



Xenos

First Quarter Report

three months ended December 31, 2000

To our Shareholders:

The first quarter ended December 31, 2000 was an excellent start to the new year following the steady progress made in the last quarter of fiscal 2000. Sales for the first quarter were \$4.1 million, consistent with the first and fourth quarter of fiscal 2000. Gross profit improved significantly to 83% of sales from 75% and 79% in the previous year's first and fourth quarters respectively. The increased profitability was due primarily to our ongoing focus on cost control and the restructuring initiatives in the last half of fiscal 2000.

Leading blue-chip companies purchased Xenos' software subsequent to year-end, including American Express and Bank One Corporation. Xenos also won new business in the fast-growing ASP (application service provider) marketplace as a result of recent investments in resources to address this significant opportunity for growth.

We continued to invest in the development of the Xenos d2e Platform™, including the enhancement of our document transformation solution. The new Xenos d2e Developer Studio™, a 'digital dashboard' for Xenos' document and data solutions, is well on track for launch in the third quarter. We also announced that we were fast-tracking the development of our data transformation solution. In addition, a new Java development team has been formed.

As part of our Alliance strategy, we announced a new partnership with iPlanet E-Commerce Solutions, an alliance between Sun Microsystems and Netscape, to provide end-to-end Internet Billing and Presentment (IBPP) solutions. Our partnership with IBM continues to strengthen and has already resulted in several new business wins subsequent to year-end. Discussions are ongoing to further integrate the Xenos d2e Platform with IBM's Content Manager OnDemand archiving and retrieval software. We are also focusing on building Alliance partnerships with large global systems integrators.

Looking ahead, we remain confident that we will achieve our goal to generate revenue growth of at least 25% in fiscal 2001 and to break even on a cash flow basis in fiscal 2002. Our focus is on prudent and controlled growth, ensuring we can meet the needs of our customers and our Alliance partners now, and well into the future.

A handwritten signature in black ink, appearing to read "Glen Manchester". The signature is fluid and cursive, with a long horizontal flourish at the end.

Glen Manchester
President and Chief Executive Officer

Management's Discussion and Analysis of Financial Results for the Three Months ended December 31, 2000

The following discussion should be read in conjunction with the Company's unaudited quarterly financial statements contained herein and the notes thereto.

Results of Operations:

Sales in the first quarter of fiscal 2001 were \$4.1 million, consistent with the first and fourth quarter of fiscal 2000.

Gross profit improved significantly to 83% of sales from 75% and 79% in the previous year's first and fourth quarters respectively due primarily to the restructuring and efficiency efforts undertaken in the last half of fiscal 2000 and the changes inherent in the Company's new component-based model.

Sales and marketing expenses rose during the quarter compared to the prior year as the Company significantly increased its efforts in this area through the last half of fiscal 2000. The increase over the fourth quarter of last year was in large part due to investment in a new global customer support center.

Research and development costs increased compared to last year as the Company focused on new product development. During the quarter ended December 31, 2000, \$347,825 in R&D costs were deferred and capitalized as they related directly to products that are scheduled for release into the marketplace shortly.

Administrative expenses in the quarter were lower by over \$200,000 compared to the same period last year and over \$300,000 from the fourth quarter of fiscal 2000.

The net loss of \$1.7 million or \$0.21 per share in the first quarter of fiscal 2001 compared to a loss of \$890,456 or \$0.11 per share in the same quarter last year and \$2.7 million or \$0.32 per share (not including the restructuring charge taken in the period) in the fourth quarter of last year.

Financial Condition and Liquidity:

As at December 31, 2000, cash and short-term investments stood at \$17.3 million compared to \$18.5 million at the end of fiscal 2000 and \$7.0 million at the end of the first quarter last year. The increase in cash on a year-over-year basis is the result of an equity financing completed in last year's second quarter.

Included in cash disbursements during the first quarter of fiscal 2001 was a one-time payment of approximately \$767,000 in advanced royalties made to the former owners of the Company's U.S. subsidiary, and \$257,000 in reorganization costs which had been previously accrued in F2000. Not including these unusual items, the use of cash during the quarter for ongoing operations was minimal due to improved collection of accounts receivable, reduced capital expenditures and the realized benefits of the Company's cost control initiatives.

Xenos Group Inc.**Consolidated Statements of Operations**

(Unaudited)

	Three Months Ended December 31	
	2000	1999
Sales	\$ 4,110,367	\$ 4,104,473
Service integration costs	718,964	1,039,647
Gross Profit	3,391,403	3,064,826
Expenses		
Sales and marketing	2,555,796	1,327,293
Research and development	931,411	561,598
Administration and general	838,417	1,039,647
Amortization	1,081,172	991,660
Interest expense	10,080	20,786
	5,416,876	3,940,984
Earnings (Loss) from operations	(2,025,473)	(876,158)
Other income		
Dividends, interest and other	352,718	78,744
Earnings (loss) before income taxes	(1,672,755)	(797,414)
Provision for income taxes	51,112	93,042
Net earnings (loss)	\$ (1,723,867)	\$ (890,456)
Net earnings (loss) per share		
- Basic & fully-diluted	\$ (0.21)	\$ (0.11)
Weighted average number of shares		
- Basic	8,373,957	7,777,000
- Fully-diluted	9,577,207	8,754,000

Xenos Group Inc.
Consolidated Balance Sheets
(Unaudited)

	As at December 31	
	2000	1999
ASSETS		
CURRENT		
Cash & S.T. investments	\$ 17,338,492	\$ 6,972,473
Trade receivables	5,388,569	4,551,666
Other receivables	115,873	406,545
Prepays	301,618	279,369
Income taxes recoverable	203,122	627,052
Deferred income taxes	-	282,000
	23,347,674	13,119,105
LONG TERM		
Deferred income taxes	1,925,996	512,450
Capital assets	2,332,898	2,465,726
Other assets	1,013,573	1,038,026
Goodwill	7,711,226	9,408,727
	12,983,693	13,424,929
TOTAL ASSETS	\$ 36,331,367	\$ 26,544,034
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 520,000	\$ 191,188
Payables & accruals	3,310,387	4,186,510
Income taxes payable	232,848	-
Deferred revenue	2,425,686	713,662
	6,488,921	5,091,360
LONG TERM LIABILITIES		
Deferred revenue	163,920	212,358
	163,920	212,358
TOTAL LIABILITIES	6,652,841	5,303,718
SHAREHOLDERS' EQUITY		
Capital stock	41,031,998	22,230,148
Retained earnings/(deficit)	(11,353,472)	(989,832)
TOTAL SHAREHOLDERS' EQUITY	29,678,526	21,240,316
TOTAL LIABILITIES & EQUITY	\$ 36,331,367	\$ 26,544,034

Xenos Group Inc.**Consolidated Statements of Cash Flows**

(Unaudited)

	Three Months Ended December 31	
	2000	1999
Operating activities		
Net Earnings (loss)	\$ (1,723,867)	\$ (890,456)
Amortization	1,081,172	991,660
Deferred income taxes	(86)	-
Reorganization costs	(257,422)	-
Change in non-cash working capital	800,806	1,663,515
	(99,397)	1,764,719
Financing Activities		
Bank financing	204,615	(1,163,612)
Proceeds on issue of shares	22,713	19,875
	227,328	(1,143,737)
Investing activities		
Cash paid on acquisition of subsidiaries	(766,985)	(5,533,021)
Purchase of capital assets	(144,719)	(1,584,038)
Development costs incurred	(347,825)	-
	(1,259,529)	(7,117,059)
Net (decrease) increase in cash and cash equivalents	(1,131,598)	(6,496,077)
Cash and cash equivalents		
Beginning of period	18,470,090	13,468,550
End of period	\$ 17,338,492	\$ 6,972,473

Xenos Group Inc.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999

1. Nature of operations and Basis of presentation

Xenos develops software solutions that transform transactional data and documents into e-content to enable e-business applications. Xenos solutions are deployed by large “bricks and mortar” organizations in key industry segments, including banking and financial services, insurance, telecommunications and utilities. The Company has corporate headquarters in Toronto, Canada supported by global sales, marketing, product development and customer support. Xenos’ leading-edge software is used by alliance partners to provide total e-business solutions.

The unaudited interim financial statements of Xenos Group Inc. and related notes have been condensed and do not contain certain information that will be included in the Company’s annual consolidated financial statements and related notes thereto. For further information, refer to the Company’s annual consolidated financial statements and related notes for the year ended September 30, 2000.

2. Goodwill

	Dec. 31, 2000	Dec. 31, 1999
Cost	\$ 12,443,822	\$ 11,477,063
Accumulated amortization	<u>4,732,596</u>	<u>2,068,336</u>
Net book value	\$ <u>7,711,226</u>	\$ <u>9,408,727</u>

As part of the purchase price, the Company agreed to pay the former principals of Xenos Inc. (formerly GenText, Inc.) royalty fees. The fees will be equal to the lesser of (i) US \$2,500,000 and (ii) 8% of the amount by which the total net selling price of all Xenos Inc. products which use the Gentrans architecture sold by Xenos Inc. from the date of sale to December 31, 2003 exceeds US \$1,750,000.

During the first quarter, the Company made an advanced royalty payment of US \$500,000 to the former owners of Gentext Inc.

3. Segmented information

Management has determined that the Company operates primarily within one dominant business segment, being electronic commerce.

Corporate Addresses

Corporate Headquarters

95 Mural Street, Suite 201
Richmond Hill, Ontario
Canada L4B 3G2
Phone: (905) 709-1020
Toll Free: 1-888-242-0692
Fax: (905) 709-1023

U.S. Headquarters

3010 LBJ Freeway, Suite 1500
Dallas, TX
75234 USA
Phone: (972) 857-0776
Toll Free: 1-888-436-8398
Fax: (972) 857-0979

European Headquarters

130-132 Terrace Road
Walton-on-Thames
Surrey KT12 2EA
United Kingdom
Phone: +44 1932-252-299
Fax: +44 1932-252-288

www.xenos.com

This report contains forward-looking statements based on current expectations. These forward-looking statements entail various risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Risks and uncertainties about the Company's business are more fully discussed in the Management Discussion and Analysis published in the Company's annual report.

Shareholder Information

Legal Counsel

Borden Ladner Gervais LLP
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

Transfer Agent/Registrar

CIBC Mellon Trust Company
PO Box 7010
Adelaide Postal Station
Toronto, Ontario
M5C 2W9
Tel: 416.643.5500
Toll Free: 1.800.387.0825
e-mail: inquiries@cibcmellon.ca

Auditors

Grant Thornton LLP
Chartered Accountants
15 Allstate Parkway,
Suite 200
Markham, Ontario
L3R 5B4

Trading

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

Investor Relations

Robert Kunihiro
Vice President Finance and
Chief Financial Officer
e-mail: rkunihiro@xenos.com