



## Xenos Reports Fiscal Third Quarter Results

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**TORONTO, Ontario, August 10, 2004** -- Xenos Group Inc. (TSX:XNS), the data to e-content company™, today reported financial results for its third quarter and nine months ended June 30, 2004.

For the three-month period ended June 30, 2004, Xenos reported revenues of \$3,732,000, compared to revenues of \$3,915,000 for the same quarter last year. The Company reported EBITDA of \$429,000 for the third quarter, compared to EBITDA of \$577,000 for the same period last year. The Company reported third quarter net earnings of \$204,000, or \$0.02 per share, compared with net earnings of \$80,000, or \$0.01 per share, for the third quarter of fiscal 2003.

While Xenos experienced increased pre-sales activity and customer prospect generation, sales completed during the third quarter were below target, resulting in lower than anticipated revenues.

"Revenue levels were below our targets for the quarter," said Jim Farmer, President and COO of Xenos. "However, we expect a strong fourth quarter based on the increased pre-sales activity in Q3."

For the first nine months of fiscal 2004, Xenos reported revenues of \$12,185,000 and net earnings of \$512,000, or \$0.05 per share. This compares to revenues of \$12,520,000 and net earnings of \$720,000, or \$0.08 per share, for the same period last year.

It should be noted that the Canadian dollar has appreciated relative to the US dollar by over 11% on a year-over-year basis.

At June 30, 2004, Xenos reported working capital of \$10,852,000, and a cash position of \$12,669,000, or \$1.28 per common share. Cash increased on a consecutive quarterly basis from \$12,258,000, or \$ 1.24 per common share, at March 31, 2004.

"Our corporate plan for the year has been to drive top line growth through increased marketing activity and the penetration of new markets. The technology spending slowdown in our traditional markets has been widely documented. In response, we have proceeded somewhat more cautiously in our spending plans but have nevertheless made significant advances during the quarter," said Stu Butts, Chairman and CEO.

"We believe that the current industry-wide slowdown in technology spending is in part a reflection of Customers' desire to get more value from existing systems rather than to embark on large, risky, disruptive and expensive new implementations. This type of thinking benefits Xenos, with its wide variety of integration and interoperability solutions applicable

in new, as well as traditional Xenos markets. Our solutions are sold on the basis of demonstrable and significant return on investment to our Customers," said Mr. Butts.

As part of Xenos' initiative to build industry-specific solutions, the Company exhibited at the recent ACORD/LOMA conference, which is focused on the Insurance market. This has been a growing market segment for Xenos as industry standardization and application interoperability is becoming increasingly important. Xenos is currently working on more than two dozen active prospects from the LOMA/Acord Conference which took place in April.

In addition, Xenos is making significant inroads in the healthcare integration and e-government market spaces. Both of these markets are exhibiting significant growth characteristics and have requirements for Xenos solutions. Xenos will be issuing additional news releases relative to the Company's future growth plans in the next few weeks.

Financial Highlights - Unaudited (complete statements are attached):

Period Ended June 30, (in CDN\$,000 except per share amounts)	Three Months		Nine Months	
	2004	2003	2004	2003
Sales	<b>3,732</b>	3,915	<b>12,185</b>	12,520
Gross profit	<b>3,090</b>	3,249	<b>9,996</b>	9,846
EBITDA	<b>429</b>	577	<b>1,319</b>	2,090
Net earnings	<b>204</b>	80	<b>512</b>	720
Net earnings per share	<b>\$0.02</b>	\$0.01	<b>\$0.05</b>	\$0.08
Cash & short-term investments	<b>12,669</b>	13,092		
Cash per Share	<b>\$1.28</b>	\$1.47		
Common Shares Outstanding	<b>9,891</b>	8,877		

Conference Call - Tuesday, August 10 - at 4:45 PM ET

A conference call for shareholders, analysts and other members of the investment community has been scheduled at 4:45 PM (Eastern Time) on Tuesday August 10, 2004. Stuart Butts, Chairman and Chief Executive Officer, Jim Farmer, President and Chief Operating Officer and Rob Kunihiro, Chief Financial Officer will discuss the financial results and provide updates on operations. To participate, please dial 416-640-4127 or 1-800-814-4860 approximately 10 minutes before the conference call.

The conference call can also be heard over the Internet at [www.xenos.com](http://www.xenos.com). A recording of the conference call will be available through August 17. Please dial 1- 877-289-8525 and enter the reservation number 21090270# followed by the number sign to listen to the rebroadcast. The call will also be archived on the Xenos web site at [www.xenos.com](http://www.xenos.com)

## About Xenos

Xenos ([www.xenos.com](http://www.xenos.com)) delivers data and document solutions across the customer enterprise without changing existing applications.

**d2e** is a document enhancement solution that enables the transformation, repurposing, archival, retrieval, printing and Web viewing of documents across the enterprise.

**GoXML®** is an integration and transaction processing solution for structured data such as EDI, EDIFACT, AL3, X12, HL7, XML, FIX/SWIFT and many other industry standards. GoXML is a Registered Trademark and proprietary technology of Xenos.

**infoWEB™** is a report and document distribution solution that consolidates information from incompatible systems for end user Web viewing.

Xenos partners with industry-leading software companies to provide end-to-end solutions to customers. Xenos products are deployed at organizations worldwide, in industries including banking, brokerage, government, healthcare, hospital, insurance, manufacturing, service bureau and telecommunications. Xenos is headquartered in Toronto, Canada, with offices in Dallas, Texas and the United Kingdom. Xenos trades on The Toronto Stock Exchange under the trading symbol "XNS", with approximately 10 million shares outstanding.

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Forward-looking statements in this press release are not promises or guarantees and are subject to risks and uncertainties that could cause the actual results to differ materially from those anticipated. The Company cautions you not to place undue reliance upon any such forward-looking statements, which speak only as of the date made and constitute the Company's current intentions, hopes, beliefs, expectations or predictions of the future, which are therefore inherently subject to risks and uncertainties. Forward-looking statements are based on management's beliefs and opinions at the time the statements are made, and the Company does not undertake any obligations to update forward-looking statements should circumstances or management's beliefs or opinions change.

For further information, visit [www.xenos.com](http://www.xenos.com)

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**Xenos Group Inc.**  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	2004	2003	2004	2003
Sales	\$ 3,731,541	\$ 3,915,459	\$ 12,184,761	\$ 12,519,968
Cost of sales	642,025	666,813	2,188,396	2,673,995
Gross profit	<u>3,089,516</u>	<u>3,248,646</u>	<u>9,996,365</u>	<u>9,845,973</u>
Expenses				
Sales and marketing	1,524,854	1,347,815	4,701,322	3,749,159
Research and development	642,955	712,167	2,277,422	2,140,585
Administration and general	492,960	612,037	1,698,973	1,865,850
Amortization	367,346	338,493	1,074,679	931,399
Interest expense	8,171	8,231	25,617	28,018
	<u>3,036,286</u>	<u>3,018,743</u>	<u>9,778,013</u>	<u>8,715,011</u>
Income from operations	53,230	229,903	218,352	1,130,962
Other income				
Dividends, interest and other	51,025	89,087	173,034	214,170
Foreign exchange gain (loss)	106,349	(324,246)	95,454	(687,739)
Income (loss) before income taxes	210,604	(5,256)	486,840	657,393
Provision (recovery) of income taxes	<u>6,576</u>	<u>(85,459)</u>	<u>(25,045)</u>	<u>(62,544)</u>
Net income	<u>\$ 204,028</u>	<u>\$ 80,203</u>	<u>\$ 511,885</u>	<u>\$ 719,937</u>
Net income per common share				
- Basic	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.08
- Fully-diluted	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.08
Weighted average number of shares				
- Basic			9,723,749	8,679,026
- Fully-diluted			10,156,969	8,836,799

**Xenos Group Inc.**  
Consolidated Balance Sheets  
(Unaudited)

	As at June 30	
	2004	2003
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash & S.T. investments	\$ 12,669,109	\$ 13,091,953
Trade receivables	2,560,896	2,486,880
Other receivables	28,476	13,126
Prepays	387,554	428,144
Future income taxes	325,242	131,421
	15,971,277	16,151,524
<b>LONG TERM</b>		
Future income taxes	1,732,368	1,723,192
Capital assets	1,220,750	1,421,900
Other assets	3,106,525	2,365,467
Goodwill	6,228,909	2,058,167
	12,288,552	7,568,726
<b>TOTAL ASSETS</b>	<b>\$ 28,259,829</b>	<b>\$ 23,720,250</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness	\$ 500,000	\$ 500,000
Payables & accruals	1,546,823	2,185,206
Income taxes payable	74,491	51,859
Deferred revenue	2,978,624	2,783,988
Current portion - capital lease	18,880	16,778
	5,118,818	5,537,831
<b>LONG TERM</b>		
Capital lease obligations	1,676	20,556
Deferred revenue	28,667	51,475
Deferred rent	29,767	-
	60,110	72,031
<b>TOTAL LIABILITIES</b>	<b>5,178,928</b>	<b>5,609,862</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	45,127,045	41,603,849
Retained earnings/(deficit)	(22,046,144)	(23,493,461)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>23,080,901</b>	<b>18,110,388</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 28,259,829</b>	<b>\$ 23,720,250</b>

**Xenos Group Inc.**  
Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	2004	2003	2004	2003
<b>Operating activities</b>				
Net income	\$ 204,028	\$ 80,203	\$ 511,885	\$ 719,937
Amortization	367,346	338,493	1,074,679	931,399
Loss (Gain) on sale of capital assets	(19)	(6,301)	6,369	(2,595)
Future income taxes	(13,951)	(66,448)	(76,108)	(100,168)
Other	681	681	2,043	1,589
Change in non-cash working capital	125,086	31,949	(420,005)	(31,437)
	<u>683,171</u>	<u>378,577</u>	<u>1,098,863</u>	<u>1,518,725</u>
<b>Financing Activities</b>				
Share issuance costs	-	-	(3,500)	-
Proceeds on issue of shares	-	138,287	12,009	276,537
	<u>-</u>	<u>138,287</u>	<u>8,509</u>	<u>276,537</u>
<b>Investing activities</b>				
Cash paid on acquisition of business assets	-	-	(1,669,928)	-
Additional consideration paid on acquisitions	(17,102)	(6,722)	(52,021)	(48,227)
Purchase of capital assets	(69,865)	(62,395)	(230,637)	(233,051)
Proceeds on disposal of fixed assets	241	6,129	1,272	9,383
Development costs incurred	(185,756)	(165,072)	(459,222)	(476,557)
	<u>(272,482)</u>	<u>(228,060)</u>	<u>(2,410,536)</u>	<u>(748,452)</u>
Net increase (decrease) in cash and short term investments	410,689	288,804	(1,303,164)	1,046,810
<b>Cash and short term investments</b>				
Beginning of period	<u>12,258,420</u>	<u>12,803,149</u>	<u>13,972,273</u>	<u>12,045,143</u>
End of period	<u>\$ 12,669,109</u>	<u>\$ 13,091,953</u>	<u>\$ 12,669,109</u>	<u>\$ 13,091,953</u>