meaning of certain securities laws. Such forward-looking statements are based on a number of assumptions and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or developments in the Company's business or its industry to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. We urge you not to place undue reliance on these forward-looking statements as they are based on management's current plans, estimates, opinions and projections. The Company assumes no obligation to update forward-looking statements if assumptions or these plans, estimates, opinions or projections should change.

Corporate History

Xenos Group Inc. ("Xenos") was formed under articles of amalgamation dated October 1, 1989. The Company acquired GenText, Inc. ("Gentext"), a private software development company located in Dallas, on January 1, 1998. Gentext had developed printstream transformation software that formed the basis of Xenos' current d2e Platform and d2e Vision products. On October 1, 1999, Xenos acquired Geneva Digital Limited ("Geneva"), a private value-added software reseller based in London, which sold and maintained third party document solutions in the U.K. Today, Geneva (now Xenos Europe Limited) is our sales office in Europe selling a combination of Xenos products, services and third party based document solutions. Xenos acquired Rush Creek Software Corporation ("Rush Creek"), a private software developer based in Dallas, on May 17, 2002. Rush Creek brought the infoWEB report distribution product to Xenos' suite of products in addition to its important customer base. Finally, on November 17, 2003, Xenos acquired the business assets of XML-Global Technologies, Inc. ("XML Global") which included the GoXML data integration suite of products as well as certain key employees and its customer base.

Overview

Xenos provides its customers with access to, enhancement, storage and delivery of mission critical information through its non-invasive middleware products and services. Xenos d2e Vision and d2e Platform software transforms and repurposes documents, statements and reports into e-content, supporting both e-business and print strategies for electronic statement presentment, enterprise content management, archiving and print automation. Xenos infoWEB software securely and rapidly distributes business documents and reports within departments, throughout the enterprise and beyond, to any standard web browser. Xenos GoXML Integration suite enables the integration of business processes, enterprise systems, structured data, databases and web services or service oriented architectures. Xenos Document Solutions use in-house expertise, owned and third party software to enable organizations to automate, personalize and manage their business communications through document creation, content automation and content management.

Xenos sells primarily through its direct sales force but also uses value-added resellers in specific markets such as in Latin America, Asia and certain parts of continental Europe. To a much lesser extent, the Company continues to sell through a small number of OEM and Service Bureau partners on an application specific basis.

The Company has historically had success in a wide range of industry verticals and in particular banking, brokerage and insurance. The introduction of the GoXML products has enabled recent initiatives in other verticals, the healthcare sector in particular, which appear to be very promising.

Xenos has offices in Toronto, Dallas, London (U.K.) and Vancouver.

The authorized share capital of the Company consists of an unlimited number of Common Shares. As at September 30, 2004, there were 9,894,361 shares issued and outstanding. Stock options for a total of 1,112,388 shares were outstanding at exercise prices ranging from $1.36 to $42.00 with various expiry dates, the latest of which is March, 2009.

Fiscal 2004 Business Highlights

Fiscal 2004 was a very important year in the Company's history. On November 17, 2003, Xenos acquired the XML Global business assets including the GoXML product line which includes GoXML Communication Server, Messaging and Registry. This acquisition substantially completes the Xenos integration and interoperability product set and has enabled the Company to use it's technology as a base to launch focused solutions to market higher value propositions to specific vertical markets, and to address new markets such as healthcare. Management believes that this vertical approach represents a significant new growth opportunity for the Company.

Operationally, the fiscal year was one of transition as the XML Global business was integrated at all levels of the organization. It was also a year of investment including targeted marketing activities and the addition of sales reps in certain geographic regions and industry-focused reps in the healthcare vertical.

Fiscal 2004 represented a third consecutive year of profitability although top line results were lower than management had anticipated. In addition to the negative impact of the rising Canadian dollar, new license sales decreased in our traditional component based market. Trends encountered included sales cycles that were longer and the increasing requirement to perform unpaid proof of concepts for prospective customers. In the fiscal year, there was only one large transaction which took place in the first quarter with the remaining transactions tending to be lower in size and more frequently with existing customers.

The trends during the year highlight the fact that the Company's acquisition of infoWeb and GoXML, to broaden its technology offerings to existing customers, and it's move into vertical markets with a solutions orientation are both well timed and prudent.

In the fourth quarter, the Company announced the formation of a healthcare solutions division. The mandate of this division is to deliver electronic data and document integration solutions to the healthcare sector.

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2004

For the year ended September 30, 2004, sales were $16.2 million as compared to $16.9 million in the previous year. The marginal decrease was largely driven by lower new license sales and the decline in the US dollar exchange rate partially offset by higher services revenue. Revenue by quarter during fiscal 2004 was $4.5, $3.8, $3.8 and $4.1 million respectively. In the previous year, revenue by quarter was $4.4, $4.1, $3.9 and $4.5 million respectively.

Geographically, 62% of sales in fiscal 2004 were in North America while 34% were in Europe compared to 62% and 35% respectively in fiscal 2003. License sales comprised approximately 29% of total revenues in fiscal 2004 compared to 33% in the prior year.

Gross profits for the year were 82% of sales compared to 80% in the prior year. The stability in the gross margin rate was primarily the result of a consistent mix of sales from year to year.

Sales and marketing expenses were $6.3 million for the year compared with $5.1 million in the prior year. This increase was primarily due to the planned increase in marketing activities following the XML Global acquisition and several new sales hires during the year. As a percentage of revenues, sales and marketing expenses were at 39% as compared to 30% last year.

Total expenditures on product development, gross of amounts deferred, were $3.6 million during the year as compared to $3.5 in fiscal 2003. The overall increase in spending reflects an increase in staffing offset by lower bonus expenses and the reduction in the cost of our US based development team members due to the depreciation of the US dollar.

Administrative expenses decreased to $2.2 million from $2.5 million in the prior year primarily due to a decrease in bonus expenses.

The Company allocates common costs to each department based on relative headcount or other relevant measures. These costs include rent and other facility-related costs, communication and infrastructure expenditures.

Amortization charges of $1.4 million compare to $1.3 million in fiscal 2003. The increase reflects the amortization of certain new version releases during the year.

Foreign exchange losses were $19,000 as compared to losses of $557,000 in the prior year. The change is primarily due to a planned reduction in the amount of foreign denominated cash on hand during the year.

The tax recovery of $12,000 (Fiscal 2003 – recovery of $164,000) is primarily related to lower than anticipated utilization of tax loss carry-forwards in the Canadian parent and higher tax expenses in the US subsidiary.

Interest income was $204,000 as compared to $280,000 in the previous year. The decrease was due to a combination of lower interest rates and less cash on hand as a result of the XML Global transaction which closed in November 2003.

The net income for the year ended September 30, 2004 was $0.5 million or $0.05 per share as compared to $1.6 million or $0.19 per share in the previous year.

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2003

For the year ended September 30, 2003, sales were $16.9 million as compared to $14.2 million in the previous year. The increase was largely attributable to increased sales into the United States driven primarily through our direct sales channel. Revenue by quarter during fiscal 2003 was $4.4, $4.1, $3.9 and $4.5 million respectively. In the previous year, revenue by quarter was $3.2, $2.8, $4.0 and $4.2 million respectively.

Geographically, 62% of sales in fiscal 2003 were in North America while 35% were in Europe compared to 57% and 40% respectively in fiscal 2002. License sales comprised approximately 33% of total revenues in fiscal 2003 compared to 37% in the prior year as a result of increased service and maintenance proportions.

Gross profits for the year were 80% of sales compared to 81% in the prior year. The stability in gross margin is primarily the result of a more consistent mix of sales from year to year than had been the case previously.

Sales and marketing expenses were $5.1 million for the year compared with $4.4 million in the prior year. This increase was primarily due to several new sales hires during the year. The marketing function costs were relatively constant year over year.

Total expenditures on product development, gross of amounts deferred, were $3.5 million during the year as compared to $4.4 in fiscal 2002 despite an increase in staffing. This was accomplished primarily through the relocations to Toronto of a number of positions previously staffed in higher cost regions.

Administrative expenses were essentially the same at $2.5 million.

The Company allocates common costs to each department based on relative headcount or other relevant measures. These costs include rent and other facility-related costs, communication and infrastructure expenditures.

Amortization charges of $1.3 million compare to $1.1 million in fiscal 2002.

Foreign exchange losses were $557,000 as compared to gains of $106,000 in the prior year. These were the result of a significant depreciation of the US dollar and UK pound relative to the Canadian dollar.

The tax recovery of $164,000 (Fiscal 2002 – provision of $214,000) is primarily related to greater than anticipated utilization of tax loss carry-forwards in the Canadian parent. Under tax accounting, this results in a greater recognition of tax losses, as a history of profitability is established and the likelihood of realization increases.

The net income for the year ended September 30, 2003 was $1.6 million or $0.19 per share as compared to $376,000 or $0.04 per share in the previous year.

Quarterly Results

The following sets out on a quarterly basis, the sales and net income (loss) of the Company for Fiscal 2004 and 2003:

($000's except per share amounts)

	Fiscal 2004				Fiscal 2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	$4,110	$3,825	$3,805	$4,464	$4,484	$3,921	$4,086	$4,360
Net Income(Loss) (i)	70	250	(334)	493	988	89	256	300
Net Income (Loss) per Share (i)								
Basic	$0.01	$0.02	($0.03)	$0.05	$0.12	$0.01	$0.03	$0.03
Fully diluted	$0.01	$0.02	($0.03)	$0.05	$0.11	$0.01	$0.03	$0.03

(i) – Net Income (Loss) is equivalent to Income from Continuing Operations for the periods disclosed as there were no Discontinued Operations or Extraordinary Items.

Critical Accounting Policies and Estimates

The preparation of the Consolidated Financial Statements and the related notes require by necessity, that the Company make estimates and judgments. The Company reviews its estimates, including those related to revenues, bad debts, goodwill, acquired intangibles, deferred development, income taxes, contingencies and litigation. These estimates are based on historical experience and other assumptions believed to be reasonable under the circumstances. Under different assumptions, the reported results will differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside the Company's control.

The Company believes the following critical accounting policies reflect its more significant judgments and estimates.

Acquisition of XML Global

On November 17, 2003, Xenos acquired the business assets of XML Global for a combination of cash and stock which came with a price guarantee on the one year anniversary of the transaction. The purchase price equation and allocation between acquired intangible assets and goodwill was determined internally based on a methodology consistent with valuation calculations that had been done for the Company in the past by independent valuators. Although this calculation was reviewed by our external auditors, it was not performed by an independent valuation firm. The Company is scheduled to commission an external valuation for impairment test purposes in fiscal 2005 as part of its normal practice.

Revenue

In accordance with GAAP, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, and collectibility is probable. The terms of each contract can vary but the Company endeavours to apply consistent and appropriate treatment to them based on the available literature, professional judgment and consultation with its external auditors where deemed necessary.

As detailed in the Notes to the Financial Statements relating to certain resold third party products, the Company adopted new standards resulting from the publication of the CICA Emerging Issues Committee's EIC 141 "Revenue Recognition", EIC 142 "Revenue Arrangements with Multiple Deliverables" and EIC 143 "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts". The interpretive guidance provided puts an emphasis on the concept that where a contractual arrangement exists, the associated revenues and costs should be recognized ratably over that period regardless of whether substantial performance has occurred, whether the obligations have been accrued or whether the remaining obligations are inconsequential or perfunctory. The effect resulting from the retroactive adoption of this change in policy is disclosed in the Notes to the Financial Statements.

Allowance for Doubtful Accounts

The Company provides for an allowance for doubtful accounts to reasonably provide for losses resulting from the inability of its customers to make required payments.

Valuation of Intangible Assets

The carrying value of goodwill and acquired intangibles are compared to their fair value at least annually to determine if a permanent impairment exists, at which time the impairment would be recorded as a charge to earnings. Valuations are inherently subjective and necessarily involve judgments and estimates regarding future cash flows and other operational variables.

The Company's practice is to review goodwill for impairment on an annual basis or when an event or a change in facts and circumstances indicates the fair value of a reporting unit may be below its carrying amount. Independent valuation firms are used to test for impairment whenever there are indications of impairment or under other circumstances every three years. The next scheduled external valuation is in fiscal 2005. The valuation methodology used includes the performance of a discounted cash flow calculation against projected cash flows for the Company as a whole and also for each of its reporting units, being the North American and EMEA operations.

Based on currently available information, management does not anticipate that an impairment of its goodwill or acquired intangibles will occur in the foreseeable future, although there can be no assurance of this.

Deferred Development

Development costs are deferred only as they relate directly to new products or functionality and where technological feasibility has been established. These deferred amounts are amortized following general release of the products over their estimated useful lives. The assets are also periodically reviewed for impairment by comparison to the expected future undiscounted cash flows that they are expected to generate.

Income, Sales & Other Taxes

Accounting for income taxes, in particular the future benefit of available loss carryforwards, is subjective by nature and requires the exercise of judgment. Tax assets are determined using a consistent model which incorporates estimated future earnings, expiry of loss carryforwards and the estimated probability of realization.

Income taxes are framed within a transfer pricing model in which the Canadian parent owns all intellectual property of the software products, the US subsidiary is a service provider and the UK subsidiary is a Value-Added Reseller. The model is supported by contemporaneous documentation and advice from independent transfer pricing consultants.

Sales tax practices vary widely in the various jurisdictions into which we sell our products and services. This area requires the exercise of judgment in respect of applicability and determination of rates. The Company has a review process that is applied to every customer billing and also performs regular analytical reviews to assess its compliance from an overall perspective.

Stock-based Compensation

In accordance with new GAAP requirements, stock options are required to be expensed and incorporated into the financial statements as per certain transitional timelines (See Notes to Consolidated Financial Statements). The Company uses the Black-Scholes model to establish the fair value of the options granted. The calculation requires the estimation of certain inputs including expected volatility, risk-free interest rates and expected lives of the specific grants.

Litigation

With respect to legal proceedings, the Company assesses the likelihood that a loss will result, as well as the amount of such loss. The financial statements provide for the Company's best estimate of such losses as applicable.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2004, cash and short-term investments stood at $12.6 million (September 30, 2003 - $14.0 million) or $1.28 per common share (i). Cash from operations was $1.3 million as compared to $2.5 million in the previous year. The current year cash from operations includes changes in non-cash working capital relating to the acquisition of the business assets of XML Global.

The Company currently has an operating line of credit of $1.0 million of which $500,000 (September 30, 2003 - $ 500,000) was unused, bearing interest at bank prime. The Company continues to have no long-term debt other than a small obligation relating to a capital lease.

Cash paid on acquisition of the business assets of XML Global was $1.7 million during the year. As well, an additional payment of $228,625 will be payable in fiscal 2005 as final settlement of the price guarantee mechanism of the transaction.

Capital expenditures for the year ended September 30, 2004 were $323,000, versus $248,000 in the prior year. The expenditure levels continue to be moderate given our emphasis on cost control and targeted spending.

Development costs capitalized were $619,000 versus $612,000 last year and represent the internal development costs relating to specific products as required by Canadian GAAP. The most relevant factor in determining the appropriate treatment is the establishment of technological feasibility, which was the case for the majority of products developed this past year.

During the year, the Company assumed a short-term lease in Vancouver for premises used by the former employees of XML Global. In addition, the Company renewed its head office lease and committed to a new data and voice infrastructure that will improve connectivity across the organization and reduce certain operating costs.

Shareholders equity stood at $22.4 million or $2.26 per share (ii) compared to $18.4 million or $2.07 per share (ii) as at September 30, 2003. The increase is primarily attributable to the share capital issued as part of the XML Global transaction.

The Company anticipates that its current cash reserves and available credit facilities will be sufficient to fund its anticipated cash requirements for working capital and capital expenditures for at least the next 12 months. If the Company is required to raise additional funds for rapid expansion of its businesses or technologies, it could potentially issue equity or convertible debt which would cause current shareholders to experience dilution.

Commitments and Contractual Obligations

As of September 30, 2004, the Company had future commitments and contractual obligations as summarized in the following table.

Payments Due by Period

Contractual Obligations	Total 1 year	Less than years	1-3 years	4-5 5 years	After
Capital Lease Obligations	$ 172,724	47,084	62,820	62,820	-
Operating Leases	$ 3,390,211	329,809	785,719	669,351	1,605,332
Purchase Obligations	$ 267,715	100,204	154,664	12,847	-
Total Contractual Obligations	$ 3,830,650	477,097	1,003,203	745,018	1,605,332

Risk Factors

You should carefully consider each of the following factors as well as the other information in this report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business.

If the Canadian dollar continues to rise relative to the US dollar, future operating results will be negatively affected

The Company is a net exporter that currently derives about 60% of its revenue in US dollars whereas its cost base is largely in Canadian dollars with smaller proportions in US dollars, UK pounds and Euros. Over the past few years, we have relocated most technical and administrative positions to our Toronto head office where we have a significant employee cost advantage, lower healthcare costs, the synergies of having departments located in the same facility and excellent availability of highly qualified individuals.

The decline of the US dollar therefore has a major impact on the Company's profitability as it negatively impacts revenues and reduces the cost advantage of staffing in Canada. For the past few years, we have entered into forward contracts in order to partially hedge the exposure of our US dollar revenue. Although the Company has been quite successful in reducing the impact of changes in the exchange rate through forward contracts, these measures obviously do not alter the fundamental challenge that the decline of the US dollar represents.

Our products and services may not gain market acceptance or competitors may introduce offerings that surpass those of the Company

The Company has assembled what it believes to be a unique suite of products that will be the basis of future revenue growth, particularly in certain vertical markets. There are numerous competitors in our market spaces, some of whom have significantly more resources than the Company. In addition, the market for the Company's products is subject to rapid technological change. There can be no assurance that the Company will be successful in driving significant revenue growth through its current strategy.

International operations expose the Company to increased business risks

The Company does over one-third of its business outside of North America. Operations in Europe, through our UK based subsidiary, are subject to certain risks and costs including the challenge of administering business abroad, compliance with foreign laws, language issues and limitations regarding the repatriation of funds. Sales into Latin America and Asia are through Value-Added Resellers whose performance and sales effort is largely outside of the control of the Company.

The renewal of maintenance revenue on our older software sales may decline

The Company has historically enjoyed a very high retention rate, over 95% on average, across its various product lines. In addition, recurring revenue has been running at about 50% of overall revenues. As the products age, these retention rates may not be sustained unless the Company is successful in providing our customers with more advanced functionality and the levels of support that they require.

The loss of licenses to use or sell third party software or the lack of support or enhancement of such software could adversely affect the Company's business significantly

The Company, specifically its UK based subsidiary, depends on the sale and support of third party software for a significant component of its business. There can be no assurance that these third party products will be available on commercially reasonable terms or they may not be appropriately supported, maintained or enhanced by the licensors. Such occurrences would have significant adverse impacts on the Company although all efforts would be made to mitigate such impacts.

We derive significant recurring annual revenues from one customer and have reliance on individual contracts

Although not greater than 10% of revenues, the Company currently derives significant recurring annual revenue relating to multiple subsidiaries of one large multi-national organization. Also, in any given quarter, license sales from individual transactions can be material and in some cases the related sales cycles can be long. Therefore, the Company's revenue and earnings can fluctuate materially between quarters due to the timing of significant license agreements. There is no guarantee or assurance that such timing will remain consistent making year over year comparisons less meaningful than in some other industries.

Other companies may claim that Xenos infringes on their intellectual property

The Company does not believe that its products infringe on the rights of third parties but there can be no assurance that such assertions will not be made resulting in costly litigation or the requirement to source alternate solutions on reasonable terms. By practice, the Company does not patent its intellectual property but rather relies upon a combination of trademark and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect its proprietary information.

The impact of income, sales and other taxes may be higher than the Company believes

The Company is subject to taxes in a variety of jurisdictions and our tax structure is reviewed by domestic and foreign tax authorities. As a matter of practice, we allocate significant external and internal resources towards tax compliance efforts made by the Company. Although we believe our practices and estimates to be reasonable, adverse tax outcomes may differ from our reported results and could impact our financial results.

The Company's products may contain defects that would expose it to liability

The Company's business may subject it to the risk of product liability claims. From time to time, our software may contain design defects or software errors. These risks are mitigated through limitations in our customer contracts as well as the maintenance of Errors & Omissions insurance coverage where available on commercially reasonable terms. There can be no assurance that uninsured product claims will not have an adverse effect on the Company's business.

Financial Instruments can introduce risks to the organization

The Company does not employ the use of financial instruments other than the foreign exchange forward contracts for hedging purposes.

The Company's ability to manage cost containment could have a materially adverse impact on future profitability

The Company is endeavouring to construct a cost structure that will allow profits, if not reinvested, to scale at a much higher rate than revenue growth. Employee costs are by far the single largest expenditure of the organization. In fiscal 2005, the Company reduced its level of employee subsidization for US benefits which had been growing at unsustainable double digit rates. Also, base salaries will be frozen in fiscal 2005 and no bonuses will be payable in respect of fiscal 2004. Travel related costs are the second highest expense category and the Company maintains a system of controls and procedures to ensure that only fiscally appropriate travel is undertaken. If the Company should lose control over its cost containment the result could threaten its business model.

Evolving financial reporting standards, regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty

Changing financial reporting standards and corporate governance related laws, and regulations, including National Instrument 52-109, are creating challenges for a relatively small company such as ourselves. The application of these new securities laws will evolve over time which in the meantime will result in a period of uncertainty regarding compliance matters, liability of directors and officers, and higher costs. We are committed to maintaining a high standard of corporate governance and public disclosure and are well into our scoped project to meet the required timelines for full certification.

The Company's ability to hire and retain key employees is significant

The Company's business is almost entirely dependent on the performance of its employees and its success on the ability of its managers to continually recruit, train and motivate. Due to financial constraints, the Company has not increased employee base salaries in fiscal 2005 except in the case of promotions. In addition, given uncertainty in the market regarding appropriate forms of long-term incentives, the Company has deferred the issuance of any stock options to employees, including Executive Management, until current trends become more apparent. Management monitors attrition rates carefully in order to assess trends and establish competitive benchmark compensation plans.

Corporate Governance

The Company's Board of Directors includes a majority of independent Directors and its Committees include Audit, Compensation, Nominating/Corporate Governance and Disclosure.

The members of the Audit Committee are all independent Board members and are financially literate. The Committee meets regularly to approve the release of financial information including the MD&A and also to oversee relations with auditors and stewardship issues including compliance with new regulatory requirements.

Key Performance Drivers

In addition to traditional GAAP financial statements, Management monitors numerous key performance indicators (KPI's) to assist in running the business. Some of these include sales per employee, employee costs as a percent of sales, maintenance renewal rates, average deal sizes, revenue by channel and component, professional services utilization rates, costs by department and attrition rates. These factors revolve around building an infrastructure that is scalable and which drives profitability at a rate that exceeds top line revenue growth.

Workplace Environment and Compensation Structures

The Company has designed compensation structures aligned to shareholder interests. Non-commissioned employees operate under a bonus plan which requires the achievement of certain revenue and operating profit levels in order for there to be a payout. Further, any bonus amounts earned under the plan are placed into departmental pools and allocated to individuals based entirely on merit. The workplace culture of the organization is one in which outstanding performance is rewarded and management time is heavily focused on empowering the success of "A" players rather than incrementally improving the performance of "C" players.

Outlook

The Company's strategy for creating value for shareholders is to drive sustainable and significant top line growth while remaining profitable and efficient. Realizing the opportunity for rapid and sustainable growth through a vertical market approach will be the focus of the Company's efforts in the coming year.

Additional information regarding the Company is available on SEDAR at www.sedar.com.

Footnotes:

(i) Cash per share is a non-GAAP measure and is calculated by dividing the cash and short term investments by the number of common shares outstanding.

(ii) Shareholders' equity is a non-GAAP measure and is calculated by dividing the shareholders' equity by the number of common shares outstanding.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Xenos Group Inc. (Xenos) are the responsibility of management and have been approved by the Board of Directors on recommendation by the Audit Committee.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Xenos maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board. The Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting processes, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities, and to review the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

Financial statements have been audited by Grant Thornton LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Grant Thornton LLP has full and free access to the Audit Committee.

Robert J. Kunihiro
Executive Vice President and Chief Financial Officer
November 17, 2004

Auditors' Report

To the Shareholders of Xenos Group Inc.

We have audited the consolidated balance sheets of Xenos Group Inc. as at September 30, 2004 and 2003 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 audit.

We conducted our audit 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 consolidated 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 September 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Markham, Canada
November 17, 2004

Grant Thorton LLP
Chartered Accountants

Consolidated Statements of Operations

Year Ended September 30	2004	2003
Sales	$ 16,203,559	$ 16,850,990
Cost of sales	2,885,234	3,433,718
Gross profit	13,318,325	13,417,272
Expenses		
Sales and marketing	6,347,112	5,065,880
Research and development	3,021,086	2,862,922
Administration and general	2,196,500	2,451,527
Amortization	1,439,458	1,254,669
Interest and bank charges	32,784	35,796
	13,036,940	11,670,794
	281,385	1,746,478
Other income		
Interest and other	204,188	279,534
Foreign exchange (loss) gain	(19,183)	(556,898)
Income before income taxes	466,390	1,469,114
Provision (recovery) of income taxes (Note 10)	(12,321)	(163,858)
Net income	$ 478,711	$ 1,632,972
Net income per common share (Note 19)		
Basic	$ 0.05	$ 0.19
Fully diluted	$ 0.05	$ 0.18
Weighted average number of shares outstanding		
Basic	9,759,154	8,729,129
Fully diluted	10,146,246	8,951,049
Deficit, beginning of year as previously stated	$ (22,558,029)	$ (24,213,398)
Change in accounting policy (Note 3)	(696,290)	(673,893)
Deficit, beginning of year as restated	(23,254,319)	(24,887,291)
Net income	478,711	1,632,972
Deficit, end of year	$ (22,775,608)	$ (23,254,319)

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

September 30		2004		2003
Assets				
Current				
Cash and short term investments (Notes 11 and 16)	$	12,644,064	$	13,972,273
Trade receivables		2,258,593		2,521,413
Other receivables		550		341
Prepaids		833,860		994,262
Income taxes recoverable		-		1,215
Future income taxes (Note 10)		204,350		295,786
		15,941,417		17,785,290
Long term				
Future income taxes (Note 10)		1,846,460		1,672,946
Capital assets (Note 5)		1,192,556		1,296,359
Intangibles and other assets (Note 6)		3,021,060		2,316,977
Goodwill (Note 7)		6,243,616		2,066,578
	$	28,245,109	$	25,138,150
Liabilities				
Current				
Bank indebtedness (Note 8)	$	500,000	$	500,000
Payables and accruals		1,595,100		2,554,040
Income taxes payable		55,736		83,153
Deferred revenue		3,656,403		3,537,938
Current portion – capital lease		16,043		17,280
		5,823,282		6,692,411
Long term				
Capital lease obligations		-		16,043
Deferred revenue		21,424		37,485
Deferred rent (Note 17)		43,619		30,037
		5,888,325		6,775,976
Shareholders' Equity				
Capital stock (Note 9)		45,132,392		41,616,493
Deficit		(22,775,608)		(23,254,319)
		22,356,784		18,362,174
	$	28,245,109	$	25,138,150

Commitments and contingencies (Notes 12 and 13)

On behalf of the Board

Director Director

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended September 30	2004	2003
Cash derived from (applied to)		
Operating		
Net income	$ 478,711	$ 1,632,972
Amortization	1,439,458	1,254,669
Loss (gain) on sale of capital assets	6,969	(1,371)
Future income taxes	(69,365)	(211,179)
Other (Note 15)	2,724	2,270
Change in non-cash working capital (Note 11)	(522,975)	(128,297)
	1,335,522	2,549,064
Financing		
Share Issuance Costs	(3,500)	-
Proceeds on issue of shares	16,675	288,500
	13,175	288,500
Investing		
Cash paid on acquisition of business assets (Note 4)	(1,669,928)	-
Additional consideration paid on acquisitions (Note 7)	(66,671)	(59,746)
Purchase of capital assets	(322,735)	(248,151)
Proceeds on disposal of capital assets	1,272	9,225
Development costs incurred	(618,844)	(611,762)
	(2,676,906)	(910,434)
Net increase (decrease) in cash	(1,328,209)	1,927,130
Cash and cash equivalents, beginning of year	13,972,273	12,045,143
Cash and cash equivalents, end of year	$ 12,644,064	$ 13,972,273

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

September 30, 2004

1. Nature of operations

Xenos provides its customers with access to, enhancement, storage and delivery of mission critical information through its non-invasive middleware products and services. Xenos d2e Vision and d2e Platform software transforms and repurposes documents, statements and reports into e-content, supporting both e-business and print strategies for electronic statement presentment, enterprise content management, archiving and print automation. Xenos infoWEB software securely and rapidly distributes business documents and reports within departments, throughout the enterprise and beyond, to any standard web browser. Xenos GoXML Integration suite enables the integration of business processes, enterprise systems, structured data, databases and web services or service oriented architectures. Xenos Document Solutions use in-house expertise, owned and third party software to enable organizations to automate, personalize and manage their business communications through document creation, content automation and content management.

The Company is headquartered in Toronto with offices in Dallas, London and Vancouver.

2. Summary of significant accounting policies

The consolidated financial statements of the Company were prepared by management in accordance with Canadian generally accepted accounting principles.

Accounting estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Significant areas requiring the use of management estimates include the useful lives of capital assets, the amount of investment tax credits to be received, the evaluation of impairment for long term assets, the value of assets acquired and liabilities assumed in business combinations, and the provision for income taxes. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of all companies in which the Company has a controlling interest, after the elimination of inter-company transactions and balances.

Investment tax credits

Investment tax credits relating to scientific research and experimental development expenditures are recorded as a reduction of the expenditure whether current or capital in nature. Investment tax credits are recorded when there is reasonable assurance they will be realized.

Amortization

Amortization of capital assets is recorded from the date of acquisition over their estimated service lives, on the following bases:

Computer equipment	30% declining balance
Software	33% straight-line
Office furniture and equipment	20% declining balance
Vehicles	25% declining balance
Leasehold improvements	Straight-line over the term of the lease plus the first option period

Deferred development costs are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 5 years.

2. Summary of significant accounting policies (continued)

Goodwill

Goodwill arises on acquisitions and comprises the excess of amounts paid over the fair value of the net assets acquired. Goodwill is not amortized. The carrying value of goodwill is compared to its fair value annually to determine if a permanent impairment in value exists, at which time the impairment is recorded as a charge to earnings. Independent valuation firms are used to test for impairment whenever there are indications of impairment or under other circumstances every three years. The next scheduled external valuation is in F2005.

Acquired intangibles

Acquired intangibles represent the purchase price allocated to intellectual property rights acquired in a business acquisition. Acquired intangibles are being amortized on a straight-line basis over ten years, being the estimated useful life of the asset.

Revenue recognition

The Company recognizes revenue on software licenses upon satisfactory delivery to the customer. Customization and implementation revenues are recognized as the services are performed on a percentage of completion basis. Revenue from annual maintenance and support is recognized ratably over the period of substantial performance of the contracted deliverables, after ratification thereof.

Research and development

Research costs are expensed as incurred. Development costs are expensed as incurred unless a project meets the criteria under generally accepted accounting principals for deferral and amortization. The Company has deferred development costs in the current year.

Derivative financial instruments

The Company's use of derivative instruments is intended to manage the risk of foreign currency fluctuations on revenue. The Company does not hold or issue derivative instruments for trading purposes. Accordingly, the Company accounts for exchange gains and losses on forward exchange contracts at the time of occurrence of the hedged transaction.

Gains and losses on forward exchange contracts cancelled prior to maturity are deferred and recognized at the time the originally hedged transactions occur.

Translation of foreign currencies

Canadian legal entities and integrated foreign subsidiaries translate monetary assets and liabilities at the year end rate of exchange. Revenue and expenses are translated at average rates of exchange, except for depreciation, which is translated at the rates prevailing when the related assets were acquired. Translation gains and losses are included in earnings.

Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in Note 15. No compensation expense is recognized with respect to these plans except in relation to non-employee service providers of the Company. Any consideration paid upon exercise of options and issues of shares is credited to share capital.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities, using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that one or all of the future tax assets will not be realized.

Notes to the Consolidated Financial Statements

September 30, 2004

3. Change in accounting policies

(a) Revenue recognition

In fiscal 2004, the CICA Emerging Issues Committee published EIC 141 "Revenue Recognition", EIC 142 "Revenue Arrangements with Multiple Deliverables" and EIC 143 "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts". As a result of the interpretive guidelines of these publications, the Company has decided to change its policy with respect to maintenance contracts relating to certain resold third party products. In the past, the revenues and costs of these transactions were recognized upon ratification thereof as substantial performance was deemed to have occurred. Under the new policy, these revenues and costs will be recognized ratably over the period of the contractual obligation regardless of whether the remaining obligations are inconsequential or perfunctory. The changes are being reflected with retroactive application and therefore the financial statements of prior periods have been restated.

For fiscal 2004 and fiscal 2003, the adoption of the new standard resulted in a reduction in revenues of $68,348 and $97,600 respectively and a reduction in net income of $66,729 and $22,397 respectively. Basic earnings per share were reduced by $0.01 and $0.00 respectively and fully diluted earnings per share were unaffected. The balance sheets at September 30, 2004 and September 30, 2003 include an increase in prepaid expenses of $291,257 and $289,637 respectively, an increase in deferred revenue of $1,054,275 and $985,927 respectively and an increase in the deficit of $763,018 and $696,290 respectively.

(b) Stock-based compensation

On October 1, 2002, the Company changed its accounting policy with respect to the recognition, measurement, and disclosure of stock-based compensation made in exchange for goods and services provided by employees and non-employees, to be consistent with new rules issued by the Canadian Institute of Chartered Accountants, in December 2001. The new 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 or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. The new rules permit the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees (the settlement method). However, the standard requires the Company to provide pro forma disclosure of net earnings and per share information as if the Company had accounted for employee stock options under the fair value method, for awards granted on or after the date of implementation. Consideration paid by employees on the exercise of stock options is recorded as share capital. The impact of this change is $2,724 (2003 - $2,270) recorded as an expense during the year. As permitted in the new rules, the Company will adopt the fair value method in its financial statements with retroactive application effective October 1, 2004. At that time, an adjustment to opening retained earnings will be required to reflect the related proforma compensation expense for all options granted subsequent to October 1, 2003.

Notes to the Consolidated Financial Statements

September 30, 2004

4. Acquisition of assets from XML-Global Technologies Inc.

Effective November 17, 2003, the Company acquired substantially all of the business assets of XML-Global Technologies, Inc. ("XML Global"), a software developer and vendor of XML middleware products. The Company acquired XML Global's intellectual property, customer relationships, and operating assets and retained all employees, for a total purchase price of $5,169,928. The net assets acquired are as follows:

Accounts receivable (net)	$	21,482
Office furniture and fixtures		52,400
Intangible assets		1,054,000
Total identifiable assets		1,127,882
Total liabilities		81,034
Net assets	$	1,046,848
Acquisition price	$	5,169,928
Allocation:		
Net assets	$	1,046,848
Goodwill (Note 7)		4,123,080
	$	5,169,928
Consideration:		
Cash paid	$	1,669,928
Shares issued		3,500,000
	$	5,169,928

In exchange for the XML Global assets, the Company issued 1,000,000 common shares and paid US$1.25 million in cash. The Xenos shares were issued subject to a 12 month contractual escrow period at the end of which a one-time cash payment would be due equal to the amount, if any, by which the 20 trading day average closing price of Xenos shares prior to the end of the escrow period is less than CDN $3.50 per share. No payment will be due if the average price of Xenos shares is CDN $3.50 or more and the maximum one-time payment cannot exceed CDN $1.34 million.

Further, Xenos took a security interest in 750,000 of the escrowed shares pending clearance of certain tax issues by XML Global which have now been resolved. On February 19, 2004, 750,000 of the Company's shares issued in exchange for the XML Global business assets and held in escrow were sold to an arms length private investor. As a result of the transaction, the shares are no longer subject to the contractual 12-month escrow period and are no longer subject to the market price guarantee.

Notes to the Consolidated Financial Statements

September 30, 20045.

5. Capital assets

	2004	2003
Cost		
Computer equipment	$ 2,566,385	$ 2,533,542
Software	831,136	704,277
Leasehold improvements	502,064	475,339
Office furniture and equipment	919,783	854,163
Asset under capital lease	51,067	51,067
	4,870,435	4,618,388
Accumulated amortization		
Computer equipment	2,010,407	1,902,178
Software	669,765	570,774
Leasehold improvements	315,713	240,117
Office furniture and equipment	655,324	592,746
Asset under capital lease	26,670	16,214
	3,677,879	3,322,029
Net book value		
Computer equipment	555,978	631,364
Software	161,371	133,503
Leasehold improvements	186,351	235,222
Office furniture and equipment	264,459	261,417
Asset under capital lease	24,397	34,853
	$ 1,192,556	$ 1,296,359

Included in amortization expense in the income statement is $470,697 (2003 - $556,920) related to amortization and depreciation of capital assets.

6. Intangible and other assets

	2004	2003
Cost		
Deferred development costs	$ 5,716,382	$ 5,097,538
Acquired intangible assets	1,104,000	50,000
	6,820,382	5,147,538
Accumulated amortization		
Deferred development costs	3,695,222	2,823,686
Acquired intangible assets	104,100	6,875
	3,799,322	2,830,561
Net book value		
Deferred development costs	2,021,160	2,273,852
Acquired intangible assets	999,900	43,125
	$ 3,021,060	$ 2,316,977

Included in amortization expense in the income statement is $871,536 (2003 - $692,749) related to amortization of deferred development costs and $97,225 (2003 - $5,000) related to amortization of acquired intangibles.

Notes to the Consolidated Financial Statements

September 30, 2004.

7. Goodwill

	2004	2003
Net book value, beginning of period	$ 2,066,578	$ 2,023,240
Additions related to acquisition of business assets (Note 4)	4,123,080	-
Additional consideration paid on acquisitions	66,671	59,746
Realized tax asset benefit	(12,713)	(16,408)
Net book value, end of period	$ 6,243,616	$ 2,066,578

During the year ended September 30, 2002, the Company purchased the share capital of Rush Creek Software Corporation and as part of the purchase price the Company agreed to pay the former principals of Rush Creek Software Corporation additional consideration. These amounts will be equal to 5% of the net receipts on sales of the infoWEB product completed prior to May 14, 2007.

During the year, the Company paid additional consideration of $66,671 (2003 - $59,746) to the former owners of Rush Creek Software Corporation. At the date of acquisition, a future income tax asset existed but was not recorded in accordance with Management's determination. Generally Accepted Accounting Principles require that when the benefit of this asset is realized it is recorded as a reduction of goodwill previously recognized. During the year, the Company did realize $12,713 (2003 - $16,408) of this benefit and has reduced goodwill accordingly.

The Company performed an internal impairment test and determined that no impairment existed as at September 30, 2004.

8. Bank indebtedness

The Company has a revolving operating line of credit available for $1,000,000 (2003 - $1,000,000), of which $500,000 was unused at September 30, 2004 (2003 - $500,000). This demand loan bears interest at the Royal Bank Prime Rate which was 4.0 % at September 30, 2004.

Security provided by the Company for the line of credit includes a general security agreement covering all the assets of the Company.

9. Capital stock

	2004		2003	
	Number	Amount	Number	Amount
Balance, beginning of year	8,883,750	$ 41,616,493	8,608,250	$ 41,325,723
Issued pursuant to exercise of vested stock options (Note 15)	10,611	16,675	275,500	288,500
Options issued pursuant to Consulting Agreement (Note 15)	-	2,724	-	2,270
Share issuance costs	-	(3,500)	-	-
Issued pursuant to acquisition of XML Global business assets	1,000,000	3,500,000	-	-
Balance, end of year	9,894,361	$ 45,132,392	8,883,750	$ 41,616,493

Notes to the Consolidated Financial Statements

September 30, 2004.

9. Capital stock (continued)

During 2004, 1,000,000 shares were issued as part of the acquisition of substantially all of the business assets of XML-Global Technologies. These shares were recorded at CDN $3.50 per share due to the share price guarantee given by the Company in the Agreement. (see Note 4 and Note 20).

10. Income taxes

The reconciliation of the statutory federal and provincial rates to the Company's effective income tax rate is as follows:

	2004	2003
Combined basic income tax	$ 181,260	$ 556,646
Effect of differing tax rates of foreign jurisdictions	20,118	14,544
Non-deductible expense	(76,761)	(242,145)
Other	384,620	(116,432)
(Decrease) increase in valuation allowance	(521,558)	(376,471)
	$ (12,321)	$ (163,858)
Income tax expense		
Current	$ 69,758	$ 63,728
Future	(82,079)	(227,586)
	$ (12,321)	$ (163,858)

Future income taxes represent the future benefits of temporary differences between the tax and accounting bases of assets and liabilities consisting of:

	2004	2003
Future tax assets		
Net operating loss carryforwards	$ 4,084,497	$ 4,631,712
Share issue costs	-	105,967
Investment tax credits	638,573	560,685
Foreign tax credits	39,882	22,674
Differences between accounting and tax carrying values	330,634	212,028
Valuation allowance	(3,042,776)	(3,564,334)
Net future tax asset	2,050,810	1,968,732
Less current	(204,350)	(295,786)
Long term	$ 1,846,460	$ 1,672,946

Notes to the Consolidated Financial Statements

September 30, 2004.

10. Income taxes (continued)

The loss carryforward amounts for income tax purposes if unused will expire as follows:

	Non-capital losses		Investment tax credits	
	Federal	Provincial/State	Federal	Provincial/State
2005	$ -	$ -	$ 3,842	$ -
2006	-	-	1,395	-
2007	5,479,514	5,982,871	-	-
2008	7,207,265	7,214,074	-	-
2009-2020	702,537	686,670	742,959	-
	$ 13,389,316	$ 13,883,615	$ 748,196	$ -

The above noted losses include those that have been recorded as future tax assets net of an appropriate valuation allowance.

11. Supplemental cash flow information

	2004	2003
(a) Change in non-cash operating working capital:		
Receivables	$ 284,093	$ 112,429
Prepaids	160,402	(302,014)
Income taxes recoverable	1,215	(1,215)
Payables and accruals	(984,718)	68,221
Income taxes payable	(27,417)	44,965
Deferred Rent	13,582	30,037
Deferred revenue	29,868	(80,720)
	$ (522,975)	$ (128,297)

(b) Cash and short term investments consist of cash on hand, balances with banks, cash equivalents and short term investments. (See Note 16)

	2004	2003
(c) Interest paid	$ 32,784	$ 35,796
(d) Income taxes paid (net of recoveries)	$ 27,416	$ 22,791
(e) Reorganization costs paid	$ 58,760	$ 71,873

Notes to the Consolidated Financial Statements

September 30, 2004.

12. Commitments

The Company has entered into future commitments and contractual obligations for operating leases, capital leases and certain purchase obligations. Minimum payments in aggregate and for each of the next five years are as follows:

2005	$	477,097
2006		497,509
2007		505,694
2008		409,010
2009		336,008
Thereafter		1,605,332
	$	3,830,650

13. Contingencies

The Company is a party to a legal proceeding brought by a shareholder of a predecessor company alleging entitlement to 135,900 Class A shares of the predecessor company. An estimate of the potential loss cannot be determined, if any.

The Company denies entitlement and intends to vigorously defend this action.

14. Reorganization costs

During the fourth quarter of fiscal 2001, the Company incurred a reorganization charge of $1.2 million, which included a 25% reduction in headcount and the relocation of all UK based head office management, marketing and administrative functions to Toronto. Of this amount, $37,500 (2003 – $96,000) relates to the remaining commitment as at September 30, 2004 on a remote office lease. The lease expires in May of 2005 at which point the liability, which is included in accrued liabilities, will have been depleted.

15. Stock-based compensation plan

(a) Stock option plan

The Company has a stock option plan which allows the granting of stock options to employees and service providers up to an aggregate of 1.6 million common shares. Under current company practice the options, which have a five-year term, vest immediately for directors and generally over 3-4 years for all others, commencing on the grant date. The exercise price of each option equals the closing market price of the Company's common shares on the last trading day preceding the date of grant.

A summary of the status of the Company's stock option plan as of the fiscal year ends 2004 and 2003 and changes during each fiscal year is presented below.

	Shares		Weighted Average Exercise Price	
	2004	2003	2004	2003
Outstanding, beginning of year	936,833	1,177,333	$ 4.02	$ 3.39
Granted	207,000	55,000	3.68	1.75
Exercised	(10,611)	(275,500)	1.57	1.05
Forfeited	(20,834)	(20,000)	2.69	1.63
Outstanding, end of year	1,112,388	936,833	$ 4.00	$ 4.02
Options exercisable at year end	714,453	444,028		

15. Stock-based compensation plan (continued)

(a) Stock option plan (continued)

The following information applies to options outstanding at September 30, 2004:

Option Price	Number	Expiry
$ 1.36	2,000	February, 2007
1.40	1,667	November, 2006
1.50	2,000	January, 2007
1.65	669,721	December, 2006
1.65	20,000	August, 2007
1.65	25,000	May, 2007
2.20	10,000	March, 2008
3.20	20,000	January, 2006
3.25	11,000	December, 2005
3.45	70,000	November, 2008
3.60	25,000	November, 2008
3.80	85,000	October, 2008
4.05	5,000	January, 2006
4.36	15,000	March, 2009
6.00	65,000	July, 2005
10.70	50,000	October, 2004
40.00	16,000	February, 2005
42.00	20,000	January, 2005

During 2003, the Company entered into a Consulting Agreement. In accordance with the Agreement, the Company issued the consultant 25,000 options to purchase the Company's shares at $1.65 per share. Fair value of the issued options was determined using the Black-Scholes model with assumptions of 25% volatility, 3% interest rate, dividends of nil and an expected life of 4.5 years and is being credited to the share capital over a four-year period.

(b) Pro forma disclosure

Pro forma disclosure of net income and earnings per share as if the Corporation had elected to adopt the fair value based accounting method for all employee awards granted on or after October 1, 2002:

	2004	2003
Net income for the period		
As reported	$ 478,711	$ 1,632,972
Pro forma	$ 417,110	$ 1,629,432
Net income per share - basic		
As reported	$ 0.05	$ 0.19
Pro forma	$ 0.04	$ 0.19
Net income per share - fully diluted		
As reported	$ 0.05	$ 0.18
Pro forma	$ 0.04	$ 0.18

Notes to the Consolidated Financial Statements

September 30, 2004.

15. Stock-based compensation plan (continued)

(b) Pro forma disclosure (continued)

The fair value of each stock option grant on the date of grant was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield 0%, expected volatility 35% (2003 – 25%), risk-free interest rates of 3.28 – 3.85% (2003 – 3.0%) and expected lives of 2-4 years as applicable to the specific grants.

16. Financial instruments

Current financial assets and liabilities

Due to the short period to maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value. As at September 30, 2004 cash and short term investments include $9,964,909 of interest bearing notes (2003 - $10,000,016)

Capital leases

The fair value of the Company's capital leases, based on current rates for leases with similar terms, is not materially different from their carrying value.

Foreign currency risk

The following factors create significant exposure with regard to fluctuations in exchange rates:

- the majority of the Company's sales are denominated in U.S. dollars and British pounds
- Xenos Inc., a subsidiary of the Company, operates in the United States
- Xenos Europe Limited, a subsidiary of the Company, operates in the United Kingdom

The Company attempts, as much as possible, to match cash outlays with cash inflows in the same currency. The Company's revenues denominated in U.S. dollars generate sufficient U.S. dollars to cover its annual U.S. dollar expenses and act as a hedge against exchange rate fluctuations. The Company's revenues denominated in British pounds generate sufficient British pounds to cover its annual British pound expenses and act as a hedge against exchange rate fluctuations.

Foreign exchange contracts

From time to time, the Company uses foreign exchange forward contracts to hedge portions of its forecasted revenues denominated in foreign currencies. These forward contracts are designated and documented as revenue hedges. As a matter of policy, the Company does not enter into speculative futures contracts or use other derivative financial instruments. These activities serve to minimize, but not eliminate, the risk from fluctuations in the exchange rate between the foreign currency and the Canadian dollar.

As at September 30, 2004 the Company has entered into the following outstanding foreign exchange forward contracts to fix the rate at which US dollar revenues are to be reported during 2005. The Company has committed to sell approximately $6.0 million US dollars during fiscal 2005 at an average rate of exchange of CAD 1.3115. The fair market value of those contracts at September 30, 2004 was approximately $6.238 million US dollars.

Notes to the Consolidated Financial Statements

September 30, 2004.

16. Financial instruments (continuued)

Credit risk

Credit risk related to the Company's trade receivables is minimized due to its customer base of large and financially sound companies.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by dealing with counterparties who are major financial institutions and which are included on an authorized list of counterparties maintained by the Company.

17. Deferred rent

During the year, the Company entered into a new lease agreement for its head office location in Toronto whereby a lease inducement benefit was received. In 2003, the Company signed a new lease for its Dallas office and also received a lease inducement benefit. Deferred rent represents the benefit of operating lease inducements, which are being amortized on a straight-line basis over the term of the relevant leases.

18. Segmented information

The Company has determined that it serves one industry segment, information technology. In the prior year, the Company had reported on two business segments being Report Distribution and Document & Data Management / Integration.

Geographic information

	Sales to External Customers		Capital Assets and Goodwill	
	2004	2003	2004	2003
Canada	$ 948,720	$ 884,651	$ 4,795,601	$ 690,194
European Union	1,228,746	1,260,351	-	-
United Kingdom	3,920,194	4,267,853	327,560	354,594
United States	9,169,220	9,593,947	2,313,011	2,318,149
Other	936,679	844,188	-	-
	$ 16,203,559	$ 16,850,990	$ 7,436,172	$ 3,362,937

Notes to the Consolidated Financial Statements

September 30, 2004.

19. Earnings per share

	2004	2003
Earnings from continuing operations – basic and diluted	$ 478,711	$ 1,632,972
Weighted average number of common shares outstanding during the year	9,759,154	8,729,129
Dilutive impact of the following:		
2,000 stock options with an exercise price of $1.36	1,221	843
1,667 (2003 – 5000) stock options with an exercise price of $1.40	998	2,021
2,000 stock options with an exercise price of $1.50	1,140	723
714,721 (2003 – 730,833) stock options with an exercise price of $1.65	376,817	217,695
10,000 stock options with an exercise price of $2.20	3,696	638
20,000 stock options with an exercise price of $3.20	1,662	-
11,000 stock options with an exercise price of $3.25	756	-
70,000 stock options with an exercise price of $3.45	802	-
Denominator used for diluted earnings per share from continuing operations	10,146,246	8,951,049

The stock options other than the items adjusted above were not included in the computation of diluted earnings per share as they are anti-dilutive.

20. Subsequent event

As per the terms of the Company's acquisition of substantially all of the business assets of XML-Global Technologies, Inc. ("XML Global") on November 17, 2003, 250,000 common shares remain subject to a 12 month contractual escrow period at the end of which a one-time cash payment would be due equal to the amount, if any, by which the 20 trading day average closing price of Xenos shares prior to the end of the escrow period is less than CDN $3.50 per share.

On November 17, 2004, the Company made arrangements for the shares to be released from escrow and calculated the one-time cash payment to be $228,625 which was due and payable prior to November 30, 2004. This will be reflected as a reduction in Capital Stock.

Directors & Officers

Stuart Butts 2,3,4
Director, Chairman of the Board and Chief Executive Officer

James Farmer 4
Director, President and Chief Operating Officer

George Fowlie 1,3
Director, Deputy Chairman, Investment Banking, Westwind Partners, Inc

Calvin Galatiuk
Director and Product Manager

Robert Hines 1,2
Director, Managing Partner, Heidrick & Struggles Canada Inc

Robert Kunihiro 4
Executive Vice President and Chief Financial Officer

William Kurtz
Vice President, Sales & Marketing

Chungsen Leung 1
Director
Business Executive

Edmund F. Merringer 3,4
Director and Secretary
Partner, Borden Ladner Gervais LLP

Kent Petzold 2
Director
Principal, Arris Ventures, LLC

Notes:
1 Member of the Audit Committee
2 Member of the Compensation Committee
3 Member of the Nominating/Corporate Governance Committee
4 Member of the Disclosure Policy Committee

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Trading
Xenos Group Inc. trades on the Toronto Stock Exchange and is listed under the symbol TSX:XNS.

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Annual General Meeting
Xenos will hold its Annual General Meeting at 11:00 am on Monday, Feb 7th, 2005 in the Gallery Room of The Toronto Stock Exchange Broadcast and Conference Centre, The Exchange Tower
2 First Canadian Place
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Toronto, Ontario

This annual report can be downloaded from the Xenos Group Inc. website at www.xenos.com

xenos

2004 Annual Report

www.xenos.com

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