

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

XML GLOBAL TECHNOLOGIES INC

CIK: **1048501** | IRS No.: **841434313** | State of Incorporation: **CO** | Fiscal Year End: **0630**
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended June 30, 2003

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 0-23391

XML-GLOBAL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

84-1434313

(I.R.S. Employer Identification No.)

Suite 22 - 1818 Cornwall Avenue
Vancouver, BC, Canada V6J 1C7

(Address of principal executive offices, including zip code)

Registrant's Telephone No., including area code: (800) 201-1848

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for its most recent fiscal year were \$860,642.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, as of June 30, 2003 was \$1,654,512.

There were 58,055,736 shares of common stock outstanding, as of September 24, 2003.

Transitional Small Business Disclosure Format (Check one): Yes ; No

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 9, 10, 11 and 12) is incorporated by reference to portions of the issuer's definitive proxy statement for its 2003 Annual Meeting of Stockholders.

PART I

Item 1. Description of Business.

Business Development.

Effective August 27, 1999, XML-Technologies, Inc. (XML-Technologies) and International Capital Funding, Inc. (ICF) entered into an Agreement and Plan of Reorganization (the Agreement). In accordance with the Agreement, the stockholders of XML-Technologies received 12.5 million shares of ICF stock in exchange for the 12.5 million outstanding shares of XML-Technologies. The stockholders of ICF retained 5 million shares in exchange for no assets and the assumption of \$2,671 of liabilities of ICF by XML-Technologies. The transaction was accounted for as a recapitalization of XML-Technologies and the accompanying consolidated financial statements present the financial position, results of operations, and cash flows of XML-Technologies. After entering into the Agreement, the ownership percentage of the original stockholders of XML - Technologies was reduced from 100% to 71%.

ICF was organized in 1991 for the purpose of consummating a merger or acquisition with a private entity. Prior to entering into the Agreement, it had no material amount of assets or liabilities and no operations. Subsequent to completing the Agreement, ICF changed its name to XML-Global Technologies, Inc. ("XML-Global Technologies" or the "Company") and changed its fiscal year-end to June 30.

XML-Technologies is a Nevada corporation organized on May 18, 1999 as the parent company to XML-Global Research Inc. and Walkabout Website Designs Ltd., both of which are British Columbia corporations. XML Technologies and its subsidiaries engage in the business of developing software applications using XML (eXtensible Markup Language). XML is an abbreviated version of SGML (Standard General Markup Language), an international standard for defining descriptions of the structure and content of electronic documents.

In October 1999, DataXchg, Inc. was formed by the Company and David Webber, a Director of the Company. Initially, DataXchg was 40%-owned by XML Global Technologies and 60%-owned by Mr. Webber. In exchange for his interest, Mr. Webber assigned to DataXchg certain technology which underlies our current product known as GoXML Transform, which offers the ability to convert standard EDI documents into XML format. In June 2000, we acquired Mr. Webber's 60% interest in DataXchg in exchange for issuing to Mr. Webber 1,000,000 shares of our common stock. As a result of this transaction, DataXchg became our wholly-owned subsidiary.

On January 17, 2001, we acquired the issued shares of Bluestream Database Software Corp through a newly incorporated subsidiary, 620486 BC Ltd. Bluestream is a British Columbia corporation which had developed proprietary XML database software.

On April 15, 2002, the Company entered into a letter of intent to allow Mr. James Tivy to indirectly purchase an interest in Bluestream. The transaction closed on September 26, 2002 and we now hold preferred shares in Bluestream with a redemption value of \$575,000 and a 45% interest in Bluestream's common stock. Due to the uncertainty of realizing value or a return on the preferred stock, we ascribe only a nominal carrying value.

On November 5, 2001, XML Global formed

LE Informatics, Inc., a Delaware corporation, as a wholly-owned subsidiary to market our products and services to the law enforcement sector. The Company planned to transfer its intellectual property rights associated with our "Xtract" software to LE Informatics, Inc. and license our other products to LE Informatics, Inc. From December 2001 to April 2002, LE Informatics and its wholly-owned subsidiary Xtract Informatics Inc. engaged in the marketing of XML software to law enforcement agencies. LE Informatics and its subsidiary ceased law enforcement software operations in April 2002. We currently conduct our Canadian operator through Xtract Informatics Inc.

Business of Issuer

Our business objective is to give companies a competitive advantage by providing simple and relevant e-business solutions incorporating pure, XML-based technology. Our vision is to create a global e-market place in which enterprises of any size can find each other electronically and conduct business through the exchange of XML based messages:

* Using standard message structures.

- * According to standard business process sequences.

- * Comprising clear business semantics.

- * According to standard or mutually agreed trading partner agreements.

- * Using open, off-the-shelf business applications.

Operations

The founders of the Company began working with eXtensible Markup Language ("XML") in early 1998 and began to develop software as a group in the fall of 1998. XML Technologies, Inc. was formed in May 1999 to develop commercial applications using the founders' XML expertise. In July 1999, we commenced sales of Cartnetwork, our proprietary e-commerce software and in July 1999, we announced GoXML, which we believe is the world's first XML context search engine.

We continue to develop proprietary XML-based solutions for the Internet-based economy with a focus on e-commerce and the conversion of data from legacy formats to XML. Our main sources of revenue are currently from XML-related consulting and the licensing of our software. In fiscal 2002, sales of our products accounted for about 40% of our revenues, while the balance of our revenue was earned from consulting and implementation services. In fiscal 2003, we earned about 90% of our revenues from the sale of products and the balance from implementation services.

During the year ended June 30, 2003 our operations were funded by a combination of the issuance of common stock and sales of products and services. iWay Software, a division of Information Builders, Inc. accounted for 41% of fiscal 2003 revenues. Effective April 21, 2003, our relationship with iWay Software terminated. We currently do not have any economic dependence on a customer or group of customers.

On September 18, 2003 we signed a definitive agreement to sell substantially all of our business assets to Xenos Group Inc. in exchange for \$1,250,000 in cash, 1,000,000 shares of Xenos Group and the assumption of our current accounts payable and certain support and maintenance obligations to our customers. The stock portion of the purchase price will be held in escrow for one year.

We have a price guarantee on the Xenos Group stock, which would entitle us to an additional cash payment in Canadian dollars if the 20 trading day average closing share price of the Xenos Group stock before the one year anniversary of the asset purchase agreement is less than C\$3.50. The maximum additional payment is C\$1,340,000.

Of the asset sale proceeds, we have agreed to pay the software developers who sold us the Transform Kernel in April 2003 a total of \$250,000 and assign to them 250,000 shares of the Xenos stock. We also expect to incur professional and other expenses associated with the sale of about \$110,000.

The closing date for the asset sale will be no later than the second business day following the day on which the last of the closing conditions is satisfied, but in no event later than December 31, 2003. The remaining discussion of our operations discloses our plans should the expected sale to Xenos not complete.

About XML

While Hyper Text Markup Language ("HTML") describes the appearance of a web page, XML describes the nature of the data. XML lets businesses structure and exchange information without rewriting their existing systems or adding large amounts of middleware. When XML was first introduced, it appeared as if it might be a document-centric tool to provide structured documents. The rapid development of electronic commerce has created a much broader application of XML as an enabler of infrastructure technology, including SQL or Java.

XML is a standard for specifying a document markup language based on plain-text tags. It provides the key to separating Web content from presentation. When a system receives a page of HTML, it can display the page but it cannot understand what the content means. A page tagged in XML, however, would allow the user to pull specific price and product data out of a Web catalog page. Although Electronic Data Interchange ("EDI") was intended to allow trading partners to exchange documents and to send and receive requests quickly and easily, in practice it proved expensive for companies to implement and difficult to get different EDI systems to communicate with each other. XML provides a solution to this problem by providing a medium for businesses to exchange data.

Marketing Strategy

Our marketing message is that we provide data transformation, ebXML registry and messaging related capabilities in the form of single-vendor XML middleware software. We are currently focusing our efforts on client sales to mid-large enterprise accounts. In the coming year, we intend to use our existing sales representatives, resellers and other channels to distribute our products in targeted vertical sectors. Some of the specific marketing initiatives include:

- * Streamline delivery systems - While we sell and install our products, we are working to expand our sales channels through systems integrators and independent software vendors that will incorporate our software into their offerings.

- * Enhance market awareness - This will include branding, Internet marketing, technology and data alliances to improve our business image with leading industry, standards and technology groups, and expanding our sales capacities.

Target Customers

Our success in discussions with prospective companies leads us to conclude that we should focus our efforts on Global 5000 companies (the 5000 largest companies in the world) since these companies potentially offer the largest returns. Global 5000 companies have complex information technology systems and integration problems that our middleware is well suited to solving. While we have sold directly to end users, we also reach Global 5000 customers by using resellers and systems integrators who have established business relationships with many potential customers. It is our intention to develop a small professional services workforce to maximize our infrastructure and focus on our core competency, which is software development and professional services.

Corporate relationships

We have formed co-selling agreements with a number of companies, but these have not generated the expected returns. We recently signed a marketing agreement with Xenos Group Inc in conjunction with the proposed purchase of our business assets by that company.

Our Products

We believe that two of the key promising applications for XML are business-to-business information exchanges and intra-enterprise application-to-application integration. Our software has relevance in both of these areas.

GoXML Transform

GoXML Transform is ideally suited to electronic business environments, particularly those using EDI (Electronic Data Exchange) and SQL databases, and any other environment in which disparate forms of data need to be transformed for interoperability. One of the difficulties with current EDI systems is the need for very careful mapping of one field to another. With GoXML Transform, XML data mapping can be easily managed with an environment that includes two main components: a GUI (Graphical User Interface) for creating mapping templates, and a server-side transformation engine, both written in Java. In a typical deployment, users will determine which legacy source files require transformation and will create the transformation templates.

GoXML Transform is our most significant product, accounting for over half our product revenues in fiscal 2003 and 2002. We continue to develop new versions of GoXML Transform to extend its functionality.

GoXML Transform Communications Server

GoXML Transform Communication Server, which replaces XTE in our product lineup, manages complex transformations that are common in e-business initiatives. For example, purchase orders received through EDI transactions may not contain enough information to update a legacy order entry system. Communication Server can accept these purchase orders, enrich them with information from other sources, and submit the result to back-office systems like SAP or CICS-based legacy systems. GoXML Communications Server incorporates GoXML Transform which serves as a universal translator between different data standards.

GoXML Communications Server allows users to integrate XML with EDI, legacy databases, transaction systems, and other non-XML formats using a wide variety of transports, including MQSeries, SOAP, HTTP, TCP/IP, email, FTP, and file systems.

We have recently started selling GoXML Transform Communications Server and expect that it will account for a significant proportion of our sales.

GoXML Registry

GoXML Registry is an enterprise registry platform that employs GoXML Transform using commonly accepted standards, protocols and methodologies, including ebXML and UDDI. GoXML Transform Registry provides a modular, scalable platform that facilitates integration with backend systems and systems belonging to partners, suppliers, and customers in a secure and consistent manner.

We are currently outsourcing development of GoXML Registry to a company controlled by former officers of the Company.

GoXML Messaging

GoXML™ Messaging delivers and manages ebXML messages. Its Transaction Manager, in tandem with a Persistent Storage Manager, manages delivery of messages even in the event of system failure. It handles the packaging of headers and payloads into ebXML envelopes and the sequencing of multiple messages in the proper order. The Transaction Manager also allows the status of messages to be tracked as they progress through a transaction.

We are currently outsourcing development of GoXML Messaging to a company controlled by former officers of the Company.

XML Integration Workbench

XML Integration Workbench combines versions of GoXML Transform, GoXML DB and XMLSpy™ (an XML editor developed by Altova) that can be used in combination to architect and plan data integration and e-business initiatives. We launched XML Integration Workbench in June 2002 and it accounted for about 15% of product sales in fiscal 2003. We expect that this proportion will decline as our emphasis moves to higher dollar value and higher margin products such as GoXML Transform Communications Server.

Competition

We have a number of competitors that are seeking to provide solutions in different ways. Although many companies claim capability across a wide range of business competencies, most have tailored their products to suite a particular project type, project phase or vertical market.

GoXML™ Transform and Transform Communications Server

Competitors for GoXML Transform are sold by Data Junction Corporation, DataMirror Corporation, Infoteria Corporation, Peregrine Systems, Inc., Redix International, Inc., Softshare, Inc., TIE Commerce, Contivo, Inc. and Mercator Software, Inc. Competitors for GoXML™ Transform Communication Server are sold by Vitria Technology, Inc., WebMethods, Inc., Tibco Software, Inc., SeeBeyond Technology Corporation and Sybase, Inc.

GoXML™ Registry

Competing registry products for GoXML™ Registry are sold by Tibco Software, Inc. and Oracle Corporation.

GoXML™ Messaging

The market for ebXML compliant messaging products is still developing. Companies currently competing in this arena include Sybase, Inc., BTrade and Briyante Software Corp.

Intellectual property

We attempt to protect our intellectual property to the greatest extent practical using a combination of patents, licenses, trademarks and other methods. We summarize below the steps taken to date and the corresponding limitations.

Patents and Licenses

We hold two US patents in respect of GoXML Transform, the first of which is for an algorithm for fixed structured information processing that implements a high performance means of processing business transaction content allowing simple rule driven scripts to perform otherwise very complex manipulations. The patent also includes the mapping structure and syntax descriptions. The second GoXML Transform-related patent, which also relates to GoXML Registry, is for the use of Internet-based registry dictionary content that enhances the functionality of the Transformation algorithm process. This patent also provides assistance to end users during the process of creating business transaction mappings. We had applied for a 51-point patent covering the contextual search aspects of our GoXML search engine but have let this application lapse after concluding that it will be difficult to generate any revenue from this patent.

Trademarks

We have been granted US and Canadian trademarks for GoXML. We are seeking to protect the trademark in other world jurisdictions.

URLs

We have registered our key Internet URLs including xmlglobal.com and GoXML.com and review these registrations on a regular basis to ensure that they remain current and in good standing.

imitations of Intellectual Property Protection

No assurance can be given that any patent will be issued or that the scope of any patent protection will exclude competitors or that any patent, if issued, will be held valid if subsequently challenged.

While we have applied for registration of trademarks and registered domain names in an effort to protect them, we cannot be sure of the nature or extent of the protection afforded, since trademark registration does not assure any enforceable rights under many circumstances and there exists significant uncertainty surrounding legal protections of domain names.

However, there can be no assurance that any steps that we take in this regard will be adequate to deter misappropriation of our proprietary rights or independent third parties developing functionally equivalent products. Despite our precautions, unauthorized parties may attempt to engineer, reverse engineer, copy, or obtain and use our products or other information.

Although we believe that our products do not infringe on the intellectual property rights of others, there can be no assurance that an infringement claim will not be asserted against us in the future. The prosecution or defense of any intellectual property litigation can be extremely expensive and would place a material burden upon our working capital.

Research and development

We have three full time equivalent employees devoted to software development. In the years ended June 30, 2003 and 2002, we expended approximately \$838,000 and \$1,724,000 respectively, for development costs related to our products.

Employees

We now have eleven full time employees, all of whom are located at our principal office in Vancouver, British Columbia.

Cost of Compliance with Environmental Laws

We did not incur any separately identifiable costs to comply with environmental laws.

Item 2. Description of Property

We maintain our corporate headquarters in Vancouver, Canada. The Vancouver lease agreement is for approximately 1,300 square feet of office space and expires in April 2004.

The Company owns a variety of computers and other computer equipment for its operational needs.

The Company believes that its facilities and equipment are suitable and adequate for the business of the Company as presently conducted, but it is likely that an expansion will be necessary in the coming year.

Item 3. Legal Proceedings

At the date of this report, there are no pending legal proceedings in which we are a party and we are not aware of any threatened legal proceedings except as detailed below.

On May 14, 2003, we received correspondence from counsel for ecMarket.com Inc. claiming that certain confidential and proprietary information of ecMarket.com Inc. has been unlawfully disclosed to us and has been used by us in our GoXML Transform product. We have retained counsel and responded to the claims of ecMarket.com Inc., which has not made any specific claim regarding the alleged unlawful disclosure.

Item 4. Submission of Matters to a Vote of Security Holders

No matter were submitted to a vote of security holders during the fiscal year ended June 30, 2003.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Trading Information

Since November 2000, our common stock has traded on the Over-the-Counter Market and has been quoted on the OTC Electronic Bulletin Board under the symbol "XMLG."

The following table sets forth the high and low prices for our common stock for each quarter since November 2000. The prices presented below are bid and ask prices, which represented price between broker-dealers and do not include retail markups and markdowns or any commission to the broker. The prices do not necessarily reflect actual transactions.

Common Stock		
Quarter Ended	Low	High
December 31, 2000	\$1.19	\$3.75
March 31, 2001	\$0.56	\$1.45
June 30, 2001	\$0.72	\$1.13
September 30, 2001	\$0.24	\$0.78
December 31, 2001	\$0.13	\$0.46

March 31, 2002	\$0.25	\$0.76
June 30, 2002	\$0.13	\$0.36
September 30, 2002	\$0.15	\$0.29
December 30, 2002	\$0.13	\$0.21
March 31, 2003	\$0.03	\$0.19
June 30, 2003	\$0.02	\$0.09
September 30, 2003	\$0.04	\$0.08

On October 1, 2003, the bid and ask prices of our common stock as quoted on the Bulletin Board were \$0.05 and \$0.06, respectively.

Factors we discuss in this form, including the many risks associated with an investment in us, may have a significant impact on the market price of our common stock. Also, because of the relatively low price of our common stock, many brokerage firms may not effect transactions in the common stock.

In addition, our common stock is subject to rules adopted by the Commission regulating broker dealer practices in connection with transactions in "penny stocks." Those disclosure rules applicable to "penny stocks" require a broker dealer, prior to a transaction in a "penny stock" not otherwise exempt from the rules, to deliver a standardized disclosure document prepared by the Commission. That disclosure document advises an investor that investment in "penny stocks" can be very risky and that the investor's salesperson or broker is not an impartial advisor but rather paid to sell the shares. The disclosure contains further warnings for the investor to exercise caution in connection with an investment in "penny stocks," to independently investigate the security, as well as the salesperson with whom the investor is working and to understand the risky nature of an investment in this security. The broker dealer must also provide the customer with certain other information and must make a special written determination that the "penny stock" is a suitable investment for the purchaser, and receive the purchaser's written agreement to the transaction. Further, the rules require that, following the proposed transaction, the broker provide the customer with monthly account statements containing market information about the prices of the securities.

These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares.

Holders

As of June 30, 2003, the Company had 103 shareholders of record. This does not include shareholders who held stock in accounts at broker-dealers.

Dividends

We have not declared or paid any cash dividends on our capital stock since inception and do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business.

Item 6. Management's Discussion and Analysis

RESULTS OF OPERATIONS

REVENUE. Revenue in the year ended June 30, 2003 primarily consisted of fees received from the sale of e-business solutions. In the prior year, XML-related consulting services also contributed to revenue. Revenue was \$860,600 for the year ended June 30, 2003, compared to \$889,000 for the previous fiscal year. Software and on-line service sales accounted for about 90% of revenues for the fiscal year ended June 30, 2003 compared to 40% in the prior year. Effective June 30, 2002, we closed our consulting group, which was largely focused on providing software architecture services to government. Revenue relating to government consulting operations represented about \$435,000 of our fiscal 2002 revenue. We were able to substantially replace this revenue with higher-margin product sales. Our service revenue in fiscal 2003 related to implementing our software.

COST OF REVENUE. Cost of revenue includes salaries to employees and contractor fees that can be directly attributed to project revenue earned in the period, and license fees for software products that we license from third parties. The cost of revenue in the year ended June 30, 2003 was \$59,500, compared to \$302,900 for the previous fiscal year. The proportionate decline in the cost of revenue in the current fiscal year, relative to revenues, reflects the greater proportion of software revenue in the current period. Our own software products and on-line service have only a nominal cost of revenue although we incur third party license costs on sales of GoXML Integration Workbench and XTE. The cost of revenue associated with government consulting operations represented about \$287,000 of our fiscal 2002 cost of revenue.

RESEARCH AND DEVELOPMENT EXPENSES. Product and content development costs include expenses we incur to develop our technology. These costs consist primarily of salaries and fees paid to employees and consultants to develop and maintain our software. For the years ended June 30, 2003 and 2002, these costs were \$837,700 and \$1,724,000 respectively. The decreased expenditures in the year just ended reflect decreased staffing levels following completion of the main development cycle and our restructuring in March. Following the restructuring, our development staff declined from 19 to three people. We expect that future development efforts will increase from our current levels but will still be substantially less than they have been historically.

SALES AND MARKETING EXPENSES. Marketing, sales and client services costs include expenses we incur to obtain and maintain client relationships. These costs include fees paid to contractors and consultants, related travel and incidental costs, and advertising and promotion costs. For the year ended June 30, 2003, sales and marketing expenses were \$951,900, down from \$1,121,400 in the year ended June 30, 2002. The change reflects the addition of sales staff in the fall of 2002 offset by significantly reduced expenses following our restructuring in March 2003.

CONSULTING EXPENSES. Consulting expenses include salaries and travel costs that relate to consulting services, but are not directly attributable to the consulting revenue earned. We discontinued our consulting activities effective June 30, 2002 and laid off or reassigned our consulting staff. Accordingly, we did not incur any consulting expenses in fiscal 2003 but spent \$303,000 in the year ended June 30, 2002.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of salaries, contractor fees and related costs for general corporate functions, including travel, occupancy, accounting and legal expenses. For the year ended June 30, 2003, general and administrative expenses were \$1,176,000, down from \$1,774,000 in the previous year. The decrease is primarily attributable to our reorganization and the resulting decline in administrative staff. We incurred higher salaries costs after we hired a President and our professional costs increased. These expense increases were offset by decreased investor relations expenses and decreased salaries costs after our restructuring in March 2003.

STOCK-BASED COMPENSATION. The Company reports the financial impact of stock options using APB Opinion No. 25. Accordingly, we record the fair value of stock options granted to non-employees as an operating expense based on the fair value of the options at the date the services were performed. Fair value is determined using the Black-Scholes method. During the year ended June 30, 2003 we recognized expense of \$3,000 relating to the value of options granted to an Advisory Board Member. We also issued stock valued at \$78,700 to employees in lieu of cash compensation which is included in our other operating expenses. In the prior year, our stock-based compensation expense was \$20,275 of which \$19,000 related to the repricing of options granted in a prior period.

LOSS ON WRITE OFF OF INTELLECTUAL PROPERTY. During the year ended June 30, 2002, the Company wrote off the cost of intellectual property associated with GoXML DB, which totaled \$281,900. While we have sold copies of GoXML DB, we concluded that our efforts were better expended developing our other products. In September 2002, we converted a portion of our common stock equity interest in the company that holds the GoXML DB intellectual property into a preferred stock holding with a redemption value of \$575,000. One of our former employees subscribed for stock and we now own 45% of the voting equity of the company that holds the GoXML DB intellectual property.

RESTRUCTURING COSTS. In March 2003, we restructured our operations and incurred net restructuring costs of \$1,932,300 as a result. The largest costs were write-offs of intangible assets relating to The Qube (\$1,760,000) and GoXML Transform (\$329,700), offset by unearned revenue that was eliminated on termination of a contract (\$365,000). The other components of restructuring costs included net employee severance costs (\$89,900), write down of patent and trademark costs (\$65,000), loss on sale of equipment (\$51,100), and other current assets written off as they are not expected to be recoverable (\$4,600).

DEPRECIATION AND AMORTIZATION EXPENSE. Depreciation and amortization expense reflects depreciation of computer hardware, software, equipment, leasehold improvements, patents and intellectual property over their estimated useful lives of between two and five years. Depreciation and amortization expense was \$331,700 and \$538,600 respectively for the years ended June 30, 2003 and 2002. Most of the decrease reflects a greater proportion of fully depreciated assets. The write-down of assets following our restructuring in March 2003 also reduced the amortization expense.

FINANCING EXPENSE. In June 2002, we entered into a short-term note payable with a third party individual. The note payable contained a conversion feature allowing the individual to convert the outstanding balance due, plus a 10% financing fee, into the Company's common stock at any time at \$0.05 per share. Effective June 25, 2002, in accordance with the terms of the note payable, the individual exercised the conversion feature, and the Company committed to issue 2,200,000 shares of common stock.

The Company provided the conversion feature at a significant discount. As this note payable and stock conversion constituted a financing transaction, finance expense of \$252,000 was recorded for the year ending June 30, 2002, which represents the amount that the estimated fair value of the shares at the date of conversion exceeded the conversion price of \$0.05. Additionally, the Company incurred \$10,000 of financing expense in fiscal 2002 relating to an equity transaction that was never consummated.

INTEREST INCOME (EXPENSE). During the year ended June 30, 2002 we earned interest income of \$41,900 on funds received from private equity placements. In the current period, we earned interest revenue of \$4,400 but incurred interest charges of \$10,900 on the outstanding balance of foreign income taxes payable for a net expense of \$6,500.

GAIN ON SALE OF INTELLECUTAL PROPERTY. In April 2003, we sold the rights to our Xtract product for net proceeds of \$44,400. We had previously expensed development costs associated with this product and so it had no carrying value. We have therefore recorded the full amount of the proceeds as a gain on sale.

PROVISION FOR INCOME TAXES. Although the Company incurred a consolidated loss during the years ended June 30, 2003 and 2002, it recorded \$1,200 and \$172,400 respectively of income

tax expense relating to certain income attributable to taxing jurisdictions in Canada. Increases in deferred tax assets resulting from the foreign tax credits generated by these taxes have been offset completely by similar increases in the valuation allowance applied to the Company's net income tax expense or benefit.

LIQUIDITY AND CAPITAL RESOURCES

Our independent auditor's report states that our consolidated financial statements for the year ending June 30, 2003 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to our financial statements, we have incurred losses since inception and have an accumulated deficit. These conditions raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

To date, we have experienced negative cash flows from operating activities. For the year ended June 30, 2003, net cash used in operating activities was \$1,977,700 and was primarily attributable to our net loss of \$4,394,800. The net loss for the year was partially offset by non-cash depreciation and amortization of \$331,700, stock-based compensation of \$81,700, non-cash restructuring costs of \$1,839,500 and a net cash inflow of \$164,200 with respect to working capital changes. For the year ended June 30, 2003, net cash used in operating activities was therefore \$1,977,700. In the year ended June 30, 2002, we used \$3,241,700 to fund operating activities.

For the year ended June 30, 2003, we generated \$21,200 from fund investing activities. We spent \$10,100 on computer hardware, software and equipment, and \$11,100 on intellectual property. In the year ended June 30, 2002, investing activities generated \$911,000, primarily from investments held for sale.

For the year ended June 30, 2003

, financing activities generated \$1,704,500 of cash through the private placement of equity securities. In the year ended June 30, 2002, financing activities provided \$127,600.

Changes in exchange rates had a net effect of decreasing our cash balance by \$41,900 in the year ended June 30, 2003 compared to a decrease of \$1,900 in the prior year.

As of June 30, 2003, we had no contractual capital commitments outstanding.

We have incurred costs to design, develop and implement search engine and electronic commerce applications and to grow our business. As a result, we have incurred operating losses and negative cash flows from operations in each quarter since we commenced operations. As of June 30, 2003 we had an accumulated deficit of \$16,392,700.

Since inception, we have financed our operations primarily through the placement of equity securities. In the year ended June 30, 2003, we received net proceeds from equity issuances of \$1,704,500. In the year ended June 30, 2002, we received \$100,000 from a note payable and \$31,600 from equity issuances, and invested \$4,000 in deferred issue costs. As of June 30, 2003, we had \$33,400 in cash and cash equivalents, compared to \$369,600 at June 30, 2002.

Our cash at June 30, 2003 is not sufficient to fund operations through the end of fiscal 2004 based on historical operating performance, although at the date of this Report our monthly cash receipts are about the same as our monthly expenditures. Our primary challenge is the working capital deficiency which remains from our historical operations. We do not plan to seek additional funding in the short-term but intend to finance our operations from additional sales. If the Xenos transaction closes, we will have sufficient funds to settle our liabilities; if the Xenos transaction does not close, we will continue to work with our creditors to settle our liabilities over time.

In the event that future operating cash flows do not meet all our cash requirements, we will need additional financing. Success in raising additional financing is dependent on the Company's ability to demonstrate that it can fulfill its business strategy to sell XML-based e-commerce solutions. Should the Company need additional financing through debt or equity placements, there is no assurance that such financing will be available, if at all, at terms acceptable to the Company. If additional funds are raised by the issuance of equity securities, stockholders may experience dilution of their ownership interest and these securities may have rights senior to those of the holders of the common stock. If additional funds are raised by the issuance of debt, we may be subject to certain limitations on our operations, including limitations on the payment of dividends. If adequate funds are not available or are not available on acceptable terms, we may be unable to fund our expansion, successfully promote our brand name, take advantage of acquisition opportunities, develop or enhance services or respond to competitive pressures, any of which could have a materially adverse effect on our business, financial condition and results of operations.

Our ability to generate significant revenue is uncertain. We incurred a net loss of \$4,394,800 during the year ended June 30, 2003. We do not expect to generate significant operating earnings in the foreseeable future. Our operating performance may deteriorate and we may incur losses and the losses may increase. If our revenue does not increase we may not generate sufficient revenue to achieve or sustain profitability, which would have a materially adverse effect on our business, financial condition and results of operations. Even if we achieve or maintain profitability, we may not sustain or increase profitability on a quarterly or annual basis in the future.

Our working capital requirements depend on numerous factors. We expect to incur additional expenses to increase our marketing and sales efforts and for software and infrastructure development. Additionally, we will continue to evaluate the expansion of our marketing and sales programs and brand promotions. If we experience a shortfall in revenue in relation to expenses, or if our expenses precede increased revenue, our business, financial condition and results of operations could be materially and adversely affected.

A substantial portion of our payroll and other expenses are paid outside the United States in currencies other than US dollars. Because our financial results are reported in US dollars, they are affected by changes in the value of the various foreign currencies in which we make payments in relation to the US dollar. We do not cover known or anticipated currency fluctuation exposures through foreign currency exchange option or forward contracts. The primary currency for which we have foreign currency exchange rate exposure is the Canadian dollar. Our financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities are carried at cost which approximates their fair value because of the short-term maturity of these instruments.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 2 to the financial statements. We believe our most critical accounting policies include revenue recognition, accounting for impairment of long-lived assets, and accounting for research and development expenses.

Revenue Recognition

- The Company recognizes revenue when earned, in accordance with American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*, SOP 98-9, *Modification of SOP 97-2 with Respect to Certain Transactions and*

SEC Staff Accounting Bulletin 101, Interpretive Guidance on Revenue Recognition. Royalties based upon licensees' revenues or usage are recognized as licensees' revenues are earned or usage occurs. Maintenance and subscription revenue is recognized ratably over the contract period. Revenue attributable to significant undelivered elements is recognized over the contract period as elements are delivered. Revenues from fixed-price service contracts and software development contracts requiring significant production, modification, or customization are recognized using the percentage-of-completion method. Revenue from service contracts that are based on time incurred is recognized as work is performed.

Impairment of Long-Lived Assets

- The Company accounts for the impairment of long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Long-lived assets such as intellectual property are recorded at cost and amortized over their estimated useful lives. The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Should the Company determine that a long-lived asset is impaired, an impairment loss is recognized in the amount the carrying amount of the asset exceeds its fair value.

Research and Development Costs

- The Company accounts for research and development costs in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*. SFAS No. 86 specifies that costs incurred internally in creating a computer software product should be charged to expense when incurred as research and development until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for release to customers. Judgment is required in determining when the technological feasibility of a product is established. The Company has determined that technological feasibility for its products is reached shortly before the products are released. Costs incurred after technological feasibility is established are not material, and accordingly, the Company expenses all research and development costs when incurred.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company has applied the provisions of Statements of Financial Accounting Standards Nos. 141 through 146. Implementation of these statements did not result in a material effect on the Company's financial position or operating results as of June 30, 2003.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Interpretation elaborates on the disclosures to be made by sellers or guarantors of products and services, as well as those entities guaranteeing the financial performance of others. The Interpretation further clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are effective on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective for financial statements of periods ending after December 15, 2002. The Company believes that its disclosures with regards to these matters are adequate as of June 30, 2003.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* an amendment of FASB Statement No. 123. This Statement amends FASB No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As of June 30, 2003, the Company continues to follow the intrinsic value method to account for stock-based employee compensation. The additional disclosure requirements of this statement have been included in the Company's financial statements for the year ended June 30, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interest that effectively recombines risks that were previously dispersed. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest

that it acquired before February 1, 2003. The adoption of FIN 46 did not have a material effect on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 is not expected to have a material impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. For financial instruments created before the issuance date of this Statement and still existing at the beginning of the interim period of adoption, transition will be achieved by reporting the cumulative effect of a change in accounting principle by initially measuring the financial instruments at fair value or other measurement attribute required by this Statement. The adoption of SFAS No. 150 is not expected to have a material impact on the Company's financial position or results of operations.

Item 7. Financial Statements

Financial statements are included herewith.

**XML-Global Technologies, Inc.
Independent Auditors Report
and
Consolidated Financial Statements
June 30, 2003 and 2002**

**XML-Global Technologies, Inc.
Table of Contents
June 30, 2003 and 2002**

	<u>Page</u>
Independent Auditors Report	1
Consolidated Financial Statements:	
Balance Sheets	2
Statements of Operations	3
Statements of Stockholders' Equity	4
Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-17

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
XML-Global Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of XML-Global Technologies, Inc. and subsidiaries as of June 30, 2003 and the related consolidated statement of operations, stockholders' equity (deficit), and cash flows for the year 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. The financial statements of XML-Global Technologies, Inc. for the year ended June 30, 2002 were audited by another auditor whose report was dated September 17, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of XML-Global Technologies, Inc. and Subsidiaries as of June 30, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's dependence on outside financing, lack of sufficient working capital and recurring losses from operations, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans as to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Berkovits, Lago & Company, LLP
Fort Lauderdale, Florida
September 30, 200

3

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee, Board of Directors and Stockholders
XML-Global Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of XML-Global Technologies, Inc. and Subsidiaries as of June 30, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of XML-Global Technologies, Inc. and Subsidiaries as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred losses since its inception and has an accumulated deficit. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Moss Adams LP

ASSETS

	<u>2003</u>	<u>2002</u>
Current Assets		
Cash and cash equivalents	\$ 33,375	\$ 369,617
Trade accounts receivable, net	23,505	203,944
Other receivable	13,688	21,617
Deferred issue costs	-	4,004
Prepaid expenses	<u>5,038</u>	<u>303,486</u>
Total current assets	75,606	902,668
Property and Equipment, net	45,432	210,089
Intangible Assets		
Intellectual property rights, net	-	513,758
Trademarks and patents, net	<u>43,958</u>	<u>123,549</u>
Total assets	<u>\$ 164,996</u>	<u>\$ 1,750,064</u>

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current Liabilities

Accounts payable and accrued liabilities	\$ 198,493	\$ 298,612
Foreign income taxes payable	116,010	193,653
Unearned revenue	<u>14,397</u>	<u>527,257</u>
Total current liabilities	<u>328,900</u>	<u>1,019,522</u>

Stockholders' Equity (Deficit)

Preferred stock, \$0.01 par value 100,000,000 shares authorized, none issued and outstanding at June 30, 2003 and 2002	-	-
Common stock, \$.0001 par value, 500,000,000 shares authorized 58,055,736 and 31,631,336 shares issued and outstanding at June, 30 2003 and 2002, respectively	5,806	3,163
Convertible stock	-	100,000
Additional paid-in capital	16,292,837	12,653,253
Accumulated other comprehensive loss	(69,882)	(27,969)
Accumulated deficit	<u>(16,392,665)</u>	<u>(11,997,905)</u>
))
Total stockholders' equity (deficit)	<u>(163,904)</u>	<u>730,542</u>
Total Liabilities and Stockholders' Equity(Deficit)	\$ 164,996	\$ 1,750,064

See accompanying notes to these consolidated financial statements.

XML-Global Technologies, Inc.
Consolidated Statement of Operations
For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenue	\$ 860,642	\$ 888,974
Cost of Revenue	<u>59,521</u>	<u>302,928</u>
Gross Profit	<u>801,121</u>	<u>586,046</u>
Operating Expenses		
Research and development	837,736	1,723,967
Marketing and selling	951,938	1,121,354
Consulting	-	302,999
General and administrative	1,175,958	1,774,035
Stock-based compensation	3,000	20,275
Loss on write off of intellectual property - BlueStream	-	281,949
Restructuring costs	1,932,264	-
Depreciation and amortization	<u>331,654</u>	<u>538,550</u>
Total operating expenses	<u>5,232,550</u>	<u>5,763,129</u>
Operating loss	(4,431,429)	(5,177,083)
Other Income (Expense)		
Financing expense	-	(262,000)
Interest income (expense)	(6,513)	41,876

Gain on sale of intellectual property

44,358

-			
Loss on sale of property and equipment	-	(3,683)	
Loss Before Provision for Income Taxes	(4,393,584)	(5,400,890)	
Provision For Income Taxes	1,176	172,357	
Net Loss	<u>\$(4,394,760)</u>	<u>\$ (5,573,247)</u>	
Loss Per Share			
Basic and Diluted	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>	

See accompanying notes to these consolidated financial statements.

XML-Global Technologies, Inc.
Consolidated Statement of Stockholders' equity (Deficit)
For the Years Ended June 30, 2003 and 2002

	<u>Common Stock</u>		<u>Convertible</u>	Paid-in	Accumulated	Other	Comprehensive	Total
	<u>Shares</u>	<u>Amount</u>	<u>Stock</u>	<u>Capital</u>	<u>Deficit</u>	<u>Loss</u>		<u>Total</u>
Balance, June 30, 2001	27,565,000	\$ 2,757	\$ -	\$11,750,748	\$ (6,424,658)	\$ (7,834)		\$ 5,321,013
Stock issuances in consideration of services	1,650,000	165	-	498,835	-	-		499,000
Stock issuances for cash	212,300	21	-	31,615	-			31,636

Stock issuance on conversion of debt	2,200,000	220	-	351,780	-	-	352,000
Minority interest reclassified to convertible stock	-	-	100,000	-	-	-	100,000
Stock-based compensation	4,036	-	-	20,275	-	-	20,275
Foreign currency translation adjustment	-	-	-	-	-	(20,135)	(20,135)
Net loss	-	-	-	-	(5,573,247)	-	(5,573,247)
	_____	_____	_____	_____	_____	_____	_____
Balance, June 30, 2002	31,631,336	3,163	100,000	12,653,253	(11,997,905)	(27,969)	730,542
Stock issuances for cash	18,811,300	1,882	-	1,698,635	-	-	1,700,517
Stock issuance on purchase of license	7,000,000	700	-	979,300	-	-	980,000
Warrant issuance of purchase of license	-	-	-	780,000	-	-	780,000
Stock issuance on conversion of convertible stock	100,000	10	(100,000)	99,990	-	-	-
Stock-based compensation	513,100	51	-	81,659	-	-	81,710
Foreign currency translation adjustment	-	-	-	-	-	(41,913)	(41,913)
Net loss	-	-	-	-	(4,394,760)	-	(4,394,760)
	_____	_____	_____	_____	_____	_____	_____
Balance, June 30, 2003	<u>58,055,736</u>	<u>\$ 5,806</u>	<u>\$ -</u>	<u>\$16,292,837</u>	<u>\$ (16,392,665)</u>	<u>\$ (69,882)</u>	<u>\$ (163,904)</u>

See accompanying notes to these consolidated financial statements.

	<u>2003</u>	<u>2002</u>
Cash Flows From Operating Activities		
Net loss	\$ (4,394,760)	\$ (5,573,247)
<i>Adjustments to reconcile net loss to net cash used in operating activities</i>		
Depreciation and amortization	331,654	538,550
Expenses paid through the issuance of common stock	-	499,000
Financing expense paid through the issuance of common stock	-	252,000
Loss on sale of property and equipment	-	3,683
Loss on write off of intellectual property rights	-	281,949
Restructuring costs and asset disposals net of cash recovered	1,839,462	-
Stock-based compensation	81,710	20,275
<i>Changes in operating assets and liabilities</i>		
Trade accounts receivable	180,439	(18,524)
Other receivable	7,929	17,084
Prepaid expenses	298,448	45,113
Deferred income taxes	-	(20,655)
Accounts payable and accrued liabilities	(100,119)	172,082

Income taxes payable	(77,643)	26,059
Unearned revenue	<u>(144,804)</u>	<u>514,925</u>
Net cash used in operating activities	<u>(1,977,684)</u>	<u>(3,241,706)</u>
))
Cash Flows From Investing Activities		
Sale of investments available for sale	-	980,000
Purchases of property and equipment	(10,125)	(45,493)
Acquisition of trademarks and patents	-	(21,662)
Acquisition of intellectual property	<u>(11,041)</u>	<u>(1,894)</u>
))
Net cash provided by (used in) investing activities	<u>(21,166)</u>	<u>910,951</u>
Cash Flows From Financing Activities		
Deferred issue costs	-	(4,004)
Proceeds from note payable	-	100,000
Issuance of capital stock, net of issue costs	<u>1,704,521</u>	<u>31,636</u>
Net cash provided by financing activities	<u>1,704,521</u>	<u>127,632</u>
Effect of Changes in Exchange Rates	<u>(41,913)</u>	<u>(1,865)</u>
Net Change In Cash	(336,242)	(2,204,988)

Cash and Cash Equivalents, beginning of year	<u>369,617</u>	<u>2,574,605</u>
Cash and Cash equivalents, end of year	<u>\$ 33,375</u>	<u>\$ 369,617</u>

Supplemental Disclosure of Cash Flow Information

Income taxes paid	<u>\$ 85,153</u>	<u>\$ 156,170</u>
Interest paid	<u>\$ 6,513</u>	<u>\$ -</u>

See accompanying notes to these consolidated financial statements.

XML-Global Technologies, Inc.
Notes to Consolidated Financial Statements
June 30, 2003 and 2002

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING

POLICIES

Organization -

XML Global Technologies, Inc. (the Company) a Colorado corporation, conducts operations through two active subsidiaries: XML-Technologies, Inc. (a Nevada corporation) and Xtract Informatics Inc. (a British Columbia, Canada corporation). During the year ended June 30, 2003, the Company also conducted operations through XML-Global Research, Inc. (a British Columbia, Canada corporation), which was inactive at year end. During the year ended June 30, 2002, the Company conducted operations through LE Informatics, Inc. (a Delaware corporation). The Company and its subsidiaries engage in the business of developing Internet-based software applications using XML (eXtensible Markup Language). XML is an abbreviated version of SGML (Standard General Markup Language), the international standard for defining the description of the structure and content of electronic documents. The Company is not required to report segment information.

Principles of Consolidation

- The consolidated financial statements include the accounts of XML-Global Technologies, Inc. and its wholly-owned US and Canadian subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

- All highly liquid investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents. Cash equivalents include cash on deposit with banks and money market funds.

Credit Risk -

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, and trade accounts receivable. The Company places its temporary cash investments with major US and Canadian banks and a US brokerage firm. Cash deposited with US banks is insured up to \$100,000. Cash deposited with Canadian banks are insured up to C\$60,000 (approximately \$44,500). Securities, mutual funds, and other investments maintained with a US brokerage firm are insured up to certain limits. The Company's investments may exceed these limits at times.

The Company extends credit to customers based on evaluation of customers' financial condition and credit history. Collateral is generally not required. Customers have included US, Canadian, and European entities engaged in e-commerce and software development.

Fair Value of Financial Instruments -

The carrying amount of cash, trade accounts receivable, accounts payable and accrued liabilities reported on the balance sheet are estimated by management to approximate fair value.

Allowance for Doubtful Accounts

- The Company considers trade accounts receivable not collected within 90 days from the date of invoice to be uncollectible. Accordingly, all trade accounts receivable that are outstanding greater than 90 days have been recorded within the allowance for doubtful accounts. Accounts receivable outstanding less than 90 days are also evaluated for potential doubtful amounts, and reserves are established accordingly. As of June 30, 2003 and 2002, no allowance for doubtful accounts was necessary.

Property and Equipment

- Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated economic lives of the assets, which range from 2-5 years.

Intangible Assets

- Intangible assets are amortized on a straight-line basis over 3-5 years, representing the estimated life of the assets. SFAS No. 142 requires that indefinite-lived intangible assets be tested for impairment by comparing the intangible asset's fair value to its carrying value. Intangible assets are deemed to be impaired if the net book value exceeds the estimated fair value. None of the Company's intangible assets are considered to be indefinite-lived and accordingly are evaluated for impairment in accordance with SFAS No. 144.

Legal costs associated with obtaining and protecting trademarks and patents are capitalized and, when perfected, amortized over five years.

Impairment of Long-Lived Assets

- Effective July 1, 2002, the Company adopted the provisions of SFAS No. 144 - "Accounting for the Impairment of Long-Lived Assets". The adoption of SFAS No. 144 did not have a material effect on the consolidated financial statements of the Company. SFAS No. 144 establishes the accounting for impairment of long-lived tangible and intangible assets other than goodwill, and for the disposal of a segment of a business. Pursuant to SFAS No. 144, the Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. The Company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Revenue Recognition

- The Company recognizes revenue when earned, in accordance with American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*, SOP 98-9, *Modification of SOP 97-2 with Respect to Certain Transactions* and SEC Staff Accounting Bulletin 101, *Interpretive Guidance on Revenue Recognition.* Royalties based upon licensees' revenues or usage are recognized as licensees' revenues are earned or usage occurs. Maintenance and subscription revenue is recognized ratably over the contract period. Revenue attributable to significant undelivered elements is recognized over the contract period as elements

are delivered. Revenues from fixed-price service contracts and software development contracts requiring significant production, modification, or customization are recognized using the percentage-of-completion method. Revenue from service contracts that are based on time incurred is recognized as work is performed.

Research and Development Costs

- Research and development costs are charged to operations when incurred and are included in operating expenses in accordance with SFAS No. 86. The amounts charged in 2003 and 2002 were \$837,736 and \$1,723,967 respectively.

Income Taxes - The Company accounts for income taxes in accordance with the Statement of Accounting Standards No. 109 (SFAS No. 109), *Accounting for Income Taxes*. SFAS No. 109 requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between financial statement and income tax bases of assets and liabilities that will result in taxable income or deductible expenses in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period adjusted for the change during the period in deferred tax assets and liabilities.

The Company files a consolidated tax return in the United States and separate tax returns for each of its Canadian subsidiaries. The Canadian subsidiaries are subject to provincial income taxes in Canada.

Foreign Currency Translation

- All asset and liability accounts of Canadian operations are translated into US dollars at the exchange rate in effect at June 30, 2003. Revenues and expenses are translated using the average exchange rate prevailing during the period. Foreign currency translation adjustments are reported as a component of accumulated other comprehensive income.

Net Income (Loss) per Share

- The Company applies SFAS No. 128, Earnings per Share. In accordance with SFAS No. 128, basic net income per share has been computed based on the weighted average of common shares outstanding. Diluted net income per share gives the effect of outstanding stock options and outstanding preferred stock convertible into common stock. The treasury stock method is used to calculate the dilutive effect of stock options issued and the "if converted" method is used to calculate the dilutive effect of the convertible preferred stock outstanding.

Asset Retirement Obligations

- The Company has adopted SFAS No. 143 - "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Company to record an asset or liability at an amount equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists. The asset is required to be depreciated over the life of the related equipment or facility, and the liability accreted each year based on a present value interest rate. The adoption of this policy has no material impact on the operations of the Company.

New Accounting Standards

- In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The new standard is effective for exit or disposal activities initiated after December 31, 2002; as such, the Company applied the new rules beginning in fiscal 2003. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Exit or disposal costs that do not involve a discontinued operation shall be included in income from continuing operations, while such costs that do not involve a discontinued operation shall be included in results from discontinued operations.

Effective December 15, 2002, the Company adopted Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS No. 148). This statement amends FASB statement No. 123, "Accounting for Stock-Based Compensation". It provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provision of FASB statement No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Had compensation cost for the Company's stock option plan been determined under SFAS 123,

based on the fair market value at the grant dates, the Company's pro forma net loss and net loss per share would have been reflected as follows:

	<u>2003</u>	<u>2002</u>
Net loss as reported	\$(4,394,760)	\$(5,573,247)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards effects net of related tax	<u>(198,600)</u>	<u>(225,200)</u>
Pro forma net loss	<u>\$(4,593,360)</u>	<u>\$(5,798,447)</u>
Basic and diluted loss per share as reported	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>
Basic and diluted pro forma loss per share	<u>\$ (0.11)</u>	<u>\$ (0.21)</u>

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

NOTE 2 - GOING CONCERN

The Company has incurred significant losses since inception. Accordingly, the Company's ability to fulfill its business strategy and to ultimately achieve profitable operations is dependent on its capacity to execute its business plan and obtain additional financing or explore merger opportunities. The financial statements are prepared on a going concern basis. No adjustments or presentation modifications have been made for potential effects on financial position or results of operations, should the Company not be able to continue as a going concern. (See Note 3)

NOTE 3 - RESTRUCTURING

In late February and March 2003, substantially all of the Company's prospective customers deferred or cancelled their orders. As a result, on March 19, 2003 the company laid off its staff, closed its New York office and undertook a restructuring of its operations. For the year ended June 30, 2003 the Company incurred net restructuring costs as follows:

Employee severance costs	\$ 89,931
Other current assets considered not recoverable	4,588
Loss on equipment sales	51,129
Intangible assets written off	1,825,000
Intellectual property written off	329,672
Unearned revenue eliminated on termination of contract	<u>(368,056)</u>
)
Total restructuring costs	<u>\$ 1,932,264</u>

Before the reorganization, certain employees accepted a salary deferral that was payable subject to available cash. The deferral was only payable to continuing employees. On termination of the Company employees in March 2003, the salary deferral obligation ceased and the remaining obligation was offset against severance costs otherwise determined.

As a result of the reorganization, the Company has written down substantially all its assets. In January 2003, the Company had acquired rights to certain software, known as The Qube, for stock and warrants valued at \$1.76 million. In view of the uncertainty regarding the future operations of the Company, and the Company's ability to realize on the rights to The Qube software, the unamortized balance of this amount was written off. The Company also wrote off certain capitalized patent and trademark costs for which realization is uncertain.

At the date of the reorganization, there was an unamortized balance of approximately \$329,672 relating to acquired intellectual property that is incorporated in GoXML Transform. In view of uncertainty regarding the Company's prospects and the acquisition of substitute intellectual property in April 2003, this amount was written off.

A customer terminated a contract in April 2003. There was a balance of unearned revenue associated with this contract, but in accordance with the terms of the contract, the Company will not have to refund this money or provide services. The gain resulting from termination of the contract has been offset against restructuring costs otherwise determined.

BLUESTREAM DATABASE SOFTWARE CORP.

In fiscal 2001, the Company acquired the shares of BlueStream Database Software Corp. and subsequently marketed that company's software as GoXML™ DB. As part of the acquisition, 620486 BC Ltd., a wholly-owned subsidiary of the Company, issued 100,000 shares of stock that was convertible to shares of the Company's common stock at the option of the holder. This stock was converted to common equity in January 2003.

In April 2002 the Company decided to discontinue its development of GoXML™ DB and, in September 2002, reorganized the capital structure of the companies holding the GoXML™ DB technology so that James Tivy, a former employee of the Company, could acquire the technology. As part of this reorganization, the Company received a combination of preferred shares and common shares in the new entity holding the intellectual property. James Tivy subscribed for shares in the new company and assumed control. In view

of the uncertain market prospect for GoXML™ DB and the Company's decision to discontinue development of GoXML™ DB, the Company wrote off its investment in the intellectual property.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2003</u>	<u>2002</u>
Computer hardware	\$ 166,623	\$ 367,754
Computer software	88,527	75,076
Leasehold improvements	6,360	28,090
Office equipment	<u>42,500</u>	<u>70,824</u>
	304,010	541,744
Accumulated depreciation	<u>(258,578)</u>	<u>(331,655)</u>
))
	<u>\$ 45,432</u>	<u>\$ 210,089</u>

Depreciation expense at June 30, 2003 and 2002 was \$123,318 and \$175,665 respectively.

NOTE 5 - INCOME TAXES

Net income (loss) before provision for income taxes consists of the following:

	<u>2003</u>	<u>2002</u>
US operations	\$ (4,284,742)	\$ (4,948,176)
Canadian operations	<u>(110,018)</u>	<u>(452,714)</u>
	<u>\$ (4,394,760)</u>	<u>\$ (5,400,890)</u>
))

The provision for income taxes consists of the following:

	<u>2003</u>	<u>2002</u>
Current expense		
Foreign	\$ 116,010	\$ 193,653
Deferred expense (benefit)		
US	(1,494,218)	(1,585,413)
Foreign	169,099	(439,579)
Change in valuation allowance	<u>1,210,285</u>	<u>2,003,696</u>
	<u>\$ 1,176</u>	<u>\$ 172,357</u>

The total provision differs from the amount computed using US federal statutory income tax rates as follows:

	<u>2003</u>	<u>2002</u>
Net loss before provision for income taxes	\$ (4,393,584)	\$ (5,400,890)
US statutory rate	34%	34%
Tax benefit at statutory rate	(1,493,819)	(1,836,303)
Excess income tax expense benefit in Canada and other	284,710	4,964
Increase in valuation allowance	<u>1,210,285</u>	<u>2,003,696</u>
	<u>\$ 1,176</u>	<u>\$ 172,357</u>

The tax effects of temporary differences that give rise to deferred tax assets (liabilities) are as follows:

	<u>2003</u>	<u>2002</u>
Assets		
Net operating loss carryforwards	\$ 5,341,239	\$ 3,900,850
Property and equipment basis and depreciation differences	91,918	143,921
Foreign currency translation adjustment	6,715	14,982
Foreign tax credit	134,111	134,111
Unearned revenue	-	169,834
Valuation allowance	<u>(5,573,983)</u>	<u>(4,363,698)</u>
))
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$15.5 million of US net operating loss carryforwards which will begin to expire in 2018. Uncertainty exists surrounding realization of the benefit of the loss carryforwards; and, accordingly, the Company has recorded a \$5,545,395 valuation allowance to reduce deferred tax assets to an amount that is more likely to be realized.

Under existing tax laws, undistributed earnings of foreign subsidiaries are not subject to US tax until distributed as dividends. Currently, the Company's Canadian subsidiaries have no undistributed earnings. In the event such earnings accumulate, they would be considered to be indefinitely reinvested, and no deferred income taxes would be provided on such amounts.

NOTE 6 - EARNINGS PER SHARE

Net loss per share has been computed as follows:

	<u>2003</u>	<u>2002</u>
Shares issued and outstanding	58,055,736	31,631,336
Weighted average number of shares outstanding	41,815,845	27,926,765
Net loss	\$ (4,394,760)	\$ (5,573,247)

Net loss per share

\$ _____ (0.11) \$ _____ (0.20)

As described in Note 7 and Note 8, the Company granted stock options and warrants to purchase up to 44,052,860 shares of common stock. These shares were not included in computing diluted earnings per share because their effects were antidilutive.

NOTE 7 - STOCKHOLDERS' EQUITY

Preferred Stock

The Company has 100,000,000 authorized shares of \$0.01 par value preferred stock. The Board of Directors may authorize issuance of any number of shares in series and assign specific rights and preferences to each series without limitation. As of June 30, 2003 and 2002, no shares have been issued.

Common Stock and Stock Warrants

The Company has a single class of \$0.0001 par value common stock. Authorized shares total 500,000,000. At June 30, 2003 and 2002, the Company had 58,055,736 and 31,631,336 shares issued, or committed to be issued, and outstanding respectively.

During fiscal 2002 and 2003, the Company entered into the following equity transactions which are exempt from registration in accordance with Rule 506 of Regulation D or Section 4(2) of the Securities Act of 1933.

1) On February 18, 2002, a former employee exercised vested stock options in a cashless exercise. The stock was trading at a price of \$0.41 per share, and his exercise prices ranged from \$0.26 to \$0.40 per share, resulting in an issuance of 4,036 shares and stock-based compensation expense of \$1,275.

2) Effective February 20, 2002, the Company issued 100,000 shares of common stock to Joshua Sall and 100,000 shares of common stock to Consensus Investments Limited in consideration of services provided to the Company. The services were valued based on the fair market value of the stock of \$0.39 per share.

3) Effective February 25, March 1 and March 14, 2002, the Company entered into agreements with Brown and Lampe Wertpapier Vermittlungsgesellschaft mbH which provided that Brown and Lampe would introduce purchases of up to 3,000,000 units (each unit comprising one share of common stock offered under the provisions of Regulation S and one share purchase warrant) in stages. The first stage provided for the issuance of up to 1,000,000 units at a discount of 30% to the prevailing trading price with a minimum of \$0.20 per unit and the warrant price set at \$0.60. Subsequent to entering into this agreement, the Company's stock price dropped and the Company agreed to issue units at \$0.135 plus a half-warrant at \$0.60.

In the year ended June 30, 2002, the Company issued 212,300 units at prices between \$0.135 and \$0.196 per share, and 197,400 warrants exercisable at \$0.60. The net proceeds received from this agreement at June 30, 2002 were \$31,600.

In July 2002, the Company issued a further 69,000 shares of common stock to Huntleigh at \$0.12 per share for net proceeds of \$8,452.

The Company does not plan to issue any more stock further to this agreement. Neither Brown and Lampe, nor its US agent, Huntleigh Securities Corporation, is a related party to XML Global.

- 4) Effective May 3, 2002, the Company issued 1,000,000 shares of common stock to MarketByte, LLC, in consideration of its services to the Company. The services were valued based on the fair market value of the stock of \$0.30 per share.

- 5) Effective May 3 and May 23, 2002, the Company issued 250,000 and 200,000 shares of common stock respectively to Privet Financial, LLC, in consideration of its services to the Company. The services were valued based on the fair market value of the stock of \$0.30 and \$0.23 per share.

- 6) On June 10, 2002, the Company entered into a short-term note payable with an arm's length individual. The note payable contained a conversion feature allowing the individual to convert the outstanding balance due, plus a 10% financing fee, into the Company's common stock at any time at \$0.05 per share. Effective June 25, 2002, in accordance with the terms of the note payable, the individual exercised the conversion feature, and the Company committed to issue 2,200,000 shares of common stock.

The Company provided the conversion feature at a significant discount. As this note payable and stock conversion constituted a financing transaction, finance expense of \$252,000 has been recorded for the year ending June 30, 2002, which represents the amount that the estimated fair value of the shares at the date of conversion exceeded the conversion price of \$0.05.

On August 23, 2002, in consideration for cash of \$915,000, the Company issued to the Paradigm Group:

- (i)
5,000,000 shares of common stock; and
- 7) (ii)
share purchase warrants to purchase 3,000,000 shares of common stock at a price of \$0.50 per share.

The Company has agreed to register for resale the common stock and the common stock underlying warrants issued to Paradigm Group.

On October 1, 2002, in consideration for cash of \$300,000 the Company issued to the Paradigm Group:

- 8) 1)
1,639,344 shares of common stock; and

2)

share purchase warrants to purchase 983,506 shares of common stock at a price of \$0.50 per share.

The Company has agreed to register for resale the common stock and the common stock underlying warrants issued to Paradigm Group.

9)

In January 2003, the party that held 100,000 of stock in a subsidiary that is exchangeable for common stock of the Company exercised its rights of conversion. As a result, the Company canceled 100,000 shares of Convertible Stock and issued 100,000 shares of Common Stock.

On February 3, 2003, in consideration for cash of \$415,000, rights to intellectual property known as "The Qube" and a promissory note receivable of \$200,000, the Company issued to the Paradigm Group:

1)

10,360,656 shares of common stock;

2)

share purchase warrants to purchase 9,016,494 shares of common stock at a price of \$0.50 per share; and

10)

3)

share purchase warrants to purchase 2,500,000 shares of common stock at a price of \$1.00 per share.

Of this issuance, 3,360,656 shares of common stock were issued for the cash and promissory note; and 7,000,000 shares of common stock and the warrants were issued for the intellectual property. Subsequently, as consideration for receiving new financing terms, the Company agreed to forgive the note receivable and recorded a \$200,000 financing expense.

The Company has agreed to register for resale the common stock and the common stock underlying warrants issued to Paradigm Group.

11)

On April 14, 2003 the Company entered into an agreement with individuals (the "Developers"), including three former employees of the Company, to acquire rights to proprietary transformation software technology known as the "MagicGate transformation kernel". As consideration for this technology, the Company granted the Developers warrants to purchase 16,000,000 shares of common stock at \$0.04 per share as long as they are employed by the Company. The warrants had a fair value of \$450,000 at the date of issue, determined using the Black-Scholes option pricing model. As at June 30, 2003, no warrants had been exercised.

The agreement provided that if the Company sold the source code for this software to a third party before April 14, 2004, the Developers would be eligible to receive 50% of the gross proceeds relating to the technology acquired.

If the proposed sale of business assets to Xenos Group Inc. closes, these warrants will be canceled, see Note 12 below.

On April 25, 2003, for cash consideration of \$25,000, the Company issued to the Paradigm Group:

1)

3,247,800 shares of common stock;

12)

2)

share purchase warrants to purchase 3,372,300 shares of common stock at a price of \$0.065 per share.

The Company has agreed to register for resale the common stock and the common stock underlying warrants issued to Paradigm Group.

On June 6, 2003, for cash consideration of \$50,000, the Company issued to the Paradigm Group:

1)

5,494,500 shares of common stock;

13)

2)

share purchase warrants to purchase 5,744,500 shares of common stock at a price of \$0.50 per share.

The Company has agreed to register for resale the common stock and the common stock underlying warrants issued to Paradigm Group.

Stock Awards to Officers and Employees

In the year ended June 30, 2003, the Company issued 513,100 shares of common stock to officers and employees as bonus compensation or in lieu of cash payments otherwise due. Of this stock, 281,000 shares were issued to settle liabilities accrued at June 30, 2002. There were no obligations to issue stock of officers and employees at June 30, 2003.

Warrants

As of June 30, 2003, there were 40,885,800 warrants to purchase common stock outstanding. A summary of warrant activity during fiscal 2003 and 2002 is as follows:

2003

2002

	Weighted		Weighted	
	Average		Average	
	Number of	Exercise	Number of	Exercise
	<u>Warrants</u>	<u>Price</u>	<u>Warrants</u>	<u>Price</u>
Warrants outstanding, beginning of the year	512,300	\$ 1.42	7,315,000	\$ 2.00
Issued	40,685,800	0.25	212,300	0.60
Expired	<u>(312,300)</u>	<u>1.05</u>	<u>(7,015,000)</u>	<u>2.00</u>
Warrants outstanding, end of the year	<u>40,885,800</u>	<u>\$ 0.26</u>	<u>512,300</u>	<u>\$ 1.42</u>

A summary of stock purchase warrants outstanding at June 30, 2003 follows:

Exercise	Number	Expiration
<u>Price</u>	<u>Outstanding</u>	<u>Date</u>
\$0.04	16,000,000	While the holder is employed by the Company
\$0.065	9,116,800	December 31, 2004
\$0.50	13,000,000	December 21, 2005
\$0.60	69,000	July 12, 2003
\$1.00	2,500,000	December 21, 2005
\$2.00	<u>200,000</u>	September 1, 2004

NOTE 8 - 1999 STOCK PLAN

On October 19, 1999, the Company adopted a stock incentive plan (the "1999 Stock Plan") to provide incentives to employees, directors and consultants. At the Company's annual general meeting, held May 14, 2001, the Company's shareholders approved an increase in the number of options under the 1999 Stock Plan from 4,000,000 to 6,000,000. Accordingly, the Company has reserved a total of 6,000,000 shares of Common Stock for issuance with the maximum term of options being ten years. The Board of Directors has the exclusive power over the granting of options and their vesting provisions. At June 30, 2003, 2,297,340 options remain available for future issuance.

On September 5, 2001, the Company's Board of Directors approved a reduction in the exercise price of substantially all options granted prior to that date. The Company recognized a one-time expense of \$19,000 relating to the increase in the fair value of options granted to contractors and non-elected advisory board members for which an expense had recognized in prior periods. Repriced option awards to employees and directors, for which no expense was previously recognized, are subject to variable accounting from the date of the modification. As a result, the excess of the Company's stock price over the option exercise price will be expensed over the then remaining life of the options. Since the Company's stock price at June 30, 2003 was less than the exercise price of the options, there was no expense adjustment required in the current year.

A summary of stock option activity during fiscal 2003, with comparative figures for fiscal 2002, is as follows:

	2003		2002	
	Weighted		Weighted	
	Average		Average	
	Number of	Exercise	Number of	Exercise
	<u>Options</u>	<u>Price</u>	<u>Options</u>	<u>Price</u>
Options outstanding, beginning of the year	4,045,300			
	\$ 0.37	3,173,000	\$ 1.04	
Granted	2,837,460	\$ 0.08	1,765,800	\$ 0.24
Exercised	-	-	(22,500)	0.33
Forfeited	(3,715,700)	0.34	(871,000)	0.35
Options outstanding, end of the year	3,167,060	\$ 0.13	4,045,300	\$ 0.31

Options exercisable at June 30	<u>1,391,560</u>	\$ <u>0.24</u>	<u>2,552,150</u>	\$ <u>0.37</u>
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A summary of stock options outstanding at June 30, 2003 follows:

Range of Exercise Prices	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number	Weighted- Average Contractual Life	Weighted Average Price	Number	Average Price
\$0.04 - \$0.05	2,000,000	6.91 years	\$0.04	250,000	\$0.04
\$0.11 - \$0.15	49,000	6.53 years	\$0.14	49,000	\$0.14
\$0.16 - \$0.20	384,460	3.78 years	\$0.19	370,460	\$0.19
\$0.31 - \$0.40	<u>733,600</u>	6.12 years	\$0.35	<u>722,100</u>	\$0.35
	<u>3,167,060</u>			<u>1,391,560</u>	

The Company applies the provision of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations to account for its stock-based awards. Accordingly, costs for employee stock options or issuance of shares is measured as the excess, if any, of the fair value of the Company's common stock at the measurement date over the amount the employee must pay to acquire the stock. The cost for the issuance of options to non-employees is based on the fair value of the options granted at the date the services were performed using the Black-Scholes option pricing model. The fair value of options granted to consultants recognized during fiscal 2003 and 2002 was \$3,000, and \$19,000 respectively. The fair value of stock awarded as part of a cashless exercise was \$1,275 for the year ended June 30, 2002. There was no corresponding expense in the current fiscal year.

SFAS No. 123, *Accounting for Stock-Based Compensation*, requires disclosure of the pro forma effect of applying the fair value method of accounting for stock options issued to employees. The Company uses the Black-Scholes option-pricing model to compute estimated fair value, and employed following assumptions for estimates made in the current fiscal year:

Risk-free interest rate 4.6% to 5.7%

Dividend yield rate	0%
Price volatility	139% to 168%
Weighted average expected life of options	3 years

In March 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*. FASB Interpretation No. 44 clarifies that non-employee members of an entity's Board of Directors do not meet the definition of an employee, in which case the requirements of SFAS No. 123 must be applied. However, an exception is made to require the application of APB Opinion No. 25 to stock compensation granted to a non-employee director for services provided as a director if the director was (a) elected by stockholders or (b) appointed to a board position that will be filled by stockholder election when the existing term expires.

NOTE 9 - GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

Geographic Information

Following is a summary of revenues and long-lived assets related to the respective countries in which the Company operates. Revenues are attributed to countries based on location of customers.

	<u>2003</u>		<u>2002</u>	
	Long-Lived		Long-Lived	
	<u>Revenues</u>	<u>Assets</u>	<u>Revenues</u>	<u>Assets</u>
United States	\$ 682,267	\$ -	\$ 741,964	\$ 38,170
Canada	113,405	45,432	102,810	171,919
Japan	33,268	-	-	-
Europe	<u>31,702</u>	<u>-</u>	<u>44,200</u>	<u>-</u>
Consolidated totals	<u>\$ 860,642</u>	<u>\$ 45,432</u>	<u>\$ 888,974</u>	<u>\$ 210,089</u>

Major Customers

The Company's largest customer during the 2003 fiscal year was Information Builders, Inc. which accounted for 41% of the Company's total revenue. Information Builders, Inc. was no longer a customer at June 30, 2003. In fiscal 2002, 70% of the Company's total revenue was earned from two customers, Information Builders, Inc. and Engineering, Management & Integration, Inc.

NOTE 10 - LEASE COMMITMENT

The Company leased its Vancouver, British Columbia operating facility under lease agreements that run through June 30, 2005. In May 2003, the Company reached an agreement with its Vancouver landlord to lease a smaller area for a shorter period, with the new lease ending on May 31, 2004. The lease agreement requires that the Company pay its proportional share of operating costs and property taxes.

In December 2002, the Company signed a new lease for office space in New York, which commenced on January 1, 2003 and was to run to January 31, 2006. In April 2003, the Company reached an agreement to terminate the New York lease. Upon termination of the lease the Company wrote off \$4,588 of prepaid expense.

Future minimum lease payments, after adjusting for amended lease terms and excluding the Company's share of operating costs and property taxes, will total \$11,300 in the period ending June 30, 2004.

The effects of scheduled rent increases and "rent holidays" are recognized on a straight-line basis over the respective lease terms. During 2003 and 2002, rent expense was \$169,300 and \$233,900, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

(a) The Company incurred the following expenses, including compensation of the Company's Chief Financial Officer, with a consulting firm in which an officer and director holds an interest:

<u>2003</u>	<u>2002</u>
<u>\$73,606</u>	<u>\$61,941</u>

(b) Included in accounts payable at June 30, 2003 is \$21,200 (2002 - nil) due to a financial consulting firm in which a director holds an interest.

These transactions were in the normal course of operations and were measured at the exchange value that represented the amount of consideration established and agreed to by the related parties.

NOTE 12 - SUBSEQUENT EVENTS

Xenos Group Inc.

In August 2003, the Company entered into a definitive agreement to sell its business assets (comprising shares of Xtract Informatics Inc., trade accounts receivable and intellectual property relating to GoXML Transform, GoXML Registry, GoXML Messaging and GoXML Search). As consideration for these assets, Xenos Group Inc. will tender \$1.25 million in cash and 1,000,000 shares of common stock of Xenos Group Inc., which would represent 10% of Xenos' outstanding stock after the transaction closed. The agreement also provides for a price guarantee such that if one year after the transaction closes, the 20 day average closing price of Xenos stock is less than C\$3.50 (approximately \$2.60) per share, Xenos Group will provide cash for the difference between C\$3.50 per share and the average closing price of the Xenos stock. The maximum price guarantee, however is limited to C\$1.34 (approximately \$0.99) per share of Xenos common stock.

The Company expects to yield gross proceeds of at least \$3.8 million. From that amount, the company will pay \$250,000 in cash and 250,000 shares of Xenos stock to the Developers as discussed in further detail below.

As of the date of the accountant's report, this transaction had not been formally approved by the shareholders.

Developers

On July 31, 2003, the Company entered into an agreement with the Developers to allocate proceeds from the Xenos Group Inc. sale. The agreement provides that in the event that the Xenos Group transaction closes, the Developers will receive \$200,000 on closing, \$50,000 one year after closing (unless the Developers leave or are dismissed for cause) and 250,000 shares of Xenos Group Inc. stock one year after closing. The 16,000,000 warrants held by the developers will be surrendered.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

Effective June 27, 2003, our Board of Directors approved the appointment of Morgan & Company to serve as the Company's independent accountant to audit the Company's financial statements. Prior to its engagement as our independent accountant, the Company had not consulted Morgan & Company with respect to the application of accounting principles to specific transactions or the type of audit opinion that might be rendered on the Company's financial statements. The engagement of Morgan & Company was effective on June 27, 2003.

On June 27, 2003, Moss Adams LLP declined to stand for re-election as our independent auditors. The audit reports of Moss Adams LLP on our consolidated financial statements as of and for the years ended June 30, 2002 and 2001 did not contain an adverse opinion or disclaimer of opinion, nor were qualified or modified as to audit scope or accounting principles except that each report of Moss Adams LLP contained an emphasis paragraph as to the uncertainty of our ability to remain a going concern.

In connection with the audits of our financial statements for the fiscal years ended June 30, 2002 and 2001, and in connection with the subsequent period up to June 27, 2003 (the date of resignation), there were no disagreements with Moss Adams LLP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Moss Adams LLP, would have caused Moss Adams LLP to make reference to the matter in its report of the financial statements for such years; and there were no reportable events as defined in Item 304(a) (1) (iv) (B) of Regulation S-B. Moss Adams LLP has not reported on financial statements for any periods subsequent to June 30, 2002.

Effective September 22, 2003, the Company's Audit Committee approved the appointment of Berkovits, Lago & Company, LLP to serve as the Company's independent accountant to audit the Company's financial statements. Prior to its engagement as the Company's independent accountant, the Company had not consulted Berkovits, Lago Company, LLP with respect to the application of accounting principles to specific transactions or the type of audit opinion that might be rendered on the Company's financial statements. The engagement of Bertkovits, Lago & Company was effective on September 22, 2003.

On September 22, 2003, we dismissed Morgan & Company as independent auditors of XML-Global Technologies, Inc. Morgan & Company had not issued any audit report on our financial statements. In the period from Morgan & Company's appointment on June 27, 2003 until September 22, 2003 (the date of dismissal), there were no disagreements with Morgan & Company on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Morgan & Company, would have caused Morgan & Company to make reference to the matter in its report of the financial statements; and there were no reportable events as defined in Item 304(a) (1) (iv) (B) of Regulation S-B.

Item 8a. Controls and Procedures.

Garry Kupecz, Chief Operating Officer (Principal Executive Officer) of XML - Global, and Simon Anderson, Chief Financial Officer of XML Global, have established and are currently maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed to ensure that material information relating to the Company is made known to them as soon as it is known by others within the Company.

Our Chief Operating Officer (Principal Executive Officer) and Chief Financial Officer conduct an update and a review and evaluation of the effectiveness of the Company's disclosure controls and procedures and have concluded, based on their evaluation within 90 days of the filing of this Report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Person; Compliance with Section 16(a) of the Exchange Act

The information required by this item is incorporated by reference to the information set forth in the sections entitled "Election of Directors - Election of Nominees," "Election of Directors - Meetings and Committees of the Board of Directors" and "Election of Directors - Compliance with Section 16(a) of the Exchange Act" in our proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year ended June 30, 2003.

Item 10. Executive Compensation

The information required by this item is incorporated by reference to the information set forth in the section entitled "Election of Directors - Remuneration and Executive Compensation" in our proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year ended June 30, 2003.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the information set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in our proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year ended June 30, 2003.

Item 12. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the information set forth in the section entitled "Certain Relationships and Related Transactions" in our proxy statement for the 2003 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of the our fiscal year ended June 30, 2003.

Item 13. Exhibits and Reports on Form 8-K.

On June 27, 2003 we filed a Report on Form 8-K, pursuant to Item 4 of that form, regarding the change in our independent public accountants.

On September 22, 2003 we filed a Report on Form 8-K, pursuant to Item 4 of that form, regarding the change in our independent public accountants.

On September 30, 2003 we filed an amendment to our September 22, 2003 Report on Form 8-K.

Exhibit No.	Title
*	3.1 Articles of Incorporation dated June 11, 1991
***	3.2 Articles of Amendment to Articles of Incorporation dated October 19, 1999
*	3.3 Bylaws
***	4.1 Specimen Common Stock Certificate
***	4.2 Specimen Warrant Certificate
***	4.3 1999 Equity Incentive Plan
***	5.0 Opinion of Neuman & Drennen, LLC
**	10.1 Agreement and Plan of Reorganization dated as of August 27, 1999

- *** 10.2 Purchase Agreement between International Capital Funding, Inc. and Jonathan Cohen dated September 1, 1999
- *** 10.3 Registration Rights Agreement between International Capital Funding, Inc. and Jonathan Cohen dated September 1, 1999
- *** 10.4 Joint Venture Technology Agreement between XML - Global Technologies, Inc., Gnosis, Inc. and David R. R. Webber dated as of November 18, 1999
- *** 10.5 Consulting Agreement between Data Xchg, Inc. and David Webber
- *** 10.6 License Agreement between Data Xchg, Inc. and XML - Global Technologies, Inc.
- *** 10.7 Pre-Incorporation Agreement between XML - Global Technologies, Inc. and David Webber
- *** 10.8 Form of Lock-up and Vesting Agreement
- *** 10.9 Securities Purchase Agreement between XML - Global Technologies, Inc. and XML Fund, LLC dated January 13, 2000
- *** 10.10 Securities Purchase Agreement between XML - Global Technologies, Inc. and XML Fund, LLC dated April 5, 2000
- *** 10.11 Securities Purchase Agreement between XML - Global Technologies, Inc. and the Tomasovich Family Trust
- *** 10.12 Securities Purchase Agreement between XML - Global Technologies, Inc. and Tomasovich Family Trust
- *** 10.13 Unit Purchase Option Agreement between XML - Global Technologies, Inc. and Westminster Securities Corp.
- *** 10.14 Commercial Lease with Radical Entertainment Ltd. dated May 5, 1999

- *** 10.15 Software Development and License Agreement between B2Binternet, Inc. and XML - Global Technologies, Inc. dated June 12, 2000

- *** 10.16 Letter Agreement between PenOp, Limited and XML - Global Technologies, Inc. dated June 1, 2000

- **** 10.17 Agreement to Exchange Stock dated June 28, 2000 with David Webber

- ***** 10.18 Employment Agreement dated as October 16, 2000 between XML - Global Technologies, Inc. and Gordon Ebanks

- ***** 10.19 Employment Agreement dated as July 26, 2001 between XML-Global Technologies, Inc., XML-Global Research, Inc. and Peter Shandro

- ***** 10.20 Addendum dated May 17, 2002 to the Employment Agreement dated as October 16, 2002 between XML-Global Technologies, Inc. and Gordon Ebanks

- ***** 10.21 Employment Agreement dated as June 10, 2002 between XML-Global Technologies, Inc., XML-Global Research, Inc. and John McAughtry

- ***** 10.22 Software licensing and support agreement dated as June 14, 2002 between XML Technologies, Inc. and Iway Software Company, an Information Builders Company

- ***** 10.23 Agreement dated January 29, 2003 between XML - Global Technologies, Inc., Paradigm Group II, LLC and Paradigm Millennium Fund, LP governing the payment of the remaining \$615,000

- ***** 10.24 Agreement dated January 29, 2003 between XML - Global Technologies, Inc., Paradigm Group II, LLC and Paradigm Millennium Fund, LP governing a license to The Qube software

- ***** 10.25 Promissory Note dated January 29, 2003 in the amount of \$200,000 in favour of XML - Global Technologies, Inc.

- ***** 10.26 Promissory note guaranty in favour of XML - Global Technologies, Inc.

- ***** 10.27 Voting Agreement between XML - Global Technologies, Inc. and Paradigm Group II, LLC
- ***** 10.28 General proxy of Paradigm Group II, LLC
- ***** 10.29 OEM agreement dated January 29, 2003 between XML - Global Technologies, Inc., Xformity, Inc. and Paradigm Group II, LLC
- ***** 10.30 Mutual Specific Release dated April 21, 2003 between XML - Global Technologies, Inc, Paradigm Group II, LLC and Paradigm Millennium Fund, LP releasing the parties from various obligations
- ***** 10.31 Supplemental Term Sheet dated April 9, 2003 from Paradigm Group II, LLC, offering to purchase stock from XML - Global Technologies, Inc.
- ***** 10.32 Notice of Termination by Information Builders, Inc. and iWay Software Company to XML - Global Technologies, Inc. in respect of a Software Licensing and Support Agreement dated June 14, 2002
- ***** 10.33 Agreement dated April 17, 2003 between Duane Nickull and Matt MacKenzie, doing business as "Yellow Dragon Software" and XML -Global Technologies, Inc. permitting Yellow Dragon to acquire certain intellectual property rights to GoXML Registry
- ***** 10.34 Agreement dated April 17, 2003 between Duane Nickull and Matt MacKenzie, doing business as "Yellow Dragon Software" and XML -Global Technologies, Inc. permitting Yellow Dragon to acquire certain intellectual property rights to GoXML Messaging
- 10.35 Employment agreement dated May 29, 2003 between Xtract Informatics Inc. and Garry Kupecz.
- 10.36 Agreement dated July 29, 2003 between Liang Wang, Kai Xu, Hai Bo Fan, Jianwen Zhang and XML Global Technologies, Inc. a Colorado company and its wholly-owned subsidiaries.
- 10.37 Letter of intent dated June 30, 2003 between XML-Global Technologies, Inc. and Xenos Group Inc.

10.38 Definitive purchase and sale agreement dated August 21, 2003 between XML-Global Technologies, Inc. and Xenos Group Inc.

10.39 iWay Software, Inc. Termination Agreement and Mutual General Release.

10.40 Xtract Sale Agreement

10.41 Transfer Agreement dated April 14, 2003 with Developers

10.42 Grant of Right of First Option dated April 14, 2003 with Developers

10.43 Agreement dated July 4, 2003 with Developers

*** 22.0 List of Subsidiaries

31.0 Certifications

32.0 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference from the Registration Statement on Form 10-SB filed with the Commission on November 18, 1997

** Incorporated by referenced from the Current Report on Form 8-K which was filed with the Commission on September 8, 1999

*** Incorporated by reference from the Registration Statement on Form SB-2 which was filed with the Commission on October 3, 2000

**** Incorporated by reference from the Current Report on Form 8-K which was filed with the Commission on June 30, 2000.

***** Incorporated by reference from the Annual Report on Form 10-KSB for the year ended June 30, 2002, which was filed with the Commission on September 30, 2002

***** Incorporated by reference from the Quarterly Report on Form 10-QSB for the period ended December 31, 2002, which was filed with the Commission on February 14, 2003

***** Incorporated by reference from the Quarterly Report on Form 10-QSB for the period ended March 31, 2003, which was filed with the Commission on May 15, 2003

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XML-Global Technologies, Inc.

Date: October 3, 2003

By: /s/ Garry Kupez
Garry Kupez, COO and Principal Executive Officer

In accordance with the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Position</u>	<u>Date</u>
<u>/s/ Garry Kupez</u> Garry Kupez	Chief Operating Officer, Principal Executive Officer	October 3, 2003
<u>/s/ Simon Anderson</u> Simon Anderson	Director, Chief Financial Officer	October 3, 2003
<u>/s/ Peter Shandro</u> Peter Shandro	Chairman of the Board	October 3, 2003
<u>/s/ Robert Gayton</u> Robert Gayton	Director	October 3, 2003
<u>/s/ Sergio Nesti</u> Sergio Nesti	Director	October 3, 2003

/s/ Jun Li

Director

October 3, 2003

Jun Li

1818 Cornwall Avenue - Suite 22
Vancouver, BC
V6J 1C7

May 28, 2003

Garry Kupecz
707 - 1295 Richards Street
Vancouver, BC
V6B 1B7

Dear Garry:

Re: Xtract Informatics Inc.

This letter serves to confirm the terms of your employment by Xtract Informatics Inc. (the "Company"). You have been hired as Chief Operating Officer and in that capacity will be responsible for the operations of the Company, its parent company XML-Global Technologies, Inc. and the other companies in the group. Your title, duties and responsibilities may change from time to time at the direction of the board of directors of XML-Global Technologies, Inc.

These employment terms are for the period April 1, 2003 to June 30, 2004.

Your compensation will comprise the following:

* Base salary of C\$6,000 per month, increasing to C\$8,000 per month after two profitable quarters. For the purpose of this clause, "profitable" is based on the following definition of profit: revenue recognized in the reviewed / audited financial statements (as applicable) less cost of revenue, less all operating expenses but before (1) costs relating to the March 2003 reorganization; (2) depreciation and amortization; (3) stock-based compensation; (4) financing charges; and (5) income taxes. These expenses are excluded as they are largely outside your control.

* Bonus of 3% of sales, payable when sales are collected. In addition, at the option of the company's Compensation Committee, the Company may pay a further discretionary bonus.

* Two million stock options in XML-Global Technologies, Inc. exercisable at \$0.04 per share vesting on the following basis:

- 250,000 at commencement of employment

- 250,000 after three months

- 250,000 after one year

- 250,000 after two years

- 250,000 when revenues in fiscal 2004 exceed US\$750,000

- 250,000 when revenues in fiscal 2004 exceed US\$1,500,000

- 250,000 when revenues in fiscal 2004 exceed US\$2,000,000

- 250,000 when revenues in fiscal 2004 exceed US\$3,000,000

For the purpose of this clause, revenues will be as disclosed in the consolidated financial statements of XML-Global Technologies, Inc. reviewed or audited by the company's external accountants.

- Severance of one month's compensation during the first year of service, with the expectation that this will increase to two months' compensation in the second year of service.

- Other benefits paid to company employees, as amended from time to time.

In consideration for the compensation outlined above, you are expected to devote substantially all your efforts to the Company and agree to sign the standard non-disclosure agreement (attached).

Please sign and return one copy of this letter to confirm your acceptance of the above terms.

Yours truly,

Xtract Informatics Inc

Simon Anderson
Director
cc Laurie Horvath

I agree with the terms set out above.

Garry Kupecz

AGREEMENT

This agreement (the "Agreement") is made as of the 4th day of July 2003.

BETWEEN

:

Liang Wang, Kai Xu, Hai bBo Fan, Jianwen Zhang (the "Developers")

AND:

XML Global Technologies, Inc. a Colorado company and its wholly-owned subsidiaries, including, without limitation Xtract Informatics, Inc. a British Columbia company (collectively "XML Global") having an office at: Suite 22, 1818 Cornwall Avenue, Vancouver, BC.

WHEREAS:

- A. The Developers have entered into certain agreements (First Agreements) dated April 14, 2003 titled the Transfer Agreement, Developer Agreement and Right of First Refusal copies attached as exhibits to this Agreement.

- B. XML Global wishes to enter into a transaction (the "Transaction") with Xenos Group Inc. ("Xenos") whereby Xenos will acquire substantially all of the assets of XML Global (the "Assets"). The Assets include the Transformation kernel described in and forming the subject matter of the First Agreements (hereinafter referred to as the "Technology").

- C. The First Agreements provides that if XML Global sells, assigns and transfers the rights in and to the source code of the Technology before April 14th, 2004, the Developers have certain entitlements more fully described therein.

NOW THEREFORE

for good and valuable consideration, the Developers and XML Global agree to the following:

- A. Upon and subject to the completion by XML Global of a Transaction, the Developers agree to accept 250,000 shares of Xenos (the "Shares") with the

same escrow and price protection terms as those shares of Xenos to be received by XML Global in the Transaction, plus US\$250,000 (the "Cash"), (payable as provided below) in full satisfaction of all entitlements of Developers under the First Agreements. Developers covenant and agree that the Xenos stock and \$250,000 represents fair market compensation for the Technology as that phrase is used in the First Agreements. The Cash shall be paid to Developers as follows: the sum of \$200,000 shall be paid directly by Xenos to Developers on completion of the Transaction; and the sum of \$50,000 (the "Holdback") shall be paid into an escrow account to be held by an escrow agent, acceptable to XML Global and Developers, for a period of six months following the completion of the Transaction. The Holdback shall be paid to Developers on the six month anniversary of the closing date of the Transaction unless on or before that date the escrow agent receives written notice from XML Global or Xenos that it, or Xenos, or their successors in interest, that a claim has been made by any third party, including, without limitation, ecMarkets.com, Inc., to an interest in the Technology or that the use of the Technology violates or infringes upon a right or interest of such third party (hereafter the "Claim"). In the event the escrow agent receives notice of a Claim, it shall hold the Holdback until it has received written notice that the Claim has been resolved, together with written instructions regarding the disposition of the Holdback; or the escrow agent may interplead the Holdback into a court of competent jurisdiction.

The share purchase warrants held by the Developers to acquire up to 16,000,000 shares of XML Global's common stock at a price of US\$0.04 per share will be cancelled, null and void effective on closing of the Transaction. Upon closing of the Transaction, Developers shall have no further right to receive any securities, payments or other consideration from XML Global except for the entitlements set forth in paragraph A of this Agreement; and Developers shall be deemed to have release, acquitted and forever discharged XML Global, together with its affiliates, from any further obligation or liability to Developers arising from any fact, transaction or occurrence up to the date of the closing of the Transaction.

B.

Upon closing of the Transaction, the Developers agree to enter into one-year employment agreements with Xenos on terms no less favorable to Developers than Developers are currently receiving from XML Global. The term of the employment shall be for one year commencing on the closing date of the Transaction. Developers shall be deemed to have agreed to the termination of their employment with XML Global upon completion of the Transaction and shall have no further right to continued employment with XML Global or to receive any compensation or other consideration from XML Global from and after the date of the Transaction closing.

C.

The Developers represent and warrant that they have transferred and assigned to XML Global full, complete and unfettered title to the Technology, free of

D.

any claims of third parties including, without limitation, any claims, rights or interest by ecMarkets.com, Inc. The Developers represent that the Technology does not and will not infringe upon any of the intellectual property rights or trade secrets of any third party including, without limitation, ecMarkets.com, Inc.; and Developers agree to indemnify, defend and hold harmless XML Global, Xenos and their assignees from any cost, obligation, damage or liability to any third party arising from any breach of this representation and warranty. XML Global shall have the right to offset against any balance due to Developers hereunder or arising out of the Transaction, any amount for which XML Global, Xenos or their assignees may become liable by virtue of any breach of the representation and warranty contained herein. Such right of offset will include all costs and liabilities of XML Global, Xenos and their assignees, including legal fees incurred in the defense of the Technology.

E. This Agreement is governed by and is to be construed in accordance with the laws of British Columbia, Canada.

F. This agreement is subject to approval by the board of directors of XML Global.

G. Time is of the essence in this Agreement.

H. No modification of this Agreement is effective unless it is in writing and signed by the parties.

I. This Agreement and any modification of it constitute the entire agreement between the parties with regards to the sale, assignment and transfer of the Technology.

J. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Each party hereto will receive by delivery or facsimile transmission a duplicate original of the Agreement executed by each party, and each party agrees that the delivery of the Agreement by facsimile transmission will be deemed to be an original of the Agreement so transmitted.

Liang Wang

Peter Shandro
Chairman of the Board
Xtract Informatics, Inc.

Kai Xu

Hai Bbo Fan

Jianwen Zhang

Executed at _____ (city), _____ (province), this _____ day of June, 2003.

Executed at _____ (city), _____ (state), this _____ day of June, 2003, by Zhang,
Jianwen _____ (initial).

Confidential

LETTER OF INTENT

June 30, 2003

To:

XML-Global Technologies, Inc.
C/O 1818 Cornwall Avenue - Suite 22
Vancouver, British Columbia
V6J 1C7

From:

Xenos Group Inc.
95 Mural Street, Suite 201
Richmond Hill, Ontario
L4B 3G2

The purpose of this Letter of Intent is as follows:

- * To summarize the basic elements of the proposed transaction to be evidenced by a final binding Definitive Agreement in form mutually satisfactory to the parties and executed on or before closing and subject to the laws of Ontario and the laws of Canada.

- * To set forth, generally, the rights and obligations of the parties.

To provide a framework for the steps preceding and relating to the closing of the proposed transaction; and

- * To specify the nature and content of the documents to be signed at the closing.

Except for the provisions of paragraph 13 below, nothing in this letter of intent is a binding legal obligation to either party

Xenos Group Inc. (Xenos) shall acquire from XML-Global Technologies, Inc. (XML Global) (i) all of the outstanding common shares of (representing one hundred percent (100%) of the issued and outstanding share capital of the company) Xtract Informatics Inc. (XML Canada), a British Columbia corporation which is the operating entity and (ii) all of the Intellectual Property Rights, Source Code, Documentation, Trademarks and Patents relating to the Software owned by XML Global and XML Canada (Collectively "XML") (including but not limited to GoXML Transform, GoXML Registry, GoXML Messaging) on the following terms and conditions, and subject to Board approval, completion of due diligence and execution of a binding Definitive Agreement including material contracts listed on schedule "A". For greater clarity, Xenos acquires all of the operating assets of XML and shall assume trade accounts payable, operating leases and other ongoing employment obligations (See "Employment Agreements" below). The principal assets would be all the intellectual property of XML Global and the shares and business assets of XML Canada. XML Global would be responsible and hold Xenos harmless from claims arising from possible litigation exposure, income taxes payable and non-trade payables such as severance or any deferred compensation obligations. The parties may change the structure of the transaction to minimize taxes payable in respect of the transaction.

- The financial statements of XML Global and XML Canada shall be prepared as of June 30, 2003 and shall be true and accurate and disclose all material obligations of XML. There shall be no material
1. adverse change from the statement date to the closing date. At closing, XML Canada shall have liquid assets equal to its current liabilities or any negative balance shall be deducted from the cash otherwise payable.
 2. There shall be no material deterioration of the business prospects of XML for the period prior to closing from those projected in the financial projections attached as schedule "B"
 3. XML shall have full and proper legal title to its Intellectual Property.

- The XML Canada entity shall have paid or made provision for all income taxes payable, non-trade payables such as severance, any deferred compensation obligations or any other non-operating obligations so that only the operating assets and operating liabilities shall be assumed by Xenos.
- 4.

- Global and Xenos will execute a satisfactory indemnity agreement in favor of Xenos relating to any litigation exposure regarding the
5. Intellectual Property and XML Canada for events occurring prior to the closing, provided that such litigation commences within 12 months of the transaction closing.

- Garry Kupecz, Liang (Jack) Wang, Kai Xu, Hai Bo Fan and Jianwen Zhang and all other employees (see schedule "C") will each execute a suitable employment agreement with Xenos, which will supercede all
6. previous agreements including, but not limited to, the "Developers Agreement" dated April 2003 and the employment contract of Garry Kupecz dated May 28, 2003.

- XML Global will receive for the aforementioned items, a) US \$1,250,000 cash in the aggregate; provided that with the written consent of Xenos the escrowed shares can be disposed of and the escrow lifted b) 1,000,000 escrowed common shares of Xenos in the aggregate; and c) a price guarantee on the TSX market value of the shares of Xenos of C\$3.50 after twelve months. The price guarantee shall entitle XML Global to a one-time cash payment equal to the
7. amount, if any, by which the 20 trading day average closing share price of Xenos shares prior to the one year anniversary of the closing of this transaction is less than C\$3.50 multiplied by one million, being the number of shares tendered in this transaction. However, the share price difference under the price guarantee shall in no event exceed the difference between C\$3.50 and the current TSX market price which shall be designated as C\$2.16. Therefore, the maximum one-time payment shall be C\$1.34 million. The price guarantee shall

be null and void if there is a material misrepresentation by XML Global in any of the closing document or the Definitive Agreement. The 1,000,000 shares will be placed in escrow for the one year period (the Escrow Period) and during that time XML Global and any of its subsidiaries shall not directly or indirectly sell or cause to be sold any shares of Xenos. For greater clarity, the price guarantee shall become completely null and void should it be established that XML Global or any of its subsidiaries sold shares during the one year period and therefore contributed towards a greater one-time payment under the formula than might otherwise have been the result. The shares shall be released from escrow following the Escrow Period and satisfactory determination of the price guarantee payment required, if any. It is the intent of the parties that Paradigm Group (including Paradigm Group II, LLC and Paradigm Millennium Fund, LP) will enter into an agreement such that Paradigm Group and its related parties will not sell shares of Xenos in the Escrow Period. Xenos and its insiders will not purchase shares of Xenos Group Inc. in the market during the final 30 days of the Escrow Period.

8 Prior to completion of formal documents Xenos shall complete a technical due diligence of the product source code and related documentation. Xenos will also complete a financial due diligence on the affairs of XML Canada (and XML Global where applicable) to confirm its current financial status and that all applicable US and Canadian state, provincial and federal sales and income taxes have been accounted for and paid. (Any overdue taxes or related penalties relating to prior years will reduce the amount of the cash consideration paid on closing.)

9 It is contemplated that XML Global shall provide Xenos with a directors' resolution approving the transaction (subject to shareholder and regulatory approval) and confirmation that a number of shares sufficient to complete the transaction shall be voted to confirm the transaction. It is the parties' intent that these documents will be delivered to Xenos by no later than July __, 2003.

10 Following approval by the Boards of XML Global and Xenos, the parties shall make an appropriate mutually agreed joint public announcement . Xenos and XML Global shall make all reasonable efforts to expedite the closing of the transaction at the earliest date feasible, including holding a shareholders' meeting to approve the transaction as soon as possible. In this regards both parties will provide full and timely co-operation in the preparation of a fairness opinion or any similar materials needed to complete this transaction.

11 XML Global shall be responsible for all vendor costs of the transaction including regulatory, shareholder or other approvals as required. Xenos shall be responsible for all purchaser costs including due diligence and other transaction costs.

The Closing of this transaction will be scheduled for on or before
12 September 30, 2003 in the Richmond Hill offices of the Xenos Group
Inc.

Until the earlier of (i) July 31, 2003, or (ii) the execution of a Definitive
Agreement and provided that this Letter of Intent shall not have
been terminated by written notice by either party to the other, XML
shall not without the consent of Xenos, offer, either directly or
13 indirectly, or solicit, discuss, negotiate or consummate, or in any
other way facilitate, either directly or indirectly, a share exchange,
business acquisition, or sale of assets not in the ordinary course of
business or other business combination with any other person, firm
or entity.

The Parties confirm the contents of this letter of intent and agree to proceed diligently to the closing of this
intended transaction.

XENOS GROUP INC.

Per: _____

Stuart Butts, Chairman and CEO

Signed and accepted by XML-Global
Technologies Inc.

Prior to July 7, 2003

XML-GLOBAL TECHNOLOGIES, INC

Date: _____

Peter Shandro, Chairman

Appendix A

Material Agreements

1. Agreement dated May 18, 2001, between XML Technologies, Inc. and iWay Software, an Information Builders Company governing iWay's rights to GoXML Transform.

2. Termination Agreement and Mutual General Release dated May ___ between XML_Technologies, Inc., XML-Global Technologies, Inc., Information Builders Inc. and iWay Software.

3. Agreement dated April 17, 2003 between Duane Nickull and Matt MacKenzie, doing business as "Yellow Dragon Software" and XML Global Technologies, Inc. permitting Yellow Dragon to acquire certain intellectual property rights to GoXML Registry.

4. Agreement dated April 17, 2003 between Duane Nickull and Matt MacKenzie, doing business as "Yellow Dragon Software" and XML Global Technologies, Inc. permitting Yellow Dragon to acquire certain intellectual property rights to GoXML Messaging.

5. Agreement dated April 14, 2003 between Liang Wang, Kai Xu, Hai Bo Fan, Jianwen Zhang (the "Developers" and XML Global Technologies, Inc. and its wholly-owned subsidiary Xtract Informatics, Inc. assigning certain transformation technology to XML.

6. Agreement dated April 14, 2003 the Developers and Xtract Informatics, Inc. governing the Developers' employment.

7. Amendment A, dated May 15, 2003, to the April 14 employment agreement with the Developers.

8. Letter agreement dated May 28, 2003 between Xtract Informatics Inc. and Garry Kupecz concerning Mr. Kupecz' employment terms.

9. Joint Venture Technology Agreement between XML-Global Technologies, Inc., Gnosis, Inc. and David R. R. Webber dated as of November 18, 1999

10. Consulting Agreement between Data Xchg, Inc. and David Webber

11. License Agreement between DataXchg, Inc. and XML-Global Technologies, Inc.

12. Agreement between << GSA >> and XML-Technologies, Inc. dated _____. This agreement is being transferred to Xtract Informatics, Inc.

13. Lease agreement dated ___ in respect of XML Canada's office premises.
14. Agreement between Telus and Xtract Informatics Inc. governing Internet bandwidth.
15. Agreement dated ___ between John Allen and XML-Technologies, Inc.
16. Sales Compensation Agreement dated April 23rd, 2003, between XML-Global Technologies, Inc. and K&I International Co., Ltd.

Appendix B

Financial Projections

Appendix C

List of Employees

<u>Name</u>	<u>Position</u>
Garry Kupecz	Chief Operating Officer
Kai Xu	Director of Engineering
Liang Want	Director of Technology
Hai bBo Fan	Senior Software Developer
Patrick Tan	Customer Support
Jiamen Zhang	Pending hire
Jeremy Gow	Senior Account Executive
Colin Briggs	Senior Account Executive

PURCHASE AND SALE AGREEMENT

Memorandum of Agreement made as of this 21st day of August, 2003.

BETWEEN:

XML-GLOBAL TECHNOLOGIES, INC.,

a corporation constituted under the laws of the State of Colorado having an address c/o Suite 22, 1818 Cornwall Avenue, Vancouver, British Columbia V6J 1C7

(hereinafter referred to as "XML")

(the party of the **FIRST PART**)

- and -

EACH SUBSIDIARY OF XML,

listed on Schedule 3.1(h) hereto

(hereinafter referred to individually as a "Subsidiary and collectively as the "Subsidiaries"")

(the parties of the **SECOND PART**)

(XML and the Subsidiaries being hereinafter referred to collectively as the "Vendor")

- and -

XENOS GROUP INC.

, a corporation constituted under the laws of the Province of Ontario having an address at Suite 201, 95 Mural Street, Richmond Hill, Ontario L4B 3G2

(hereinafter referred to as the "Purchaser")

(the party of the **THIRD PART**)

WHEREAS

the Vendor currently conducts the Business either through XML, a Subsidiary or the Company or a combination thereof;

AND WHEREAS the Vendor desires to sell and the Purchaser desires to purchase the Business, including the Assigned Assets as a going concern subject to the terms hereof;

AND WHEREAS the Vendor is the registered and beneficial owner of all of the issued and outstanding shares of the capital stock of Xtract Informatics Inc. (the "Company");

AND WHEREAS the Vendor desires to sell and the Purchaser desires to purchase the Assigned Assets used by the vendor and the Company in the conduct of the Business, and which include all of the intellectual property rights, source code, documentation, trademarks and patents relating to the Software owned by the Vendor and its Subsidiaries, including the intellectual property described in Schedule 3.1(ii) attached hereto (the "Intellectual Property Assets") and the Assignment.

NOW THEREFORE IN CONSIDERATION of the promises and the mutual agreements and covenants herein contained, the adequacy of which consideration as to each of the parties is hereby mutually admitted, the parties hereto hereby covenant and agree as follows:

ARTICLE I **DEFINITIONS**

1.1

Definitions. Whenever used in this Agreement or the Schedules hereto, unless there is something in the subject matter or context inconsistent therewith, the following words and terms shall have the respective meanings ascribed to them as follows:

- (a) "Agreement" means this purchase and sale agreement and all instruments supplemental hereto or in amendment or confirmation hereof; "herein" and similar expressions mean and refer to this Agreement and not to any particular article, section, subsection, clause or subclause; "Article", "Section", "subsection", "clause" or "subclause" means and refers to the specified article, section, subsection, clause or subclause of this Agreement;
- (b) "Annual Financial Statements" means, collectively, the unaudited financial statements of the Vendor and the Company, on a consolidated basis, as at and for the fiscal year ended June 30, 2002, copies of which are attached hereto as Schedule 1.1(b);
- (B) "Assignment Agreements") means those agreements described, and copies of which are included, in Schedule 3.1(ee);
- (c) "Assigned Assets" means the property of the Vendor and/or its Subsidiaries and/or the Company used in carrying on the Business through the Company or otherwise, including the Other Assets, and the benefit of all Assigned Agreements, Customer Rights, licenses, and intellectual property described in Schedules 1.1(v), 3.1(h), 3.1(ee) and 3.1(ii) hereto, and includes the accounts receivable on the books of the Company and on the books of the Vendor and its Subsidiaries at closing in connection with sales revenues and other income due in connection with the conduct of the Business such as those listed on Schedule 3.1(m) (the "Accounts Receivable");
- (C) "Assumed Liabilities" has the meaning attributed thereto in Section 2.8 hereto;
- (d) "Business" means, the business presently carried on by the Vendor, either directly or indirectly through its Subsidiaries, and the Company, being that of developer and marketer of Software and the provider of services to the information technology market;
- (e) "Business Day" means a day, other than a Saturday or a Sunday, on which the principal commercial banks located in Toronto, Ontario are open for business during normal banking hours;
- (f) "Closing" means the completion of the purchase and sale of the Assigned Assets and the Intellectual Property Assets hereunder by the transfer and delivery of documents of title thereto and the payments of the Purchase Price therefore as contemplated hereby as well as the completion of all other transactions contemplated hereby;

- (g) "Closing Date" means no later than the second business day following the day on which the last of the conditions set forth in Article 5 shall have been fulfilled or waived, or at such other time as Vendor and the Purchaser shall agree but in no event later than December 31, 2003.
- (h) (intentionally blank);
- (i) "Closing Time" means 11:00 a.m., Toronto time on the Closing Date or such earlier or later time as the parties hereto may agree as the time at which the Closing shall take place;
- (j) "Company" means Xtract Informatics Inc., a corporation incorporated under the laws of the Province of British Columbia, having an address at 1818 Cornwall Avenue, Suite 22, Vancouver, British Columbia, V6J 1C7.
- (J) "Customer Rights" means those customers of the Business described in Schedule 3.1(ee);
- (k) "Employee Plans" has the meaning attributed thereto in subsection 3.1(aa) hereto;
- (l) "Encumbrance" means any encumbrance, lien, charge, hypothecation, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, easement, right of occupation, any matter capable of registration against title, option, right of pre-emption, privilege or any agreement, contract or other commitment, whether written or oral, to create any of the foregoing;
- (m) "Escrow Agent" has the meaning attributed thereto in the Escrow Agreement;
- (n) "Escrow Agreement" means the agreement between the Purchaser and the Vendor with respect to the terms of the escrow period for the Xenos Shares paid to the Vendor by the Purchaser as partial consideration for the Xtract Shares and the Assigned Assets;
- (o) "Escrow Period" has the meaning attributed thereto in Section 2.6 hereto;
- (p) "Intellectual Property Assets" has the meaning attributed thereto in the fourth recital hereto and includes, but is not limited to, source code, GoXML Transform, GoXML Registry GoXML Messaging, XML Integration Workbench, Communications Server, GoXML Search and all other work-in-progress within the operations of the Vendor and its subsidiaries;
- (q) "Interim Financial Statements" means, collectively, the unaudited internally prepared financial statements of the Company for the eleven month period ended May 31, 2003, copies of which are attached hereto as Schedule 1.1(b);
- (r) "Interim Period" means the period from the date of this Agreement to and including the Closing Date;
- (s) "Leased Property" has the meaning attributed thereto in subsection 3.1(ff) hereto;
- (t) "Leases" has the meaning attributed thereto in subsection 3.1(ff) hereto;
- (u) "Losses" in respect of any matter means all claims, demands, actions, causes of action, proceedings, losses, damages, liabilities, deficiencies, costs and expenses of any nature whatsoever arising directly or indirectly as a consequence of such matter, including, without limitation, all reasonable legal and other professional fees and disbursements, interest, penalties and amounts paid in settlement;
- (v) "Other Assets" means those assets described in Schedule 1.1(v);
- (w) "Person" means any individual, corporation, partnership, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator or other legal representative;

- (x) "Price Guarantee" has the meaning attributed thereto in subsection 2.3(ii) hereto;
- (y) "Proceedings" means any suit, action, claim, litigation, arbitration or any legal, administrative or other proceeding or governmental investigation, including appeals and applications for review, at law or in equity, before any court or arbitrator or any federal, provincial, municipal or other governmental department, commission, tribunal, board or agency;
- (z) "Purchase Price" means the amount provided for in Section 2.3 to be paid by the Purchaser to the Vendor for the Assigned Assets;
- (aa) (intentionally deleted);
- (bb) "Software" means the computer programs licensed by the Company to its customers, including all versions thereof, and all related documentation, manuals, source code and object code, program files, data files, computer related data, field and data definitions and relationships, data definition specifications, data models, program and system logic, interfaces, program modules, routines, sub-routines, algorithms, program architecture, design concepts, system designs, program structure, sequence and organization, screen displays and report layouts, and includes, without limitation, all works in process and all software under development, all as they exist at the Closing Date;
- (cc) "Subsidiary" means a corporation, at least 50% of the shares of which corporation are beneficially owned by the Vendor or the Company and listed on Schedule 3.1(h) hereto and which the Vendor represents is the sole legal and beneficial owner of the Assigned Assets listed opposite such Subsidiary's name as described in the said Schedule;
- (dd) "Tax Act" means the *Income Tax Act* (Canada), as amended from time to time;
- (ee) "Taxes" means all governmental taxes, levies, duties, charges, assessments and reassessments of any nature whatsoever, whether direct or indirect, including, but not limited to, income, tax, profits tax, gross receipts tax, corporation tax, franchise tax, sales and use tax, wage tax, health tax, payroll tax, worker's compensation levy, capital tax, stamp duty, real and personal property tax, land transfer tax, customs or excise duty, excise tax, turnover or value added tax on goods sold and services rendered, goods and services tax, harmonized sales tax, withholding tax, social security, government pension plans and unemployment insurance charges and retirement contributions, and any interest, fines, additions to tax and penalties thereon;
- (ff) "TSX" means The Toronto Stock Exchange; and
- (gg) "Xenos Shares" has the meaning attributed thereto in Section 2.3 hereto;

2. Currency.

Unless otherwise indicated, all dollar amounts referred to in this Agreement are expressed in US funds.

1.3

Gender and Number. Where the context requires, words importing the singular shall include the plural and vice versa, and words importing gender include all genders.

1.4

Headings. The Article and Section headings contained in this Agreement are included solely for convenience, are not intended to be full or accurate descriptions of the content thereof and shall not be considered part of this Agreement or affect the construction or interpretation of any provision hereof.

1.5

Schedules. The Schedules to this Agreement shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein. Following are the Schedules to this Agreement:

Schedule 1.1(b) - Annual Financial Statements and Interim Financial Statements

Schedule 1.1(v) - Other Assets

Schedule 2.3 - Escrow Agreement

Schedule 2.8 - Assumed Liabilities

Schedule 3.1(a)(ii) - Location of the Business

Schedule 3.1(h) - Subsidiaries of the Vendor

Schedule 3.1(j) - Business of the Company

Schedule 3.1(m) - Accounts Receivable

Schedule 3.1(o) - Title to Personal and Other Property

Schedule 3.1(p) - Tax Matters

Schedule 3.1(u) - Proceedings

Schedule 3.1(v) - Directors and Officers

- Schedule 3.1(x) - Insurance
- Schedule 3.1(z) - Employees
- Schedule 3.1(aa) - Employee Plans
- Schedule 3.1(bb) - Unusual Transactions
- Schedule 3.1(cc) - Outstanding Loans/Issue of Shares/Guarantees
- Schedule 3.1(ee) - Agreements
- Schedule 3.1(ff) - Real Property
- Schedule 3.1(ii) - Intellectual Property
- Schedule 3.1(jj) - Third Party Technology
- Schedule 3.1(ll) - Licences
- Schedule 3.1(mm) - Due Diligence Request List of Purchaser
- Schedule 5.1(c) - Financial Projections
- Schedule 5.1(d) - Legal Opinion of Counsel to the Vendor
- Schedule 5.1(h) - Indemnity Agreement of Vendor re Intellectual Property

Schedule 5.1(l) Non-Competition Agreement

Schedule 5.2(c) Legal Opinion of Counsel to the Purchaser.

1.6 Accounting Terms.

All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles in Canada, consistently applied.

1.7 Entire Agreement.

This Agreement, including the Schedules hereto, together with the agreements and other documents to be delivered pursuant hereto or referred to herein, constitute the entire agreement between the parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties and there are no warranties, representations or other agreements between the parties in connection with the subject matter hereof except as specifically set forth herein and therein. This Agreement may not be amended or modified in any respect except by written instrument signed by all parties. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision (whether or not similar) nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

ARTICLE II SHARE AND ASSET PURCHASE

2.1 Purchase and Sale.

Subject to the terms and conditions of this Agreement, and in reliance upon the representations, warranties and conditions set forth herein, the Purchaser hereby agrees to purchase from the Vendor and the Vendor hereby agrees to sell to the Purchaser at the Closing Time the Assigned Assets all for an aggregate amount equal to the Purchase Price set forth in Section 2.3 and paid and satisfied in the manner set forth in Section 2.4.

2.2 Closing.

Closing shall take place on the Closing Date at the offices of Borden Ladner Gervais LLP, 40 King Street West, Suite 4400, Toronto, Ontario and on Closing the Vendor shall, and shall cause its Subsidiaries and the Company to, execute appropriate conveyances and assignments in registrable form to transfer all of the title and right to, and interest in, the title and interest in the Assigned Assets to the direction of the Purchaser; whereupon the Purchaser shall cause to be paid to the Vendor the Purchase Price in the manner provided in Section 2.4.

2.3 Purchase Price.

The Purchase Price for the Assigned Assets shall be:

- (i) the sum of \$1,250,000 in cash;

- (ii) 1,000,000 fully paid and non-assessable common shares in the capital stock of the Purchaser (the "Xenos Shares") in the aggregate, held in escrow pursuant to the terms of an Escrow Agreement in the form provided in Schedule 2.3, and the proceeds, if any, from a price guarantee as provided in subsection 2.5 (the "Price Guarantee") on the Xenos Shares of C\$3.50 after twelve months; and
- (iii) an amount equal to the aggregate of the Assumed Liabilities.

2.4 Payment of Purchase Price. On Closing, the Purchase Price shall be paid and satisfied by the Purchaser as follows:

- (i) by delivery to the Vendor of a certified cheque in the aggregate amount of \$1,250,000 payable to the order of the Vendor, subject to any Working Capital Adjustment and giving credit for any loans or advances extended by Purchaser to the Company prior to the Closing Date;
- (ii) by delivery of share certificates representing the Xenos Shares registered and delivered to the order of the Vendor and delivered to the Escrow Agent subject to the terms of the Escrow Agreement; and
- (iii) by the assumption by the Purchaser of the Assumed Liabilities as provided in Section 2.8.

2.5 Price Guarantee.

The Price Guarantee shall entitle the Vendor to a one-time cash payment equal to the amount, if any, by which the 20 trading day average closing share price of the Xenos Shares prior to the one year anniversary of the Closing of the purchase and sale of the Assigned Assets (the "Price Guarantee Date") is less than C\$3.50 multiplied by one million, being the number of Xenos Shares tendered in the purchase and sale of the Assigned Assets. However, the share price difference under the Price Guarantee shall in no event exceed the difference between C\$3.50 and the current TSX market price, which shall be designated as C\$2.16. Therefore, the maximum one-time payment shall be C\$1,340,000.

The Price Guarantee shall be null and void if there is a material misrepresentation by the Vendor in any of the closing documents or in this Agreement or if there is any sale or other disposition, directly or indirectly by the Paradigm Group of any common shares of the Purchaser between the date hereof and the Price Guarantee Date. Any payment due hereunder by the Purchaser to the Vendor shall be due and payable no later than 10 Business Days following the Price Guarantee Date.

2.6 Escrow.

The Xenos Shares will be placed in escrow pursuant to the Escrow Agreement for the one-year period following the Closing Date (the "Escrow Period") and during that time the Vendor and any of its Subsidiaries shall not directly or

indirectly trade or cause to be traded any common shares of the Purchaser. For greater clarity, the Price Guarantee shall become completely null and void should it be established that the Vendor or any of its Subsidiaries traded any of the common shares of the Purchaser during the Escrow Period and therefore contributed towards a greater one-time payment under the Price Guarantee than might otherwise have been the result. The Xenos Shares will be released from escrow following the Escrow Period and satisfactory determination and payment of the Price Guarantee, if any. The Purchaser and its insiders will not purchase shares of Xenos Group Inc. in the market during the final 30 days of the Escrow Period.

2.7 Allocation of Purchase Price.

The parties covenant and agree that for all tax purposes including, without limitation, Section 1060 of the United States Internal Revenue Code, if applicable, the Purchase Price shall be allocated among the assets to be sold by Vendor and purchased by Purchaser, as follows:

Accounts Receivable:	Cdn. \$ 31,100
Contract, and License Rights:	Cdn. \$ 67,300
Intellectual Property Assets:	
Go XML Transform:	Cdn. \$3,821,800
Go XML Registry:	Cdn. \$ 153,000
Computer Equipment, Software and Furniture	Cdn. \$ 52,400
Go XML Messaging:	Cdn. \$ 52,000
Go XML Integration Workbench	Cdn. \$ nil
Go XML Search	Cdn. \$ 25,000
Communications Server	Cdn. \$ 60,000

General Intangibles (Domain Names, Trademarks):

Cdn. \$ 224,900

Total

Cdn. \$4,487,500

2.8 Assumed Liabilities

. Provided that the transaction of purchase and sale contemplated herein is completed in accordance with the provisions hereof, the Purchaser undertakes and agrees in partial satisfaction of the Purchase Price to assume and pay in full the Assumed Liabilities, the details of which are set forth in Schedule 2.8 hereto and based on June 30, 2003 figures. Assumed Liabilities to be paid by the purchaser will include all accounts payable of Vendor and Subsidiaries incurred in the ordinary course of business up to the Closing date and shall not include any items relating to the Closing of the transaction. Any liabilities assumed and paid in respect of expenses associated with the Closing of the Transaction shall be deducted at Closing from the Purchase Price payable pursuant to Section 2.4(i);

2.9 Assumed Obligations.

The Purchaser will assume and discharge on a timely basis the obligations of the Vendor in respect to the Business which are set forth in Schedule 3.1(ee) (the "Assigned Agreements") to the extent only that (i) a true copy of the Assigned Agreement is included in Schedule 3.1(ee) and (ii) the obligations relate to the period following the Closing and no other obligations of the Vendor. The Purchaser shall assume no obligations under any contract with any director or officer of the Vendor or with any third party who does not deal at arm's length (as such term is used in the Tax Act) with the Vendor and each of its directors and officers with the exception of the MCSI account as provided on Schedule 2.8. The Vendor shall indemnify and hold the Purchaser harmless from and against any claims under any Assigned Agreement relating to any matter arising prior to the Closing.

ARTICLE III **REPRESENTATIONS AND WARRANTIES**

3.1 Representations and Warranties of the Vendor.

The Vendor hereby represents and warrants the following to the Purchaser and acknowledges that the Purchaser is relying on these representations and warranties in connection with its purchase of the Assigned Assets contemplated hereby;

(a)

(i) **Status and Capacity of the Vendor.** The Vendor is a corporation duly organized and validly existing under the laws of its incorporating jurisdiction and has all necessary corporate power, authority and capacity to own or lease its property and assets and to carry on the business of a provider of pre-packaged software and related services. The Vendor is duly registered, licensed or otherwise qualified and in good standing under all applicable laws and regulations to conduct its business.

(ii) **Status and Capacity of the Company.** The Company is a corporation duly organized and validly existing under the laws of the Province of British Columbia and has all necessary corporate power, authority and capacity to own or lease its property and assets and to carry on the Business. The Company is duly registered, licensed or otherwise qualified and in good standing under all applicable laws and regulations to conduct the Business. Schedule 3.1(a)(ii) attached hereto contains a true and complete list of all locations of the Business of the Company and the jurisdictions in which it carries on the Business.

(iii) **Binding Agreement.** This Agreement has been duly executed and delivered by the Vendor and constitutes a legal, valid and binding obligation of the Vendor enforceable against the Vendor in accordance with its terms, except as may be limited by bankruptcy, insolvency, liquidation, moratorium, reorganization or other laws relating to the enforcement of creditors' rights generally and by the availability of equitable remedies.

(b) **No Other Agreements to Purchase.** No Person other than the Purchaser has any written or oral agreement or option or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement or option for the purchase or acquisition from the Vendor of any of the Assigned Assets.

(c) **Right to Sell the Assigned Assets.** At the Closing Time:

(i) the Vendor shall be the sole legal and beneficial owner of all of the Assigned Assets, free and clear of any liens, charges, encumbrances or rights of others (other than the rights of the Purchaser hereunder) and the Vendor will deliver to the Purchaser on Closing good and marketable title to the Assigned Assets free and clear of any liens, charges, encumbrances, demands or rights of others (other than (i) the rights of the Purchaser hereunder and (ii) restrictions on transfer that may be imposed by federal, provincial or state securities laws); and

(ii) the Vendor will have the exclusive right to dispose of the Assigned Assets on the terms and conditions herein provided.

(d) **Right to Sell the Intellectual Property Assets.** At the Closing Time:

(i) the Intellectual Property Assets shall constitute all the intellectual property of the Vendor and the Company and the disposition of the Intellectual Property Assets pursuant to the terms hereof will not violate, contravene, breach or offend against or result in any default under any indenture, mortgage, lease, agreement, instrument, charter or by-law provision, statute, regulation, order, judgment, decree or law to which the Vendor or the Company is a party or is subject to or by which either of them are bound or affected;

(ii) the Vendor or the Company shall be the sole legal, registered and beneficial owner of all of the Intellectual Property Assets, free and clear of any liens, charges, encumbrances or rights of others (other than the rights of the Purchaser hereunder) and the Vendor will deliver to the Purchaser on Closing good and marketable title to all of such Intellectual Property Assets free and clear of any liens, charges, encumbrances, demands or rights of others (other than the rights of the Purchaser hereunder); and

(iii) the Vendor will have the exclusive right to dispose of the Intellectual Property Assets on the terms and conditions herein provided.

(e) (intentionally blank)

(f) (intentionally blank)

(g) (intentionally blank).

(h) **Subsidiaries of the Vendor.** Other than the Subsidiaries set out in Schedule 3.1(h) hereto, the Vendor has never had any Subsidiaries and has no agreements of any nature to acquire, directly or indirectly, any subsidiary or to acquire or lease any other business operations and the Vendor does not own, beneficially or otherwise, any securities of, or has any other proprietary interest in, any other Person. Schedule 3.1(h) contains a true and complete list of all of the locations of the Subsidiaries and the jurisdictions of their incorporation.

(i) **Subsidiaries of the Company.** The Company has never had any Subsidiaries and has no agreements of any nature to acquire, directly or indirectly, any subsidiary or to acquire or lease any other business operations and the

Company does not own, beneficially or otherwise, any securities of, or has any other proprietary interest in, any other Person.

(j) **Business of the Company.** The Business is the only business operation carried on by the Vendor and the Company and the property and assets owned or leased by the Vendor and the Company are sufficient to carry on the Business. Except as set out on Schedule 3.1(j) hereto, all of the property and assets owned and used by the Vendor and the Company are in good operating condition and are in a state of good repair and maintenance, reasonable wear and tear excepted. During the two years preceding the date of this Agreement, there has not been any significant interruption of operations (being an interruption of more than one day) of the Business due to inadequate maintenance of any of the property and assets owned and used by the Vendor and the Company.

(k) **Financial Statements.** The Annual Financial Statements and the Interim Financial Statements fairly represent in all material respects, as of the date of the preparation of such financial statements, the financial position of the Business and the results of its operations at the date and for the periods indicated, and shall disclose all material obligations of the Vendor and the Company. For greater certainty the Purchaser shall not be liable for any liabilities of the Company or the Business except as provided in Section 2.8 or which Purchaser expressly agrees to assume at Closing.

(l) **Books and Records.** The books and records of the Company fairly and correctly set out and disclose, on a consistent basis, the financial position of the Company as at the date hereof, and all financial transactions of the Company relating to the Business have been fully and accurately recorded in such books and records.

(m) **Accounts Receivable.** All Accounts Receivable, net of reserves, including those accounts receivable of the Vendor and its Subsidiaries, book debts and other debts due or accruing to the Company, the Vendor or its Subsidiaries in connection with the Business are set out in Schedule 3.1 (m) and are bona fide and good and are believed to be collectible without set-off or counterclaim other than in respect of volume discounts, allowances and rebates which have been disclosed in Schedule 3.1(m).

(n) **Corporate Records and Filings.** Copies of the corporate records and minute books of the Company have been provided to the Purchaser. The minute book of the Company includes copies of all of the minutes of meetings of the Board of Directors and shareholders (or written consents in lieu thereof) with respect to the election of directors, the election of officers and the issuance of shares of capital stock of the Company. The stock ledger included in the corporate records and minute book of the Company is true and correct. All corporate information returns and other filings have been duly filed by the Company. The accounting books and records of the Company fairly and correctly set out and disclose all financial transactions of the Company.

(o) **Title to Personal and Other Property.** Except as set out in Schedule 3.1(o) hereto, the property and assets of the Vendor and the Company are owned beneficially by the Vendor and the Company, respectively, as the beneficial owner thereof with good and marketable title thereto, free and clear of any and all Encumbrances.

(p) **Tax Matters.** Except as set out on Schedule 3.1(p) hereto, each of the Vendor and the Company have duly filed on a timely basis all tax returns, elections and reports required to be filed by it and such are true complete and correct and each of the Vendor and the Company has paid all taxes, assessments, reassessments, governmental charges, penalties, interest and fines due and payable by it. Except as set forth on Schedule 3.1(p) hereto, neither the Vendor nor Company has any knowledge of any audits, actions, assessments, suits, proceedings, investigations or claims pending or threatened against the Vendor or the Company, in respect of taxes, governmental charges or assessments, nor are there any material matters under discussion with any governmental authority relating to taxes, governmental charges or assessments asserted by any such authority.

(q) There are no agreements, waivers or other arrangements providing for an extension of time with respect to the filing of any tax return by, or payment of any tax, governmental charge or deficiency against the Vendor. The Vendor is

not currently required to file any returns, elections or designations with any taxation authority located in any jurisdiction outside the United States of America or outside the State of Colorado.

(r) There are no agreements, waivers or other arrangements providing for an extension of time with respect to the filing of any tax return by, or payment of any tax, governmental charge or deficiency against the Company. The Company is not currently required to file any returns, elections or designations with any taxation authority located in any jurisdiction outside Canada or outside the Province of British Columbia.

The Company has withheld from each payment made to any of its past or present employees, officers or directors, and to any non-resident of Canada, the amount of all taxes and other deductions required to be withheld therefrom.

(s) **Residency of the Vendor.** The Vendor is a non-resident of Canada for the purposes of the Tax Act;

(t) **Residency of the Company.** The Company is not a non-resident of Canada for the purposes of the Tax Act;

(u) **Proceedings.** Except as described in Schedule 3.1(u) hereto, there are no actions, suits or Proceedings (whether or not purportedly on behalf of any of the Vendor or the Company) in progress, pending or, to the knowledge of any of the Vendor or the Company, after due inquiry, threatened against, relating to or affecting the Vendor or the Company or the Business or any of the assets of any of the Vendor or the Company at law or in equity before or by any court, government agency or department, commission board, instrumentality or arbitrator of any kind, domestic or foreign. There is no Proceeding pending or, to the knowledge of any of the Vendor or the Company, threatened to restrain, set aside or invalidate, or seek to obtain substantive damages in respect of, any of the transactions contemplated by this Agreement.

(v) **Directors and Officers.** Schedule 3.1(v) attached hereto contains a true and complete list of the names of the directors and officers of the Company.

(w) **Absence of Conflict.** Neither the execution nor the delivery of this Agreement nor the consummation of the transactions contemplated hereby nor compliance with and fulfilment of the terms and provisions of this Agreement will:

(i) conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under or an event which, with the giving of notice or lapse of time or both, would be a breach of or a default under:

A. any contract, indenture, instrument, agreement, mortgage, lease, licence, or other agreement to which the Vendor or the Company is a party or by which the Vendor or the Company, or the Vendor's or the Company's property or assets are bound; or

B. to the knowledge of either the Vendor or the Company any statute, ordinance, regulation, law, judgment, order, award, decree or other instrument or restriction to which the Vendor or the Company is a party or by which the Vendor or the Company or the Vendor's or the Company's or property or assets are bound; or

- (ii) require any affirmative approval, consent, authorization or order or action by any court, governmental authority or regulatory body or by any creditor of any of the Vendor or the Company; or
- (iii) result in the loss of any consent, approval, authorization, order, licence or permit benefiting any of the Vendor or the Company; or
- (iv) result in the creation or imposition of any Encumbrance on any of the Assigned Assets or any of the property or assets of any of the Vendor or the Company.

(x) **Insurance.** The Assigned Assets are insured against loss or damage by all insurable hazards or risks on a replacement cost basis and such insurance coverage will be continued in full force and effect to and including the Time of Closing. The insurance policies that are maintained by or for the Vendor and the Company are listed and described in Schedule 3.1(x) hereto, specifying the insurer, the amount of coverage, the type of insurance, the policy number and any pending claims thereunder. All such policies are in full force and neither the Vendor nor the Company is in default, whether as to the payment of premium or otherwise, under the terms of any such policy. Neither the Vendor nor Company has failed to give any notice or present any claim under any such insurance policy in a due and timely fashion.

(y) **No Expropriation.** No property or asset of either of the Vendor or the Company has been taken or expropriated by an federal, provincial, state, municipal or other authority, nor has any notice or proceeding in respect thereof been given or commenced nor is the Vendor or the Company aware of any intent or proposal to give any such notice or commence any such proceeding.

(z) **Employment Contracts.** Schedule 3.1(z) hereto lists the names and position of all personnel that are employed or engaged by or for the Company in connection with the Business, including the salaries, and the length of employment of such persons. No notice has been received by the Company of any complaint filed by any of the employees against the Company claiming that the Company has violated any applicable employee or human rights or similar legislation in the other jurisdictions in which the Business is conducted or in which the Company operates or any complaints or Proceedings of any kind involving the Company or, to the best of the knowledge of the Company, any of the employees of the Company before any labour relations board. To the knowledge of the Vendor, there are no outstanding orders or charges against the Company under any labour relations, equal employment, occupational safety and health, wage and hour, wage payment or similar laws. All levies, assessments and penalties made against the Company pursuant to any workers' compensation legislation in the jurisdictions in which the Business is conducted have been paid by the Company and the Company has not been reassessed under any such legislation, regulation or ordinance during the last five years. All accruals for unpaid vacation pay, premiums for unemployment insurance, health premiums, premiums, accrued wages, salaries and commissions and employee benefit plan payments have been reflected in the books and records of the Company.

Except for the Employee Plans listed and described in Schedule 3.1(aa), there are no outstanding written employment contracts, service or consulting agreements, employee benefit or profit-sharing plans, or any bonus, savings, deferred compensation, stock option, insurance or retirement arrangements with any employee, past or present, of the Business nor are there any outstanding oral contracts of employment which are not terminable on the giving of reasonable notice in accordance with applicable law. The Company has not made any agreements with any labour union or employee association in connection with the Business, nor made any commitments to or conducted any negotiations with any labour union or employee association with respect to any future agreements and the Vendor is not aware of any current

attempts to organize or establish any labour union or employee association with respect to any employees of the Company nor is there any certification of any such union with regard to a bargaining unit.

(aa) **Employee Plans.** Schedule 3.1(aa) identifies each retirement, pension, bonus, stock purchase, profit sharing, stock option, deferred compensation, severance or termination pay, insurance, medical, hospital, dental, vision care, drug, sick leave, disability, salary continuation, legal benefits, unemployment benefits, vacation, incentive or other compensation plan or arrangement or other employee benefit that is maintained or otherwise contributed to, or required to be contributed to, by the Company for the benefit of employees or former employees of the Company (the "Employee Plans"). To the knowledge of the Vendor, each Employee Plan has been maintained in material compliance with its terms and with the requirements prescribed by any and all statutes, order, rules and regulations that are applicable to such Employee Plan. To the knowledge of the Vendor, except as described in schedule 3.1(z):

(i) all contributions to each Employee Plan that may have been required to be made in accordance with the terms of any such Employee Plan, or with the recommendation of the actuary for such Employee Plan, and, where applicable, the laws of the jurisdictions that govern such Employee Plan, have been made in a timely manner;

(ii) all material reports, returns and similar documents (including applications for approval of contributions) with respect to any Employee Plan required to be filed with any governmental agency or distributed to any Employee Plan participant have been duly filed on a timely basis or distributed;

(iii) there are no pending investigations by any governmental or regulatory agency or authority involving or relating to an Employee Plan, and to the knowledge of the Vendor, there are no threatened or pending claims (except for claims for benefits payable in the normal operation of the Employee Plans), suits or proceedings against any Employee Plan or asserting any rights or claims to benefits under any Employee Plan that could give rise to a liability nor, to the knowledge of the Vendor, are there any facts that could give rise to any liability in the event of such investigation, claim, suit or proceeding;

(iv) the assets of each Employee Plan which is required by the laws of the jurisdictions that govern such Employee Plan to be funded are at least equal to the liabilities of such Employee Plans based on the actuarial assumptions utilized in the most recent valuation performed by the actuary for such Employee Plans, and neither the Purchaser nor any of its associates or affiliates will incur any liability with respect to any Employee Plan as a result of the transactions contemplated by this Agreement.

(bb) **Absence of Unusual Transactions.** Since the end of the fiscal period reported in the Interim Financial Statements;

(i) the Company has not declared or paid any dividend or made any distribution with respect to its share or directly or indirectly redeemed, purchased or otherwise acquired any of its shares;

(ii) except in the ordinary course of business and except as set forth on Schedules 3.1(o), 3.1(bb) and 3.1(cc) hereto and except as otherwise provided for in this Agreement, the Company has not entered into any transaction whereby it has sold or otherwise disposed of any of its assets, incurred or increased any corporate liabilities or indebtedness, granted an Encumbrance over any of its assets, discharged or satisfied any Encumbrance, liability or obligation or made any capital expenditures;

(iii) except as set forth on Schedule 3.1(bb) the Company has not issued or agreed to issue any additional securities;

(iv) the Company has not made any payments or agreed to make any payments to any of its directors, officers, employees or shareholders except in the ordinary course of business;

(v) the Company has not changed any of its accounting or tax policies, except as provided for in this Agreement; and

- (vi) the Company has not authorized or agreed or otherwise become committed to do any of the foregoing.
- (cc) **Liabilities.** Except as referred to on Schedule 3.1(cc) the Company is not a party to or bound by any material agreement of guarantee, indemnification, assumption or endorsement or any other like commitment of the obligations, liabilities (contingent or otherwise) or indebtedness of any other Person and there are no material liabilities of the Company of any kind whatsoever (whether accrued, absolute, contingent or otherwise and whether or not determined or determinable), or material liabilities in respect of which any of the Company or the Purchaser may be or become liable on or after the consummation of the transactions contemplated by this Agreement, other than:
- (i) liabilities disclosed on, reflected in or provided for in the Interim Financial Statements, the notes to the Financial Statements, or otherwise referred to in this Agreement;
- (ii) liabilities incurred in the ordinary course of business and attributable to the period since the end of the fiscal period reported on in the Interim Financial Statements, none of which, either individually or collectively, has been materially adverse to the nature of the Business, results of operations, earnings, assets, financial condition or manner of conducting the Business; and
- (iii) liabilities arising solely due to actions of the Purchaser or any of its affiliates.
- (iv) Except as disclosed in Schedule 3.1(cc), the Company has not granted any loan or advance to any Person or guaranteed the indebtedness of any Person. Except as disclosed in Schedule 3.1(cc), the Company does not have any right to receive any sum from any shareholder, director, officer or employee of the Company or from a Person related to any of them.
- (dd) **No Change.** Other than as referred to in this Agreement, since the end of the fiscal period reported on in the Interim Financial Statements, there has not been any material adverse change, financial or otherwise, in the business, operations, earnings, affairs, condition or prospects of the Vendor, its Subsidiaries or the Company in respect of the Business. The Business operations of the Company since the said date have been carried on in the ordinary and usual course only and there has not been any damage, destruction or loss (whether or not covered by insurance) affecting the property or assets of the Company.
- (ee) **Agreements.** Schedules 3.1(z), 3.1(aa), 3.1(ee), and 3.1(ii) hereto list all significant agreements, contracts, leases, obligations, commitments or undertakings, of the Company, other than those relating to customers or suppliers in the ordinary course of business and those of the Vendor and its Subsidiaries relating to the Business. Neither the Vendor, any Subsidiary nor the Company is not in default or breach of any of the agreements, contracts, leases, obligations, commitments or undertakings referred to in the said Schedules and, to the knowledge of the Vendor, there exists no state of facts which after notice or lapse of time or both would constitute such a default or breach or give any other party thereto the right to accelerate payments thereunder or to terminate such agreement, contract, lease, obligation, commitment or undertaking. To the knowledge of the Vendor, all such agreements, contracts, leases, obligations, commitments and undertakings are in good standing and each of the Vendor, its Subsidiaries and the Company has performed all of the obligations required to be performed by it as at the date hereof and is entitled to all benefits thereunder. Except as set out in Schedule 3.1(ee) hereto, no such agreement, contract, lease, obligation, commitment or undertaking will require the consent of any party thereto to the transactions contemplated by this Agreement or become terminable as a consequence thereof.
- (ff) **Real Property.** The Company is not the beneficial or registered owner of and has not agreed to acquire any real property or any ownership interest in any real property. Other than the leases (the "Leases") described in Schedule 3.1(ff) in respect of the real property leased by the Company (the "Leased Property"), the Company is not a party to any lease or agreement in the nature of a lease in respect of any real property, whether as lessor or lessee, and it has not agreed to lease any real property or any interest in any real property, whether as lessor or lessee. Schedule 3.1(ff) sets out a full description of the Leases, including the parties thereto, their dates of execution and expiry, any options to renew, the location of the Leased Property and the rent payable under the Leases. Except as described in

Schedule 3.1(ff) hereto, the Company occupies the Leased Property and has the exclusive right to occupy and use the Leased Property. To the knowledge of the Vendor, the Leases are in good standing and in full force and effect without amendment thereto and neither the Company nor the other parties thereto are in breach of any covenants, conditions or obligations contained therein.

(gg) **Regulatory Compliance and Approvals.** To the knowledge of the Vendor, the Company is conducting the Business in compliance with all applicable laws, statutes, rules, ordinance and regulations and the Company is not in default of any applicable law, statute, rule, ordinance or regulation or of any judgment, order, writ, injunction, decree or award of any court, tribunal, commission, exchange, board, bureau, governmental agency, department or arbitrator, domestic or foreign, and no circumstances exist which may result in such a default. To the knowledge of the Vendor, there is no requirement to make any filing with, given any notice to or obtain any licence, permit, certificate, registration, authorization, consent or approval of, any governmental or regulatory authority as a condition to the lawful consummation of the transactions contemplated by this Agreement.

(hh) **Regulatory Approvals.** There is no requirement for the Vendor or the Company to make any filing with, give any notice to or obtain any authorization, consent or approval of, any governmental or regulatory authority as a condition to the lawful consummation of the transactions contemplated by this Agreement except for the compliance by the Vendor of the applicable requirements of the NASD, OTC Bulletin Board and the Securities Exchange Act of 1934 and regulations thereunder in respect of the transactions contemplated herein.

(ii) **Intellectual Property and Approvals.**

(i) There are no trade marks, trade names, business names, copyrights, inventions, industrial designs or other industrial property owned by either the Vendor, any Subsidiary, or the Company used in or required for the proper carrying on of the Business other than as set out in Schedule 3.1(ii) hereto.

(ii) Except as set out in Schedule 3.1(ii), the Software was written by developers who at the time they wrote the Software, were either full-time employees of either the Vendor, any Subsidiary, or the Company employed as software programmers who delivered waivers of moral and similar rights in favour of either the Vendor, any Subsidiary, or the Company, and its successors in title, as applicable, or were contractors who assigned their intellectual property rights in the Software to either the Vendor, any Subsidiary, or the Company pursuant to written agreements and delivered waivers of moral and similar rights in favour of either the Vendor, any Subsidiary, or the Company and its successors in title, as applicable. The source code for the Software has not been delivered or made available to any person except pursuant to source code escrow agreements which restrict the use of the source code to support purposes only and neither the Vendor, any Subsidiary, or the Company has agreed to or undertaken to or in any other way promised to provide such source code to any person.

(iii) Each of the Vendor, any Subsidiary, and the Company has full and proper title to its Intellectual Property Assets which are the subject matter of this Agreement.

(jj) **Third Party Technology.** Except as described in Schedule 3.1(jj) hereto, and except for commonly available over-the-counter software, there is no software, operating systems, hardware, data, applications, code, equipment or any other technology owned by a third party that is used or required by the Vendor, its Subsidiaries, or the Company for the conduct of the Business in the manner presently conducted or necessary to the design, manufacture, operation, or delivery of, the products and/or services of the Vendor, its Subsidiaries, or the Company as presently offered and sold in the ordinary course of business.

(kk) **No Infringement.** The Vendor and the Company are not aware of any claim of any infringement or breach by the Company of any industrial or intellectual property rights of any other person, nor has the Vendor or the Company received any notice, nor are the Vendor or the Company otherwise aware that the use of the business names, trademarks, service marks, Software and other industrial or intellectual property rights of the Company infringes upon or breaches any industrial or intellectual property rights of any other person. None of the Vendor or the Company have any

knowledge of any infringement or violation of any of its intellectual and industrial property rights and none of the Vendor or the Company is aware of any state of facts that casts doubts on the validity or enforceability of any such intellectual or industrial property rights.

(ll) **Licenses, Permits.** To the knowledge of the Vendor, the Company has in full force and effect all approvals, authorizations, consents, licenses, orders and permits of all governmental agencies, whether federal, provincial or municipal, and regulatory agencies required for the ownership and operation of the Business. Schedule 3.1(ll) contains a list of all such approvals, authorizations, consents, licenses, orders and permits. There are no Proceedings pending or, to the best of the knowledge of the Vendor, threatened which seek revocation or limitation of any such approvals, authorizations, consents, licences, orders or permits, nor is there any basis or grounds for any such revocation or limitation.

(mm) **Due Diligence.** All information, contracts and other documents requested in the Purchaser's due diligence request lists, to the extent applicable or relevant to the transactions contemplated herein, have been duly provided to the Purchaser by the Vendor and the Company. Copies of such due diligence request lists are attached hereto as Schedule 3.1(mm).

(nn) **Full Disclosure.** To the best knowledge of the Vendor and the Company, neither this Agreement nor any document to be delivered by either the Vendor, any Subsidiary or the Company, nor any certificate, report, statement, or other document furnished by either the Vendor, any Subsidiary or the Company in connection with the negotiation of this Agreement or the Purchaser's due diligence investigation of the Business, the Assigned Assets contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not misleading. There has been no event, transaction or information that has come to the attention of either the Vendor or the Company that has not been disclosed to the Purchaser in writing that could reasonably be expected to have a material adverse effect on the assets, business, earnings, prospects, properties or condition (financial or otherwise) of the Business.

3.2

Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants the following to the Vendor as at the Closing Date and acknowledges that the Vendor is relying on these representations and warranties in connection with the sale of the Assigned Assets contemplated hereby and the other transactions contemplated hereby:

(a) **Corporate Status.** The Purchaser has been duly incorporated, is validly existing under the *Business Corporations Act (Ontario)*, has the corporate power and authority to own its property and conduct its business as now conducted, is duly registered or qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such registration or qualification.

(b) **Due Authorization.** The Purchaser has all necessary corporate power, authority and capacity to enter into this Agreement and to take, perform or execute all proceedings, acts and instruments necessary or advisable to consummate the purchase of the Assigned Assets and to fulfil its obligations under this Agreement.

(c) **Enforceability.** As at the Closing Time, this Agreement shall have been duly authorized, executed and delivered by the Purchaser and shall constitute a legal, valid and binding obligation of the Purchaser enforceable against it in accordance with its terms, except as such terms may be limited by bankruptcy, insolvency, liquidation, moratorium, reorganization or other laws relating to the enforcement of creditors' rights generally and by the availability of equitable remedies.

(d) **Absence of Conflict.** Neither the execution nor delivery of this Agreement nor the consummation of the transactions contemplated hereby, including, without limitation, the issuance of the Xenos Shares to the Vendor, nor compliance with and fulfilment of the terms and provisions of this Agreement will:

- (i) conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under or an event which, with the giving of notice or lapse of time or both, would be a breach of or a default under:
- A. the constating documents, by-laws or resolutions of the board of directors (or any committee thereof) or shareholders of the Purchaser; and
 - B. any contract, indenture, instrument, agreement, mortgage, lease, licence, statute, ordinance, regulation, law, judgment, order, award, decree or other instrument or restriction to which the Purchaser is a party or by which it is, or its property or assets are, bound; or
- (ii) require any affirmative approval, consent or authorization or order or action by any court, governmental authority or regulatory body or by any creditor of the Purchaser.

(e) **Reporting Issuer.** The Purchaser is a reporting issuer not in default of its obligations under applicable securities laws in all of the provinces of Canada and its issued common shares are listed for trading on the TSX. The Purchaser is in full compliance with its timely disclosure obligations under all applicable securities laws in all of the provinces of Canada and the requirements of the TSX. None of such reports, including without limitation, any financial statements or schedules included therein, at the time filed, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading. The audited financial statements and unaudited interim financial statements of the Purchaser included in such reports present fairly, in conformity with Canadian generally accepted accounting principles applied on a consistent basis, the financial position of the Purchaser as of the dates thereof and its results of operations and cash flows for the periods then ended.

(f) **Regulatory Approvals.** There is no requirement for the Purchaser to make any filing with, give any notice to or obtain any authorization, consent or approval of, any governmental or regulatory authority as a condition to the lawful consummation of the transactions contemplated by this Agreement except for the compliance by the Purchaser of the applicable requirements of the TSX and the *Securities Act* (Ontario) in respect of the issue of the Xenos Shares pursuant hereto.

(g) **Canadian Entity.** The Purchaser is not a "non-Canadian" within the meaning of the Investment Canada Act.

(h) **Issuance of Xenos Shares.** As at the Closing Time, all necessary approvals and consents will have been obtained, including any approval or consent of the board of directors or shareholders of Purchaser which may be required at law or in accordance with the constituting documents or by-laws of Purchaser in order to permit the issue of the Xenos Shares to the Vendor. When issued, the Xenos Shares will be duly authorized, validly issued, fully paid and non-assessable common shares in the capital of the Purchaser, free and clear of any Encumbrances and restrictions on transfer (other than restrictions on transfer that may be imposed by federal, provincial or state securities laws and other than as provide in the Escrow Agreement).

(i) **Information Provided for the Vendor Proxy Statement.** None of the information to be supplied by Purchaser for inclusion in the Vendor's proxy statement will, at the time of the mailing of the proxy statement, at the time of Vendor's shareholders meeting and at the Closing Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Closing Time any event with respect to the Purchaser shall occur that is required to be disclosed by the Purchaser pursuant to the timely disclosure obligations of the Purchaser under all applicable securities laws in all of the provinces of Canada and the requirements of the TSX, or required to be disclosed in Vendor's proxy statement, the Purchaser shall promptly disclose to Vendor the event and assist Vendor in the preparation and filing of any amendments or supplements to its proxy statement required by law, to be filed with the Commission and disseminated to Vendor's shareholders, and Purchaser shall also comply with such disclosure obligations including all applicable filing and all other requirements under such applicable TSX and Canadian securities laws.

(j) **Due Diligence.** All information, contracts and other documents requested by the Vendor in connection with its due diligence, to the extent applicable or relevant to the transactions contemplated herein, have been duly provided to the Vendor by the Purchaser.

(k) **No Change.** Other than as referred to in this Agreement, since the end of the fiscal period reported in the Purchaser's last public filing before the date of this Agreement, there has not been any material adverse change, financial or otherwise, in the business, operations, earnings, affairs, condition or prospects of the Purchaser. The business operations of the Purchaser since said date have been carried on in the ordinary and usual course only and there has not been any damage, destruction or loss (whether or not covered by insurance) affecting the property or assets of the Purchaser.

(l) **Full Disclosure.** To the best knowledge of the Purchaser, neither this Agreement nor any document to be delivered by the Purchaser, nor any certificate, report, statement, or other document furnished by the Purchaser in connection with the negotiation of this Agreement or the Vendor's due diligence investigation contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not misleading. There has been no event, transaction or information that has come to the attention of the Purchaser that has not been disclosed to the Vendor in writing that could reasonably be expected to have a material adverse effect on the assets, business, earnings, prospects, properties or condition (financial or otherwise) of the Purchaser.

3.3

Non-Waiver. No investigations made by or on behalf of any party hereto at any time shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation or warranty made by any other party herein or pursuant hereto. No waiver by any party of any condition, in whole or in part, shall operate as a waiver of any other condition.

3.4

Survival of Representations and Warranties. The covenants, representations and warranties of the parties contained in this Agreement and in any document or certificate given pursuant hereto shall survive the Closing, the execution and delivery hereunder of the Assigned Assets and the payment of the consideration therefore, provided that such representations and warranties shall only survive for the period of time after the Closing set out below; after which time, if prior to the expiry of the warranty period, no claim shall have been made hereunder by a party hereto with respect to any incorrectness in or breach of any such representation or warranty made herein by such party, such party shall have no further liability hereunder with respect to such representation or warranty:

(a) the representations and warranties shall survive the closing of the transactions contemplated hereby and continue in full force and effect until the second anniversary of the Closing Date; and

(b) a claim for any breach of any of the representations and warranties contained in this Agreement or in any agreement, instrument, certificate or other document executed and delivered pursuant hereto involving fraud or fraudulent misrepresentations may be made at any time following the Closing Date, subject only to applicable limitation periods imposed by law.

ARTICLE IV

OTHER COVENANTS OF THE PARTIES

4.1

Conduct of Business Prior to Closing. The Vendor hereby agrees that during the Interim Period, except as otherwise contemplated or permitted by this Agreement, all undertakings and activities conducted by the Vendor, its Subsidiaries and the Company relating to the Business shall to the fullest extent practicable be conducted solely through the Company and not through the Vendor, a Subsidiary or any other Person. Except as expressly contemplated by this Agreement or agreed to in writing by the Purchaser, and subject to the fiduciary obligations of its directors and officers, during the period from the date of this Agreement through the Closing Time, the Company shall, in all material respects, carry on its Business in the ordinary course as currently conducted, including, without limitation, no repayment or return of capital, no declaration or payment of dividends and no payment of bonuses earned and unpaid (unless the failure to pay a bonus would violate an agreement to which the Company is a party and provided that such payment and the reason therefore has been disclosed in writing to the Purchaser). The provisions of this Section 4.1 shall not preclude Vendor from causing the Company to discharge liabilities in the ordinary course of business, including liabilities owed by the Company to Vendor. The Vendor shall provide the Company's monthly unaudited financial statements (consisting of a balance sheet, an income statement and a list of outstanding payables and receivables) a list of the accounts receivable of Vendor and a list of revenues, expenses and outstanding payables of Vendor relating to the Business to the Purchaser within 20 days of the last day of each month until the Closing Date. Vendor, the Company and Purchaser agree that for the purposes of these interim financial statements The Company shall not, without the prior written consent of the Purchaser, knowingly enter into any transaction or permit any transaction to be entered into which would constitute a breach of the representations, warranties or covenants of the Vendor herein contained. The Vendor further covenants that the Company shall exercise reasonable effort to comply with all laws and the provisions of all agreements affecting the operations of the Business.

4.2

Access for Investigation. Until the Closing Date, the Purchaser and its employees, agents, solicitors, accountants, appraisers and other advisers shall, during normal business hours, have full and complete access to the premises, books, contracts, properties, assets, leases and other records of the other party for the purpose of investigating the business and affairs of the other party and completing this transaction. The Vendor shall have access only to the publicly disclosed information in respect of the Purchaser available to all of its shareholders.

4.3

Maintenance of Insurance. Up to the Closing Time, all policies of insurance listed and described in Schedule 3.1(x) hereto shall be maintained in full force and effect and all notices and claims under all policies will be given or presented in due and timely fashion.

4.4

Exclusivity.

(a) From the date hereof up to the Closing Time (the "Exclusivity Period"), neither the Vendor, nor the Company nor any of their agents will negotiate or enter into discussions with any other Person in respect of the sale of the Assigned Assets, the sale of the Business or any of the other transactions contemplated hereby; provided, however, that

nothing contained in this Section 4.4 shall preclude the board of directors of the Vendor or the Company from engaging in discussions with other Persons if, in the opinion of legal counsel to the Vendor or the Company, applicable legal principles of fiduciary duty require that they engage in such discussion without prejudice to the rights of Purchaser under this Agreement.

(b) In the event that the board of directors of the Vendor or the Company receives a proposal for the sale of any of the shares of the Company, the Assigned Assets, the sale of the Business or any of the other transactions contemplated hereby, which proposal is determined in good faith by the board of directors of the Vendor or the Company to be superior to the terms of the transaction with the Purchaser contemplated pursuant to this Agreement (the "Superior Proposal") and are in receipt of an opinion of legal counsel specifying that they are required to do so in order to comply with their fiduciary duties, then the board of directors of the Vendor or the Company may pursue discussions in respect of the Superior Proposal. In such event the Vendor shall forthwith provide written notice to the Purchaser of the terms and conditions of the Superior Proposal and the Purchaser shall have not less than five Business Days to match, in writing, such Superior Proposal. In the event that the Purchaser does not so match the Superior Proposal within such period, the Vendor or the Company may accept the Superior Proposal.

(c) In the event that the Vendor or the Company accepts such Superior Proposal with any person with whom the board of directors of the Vendor or the Company had any communication during the Exclusivity Period, including any unsolicited communication and whether such acceptance occurred during or after the Exclusivity Period, then the Vendor will pay to the Purchaser within ten business days of the acceptance of such Superior Proposal a cancellation fee in the amount of U.S. \$500,000.

4.5

Cooperation with Proxy Statement. Purchaser will cooperate with Vendor and Vendor's attorneys, accountants and other representatives in the preparation of Vendor's proxy statement and, in connection therewith, to make available for inspection on a timely basis all financial and other records, pertinent corporate documents and properties of the Purchaser and cause the Purchaser's officers, directors, employees and independent accountants to supply on a timely basis all documents, narrative description and substantive information and support reasonably requested by the Vendor and Vendor's attorneys, accountants and other representatives. Purchaser's cooperation shall include, without limitation, delivery to Vendor, of the audited and unaudited quarterly financial statements (adjusted to conform to US GAAP) for all required periods and narrative portions of the proxy statement related to the Purchaser, its business, management and operations required by Schedule 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act")(including pro forma financial information) required by applicable law within 30 days following the closing date. Each party shall bear its own expenses associated with the matters required under this Section 4.5.

4.6

Actions to Satisfy Closing Conditions. Each of the parties hereto hereby agrees to take all such actions as are within its power to control, and to use its best efforts to cause other actions to be taken which are not within its power to control, so as to ensure compliance with any conditions set forth in Article V hereof, which are for the benefit of any other party hereto.

ARTICLE V

CONDITIONS PRECEDENT TO CLOSING

5.1

Conditions Precedent to Purchaser's Obligations. The obligation of the Purchaser to complete the purchase of the Assigned Assets hereunder and the other transactions contemplated hereby shall be subject to the satisfaction of, or compliance with, at or before the Closing Time, each of the following conditions precedent (each of which is hereby acknowledged to be for the exclusive benefit of the Purchaser and may be waived by it in writing in whole or in part):

(a) **Truth and Accuracy of Representations at Closing Time.** All the representations and warranties of the Vendor made in or pursuant to this Agreement shall be true and correct in all respects as at the Closing Time and with the same effect as if made at and as of the Closing Time (except as such representations and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted hereby) and the Purchaser shall have received a certificate dated the Closing Date from the Chief Operating Officer and the Chief Financial Officer of each of the Vendor and the Company confirming, the truth and correctness in all respects of such representations and warranties.

(b) **Performance of Covenants.** The Vendor shall have performed and complied with all terms, covenants and conditions required by this Agreement to be performed or complied with by its prior to or on the Closing Date.

(c) **No Material Adverse Change.** There shall have been no material adverse change in the affairs, assets, liabilities, condition (financial or otherwise), earnings, prospects, operations or Business of the Company from that shown on or reflected in the Interim Financial Statements or otherwise referred to in this Agreement. In addition to, and without limiting the generality of the foregoing, there shall have been no material deterioration of the business prospects of the Vendor and the Company during the Interim Period from those projected in the financial projections set out in Schedule 5.1(c).

(d) **Receipt of Closing Documentation.** All documents to be delivered by the Vendor relating to the due authorization and completion of the transactions contemplated hereby and all actions and proceedings to be taken by the Vendor and the Company on or prior to the Closing Time in connection with the performance by the Vendor of its obligations under this Agreement shall be satisfactory to the Purchaser, acting reasonably, and the Purchaser shall have received copies of all such documents or other evidence as it may reasonably request in form and substance satisfactory to the Purchaser and its counsel including the legal opinion of Vendor's counsel substantially in the form of Schedule 5.1(d) hereto.

(e) **Due Authorization.** This Agreement and the transactions contemplated hereby shall be duly authorized by all necessary action of the board of directors of the Vendor and the Purchaser on or before August 1, 2003 and by the shareholders of the Vendor on or before October 30, 2003, subject to the provisions of Section 7.3 below and consented to in writing by Paradigm Group delivered to the Purchaser on or before August 7, 2003. .

(f) **Compliance with Regulatory Requirements and Registrations.** All consents, approvals, orders and authorizations of any Persons or governmental or regulatory authorities (or registrations, declarations, filings or records with any such authorities), and all such registrations, recordings and filings with public or regulatory authorities as may be required in connection with the issuance to the Vendor of the Xenos Shares and in connection with the completion of any of the transactions contemplated by this Agreement, the execution of this Agreement, the Closing or the performance of any of the terms and conditions hereof shall have been obtained on or before the Closing Time including, without limitation, the requisite approval by a majority of the shareholders of the Vendor obtained at a meeting duly convened and properly called for that purpose in accordance with applicable corporate and securities laws.

(g) **No Proceedings.** No action or Proceeding, at law or in equity, shall be pending or threatened by any Person, governmental authority, regulatory body or agency to enjoin or prohibit the purchase and sale of the Assigned Assets contemplated hereby or the right of the Purchaser to own the Assigned Assets or the issue to the Vendor of the Xenos Shares contemplated hereby or the right of the Vendor to own the Xenos Shares.

(h) **Indemnity Agreement.** The Vendor and the Purchaser shall enter into an Indemnity Agreement substantially in the form of Schedule 5.1(h) hereto in favour of the Purchaser relating to any litigation exposure regarding the Intellectual Property Assets and the Company for events occurring prior to the Closing Time which comes to the attention of the Purchaser and which Purchaser shall have given written notice thereof to the Vendor no later than the first anniversary of the Closing Date.

(i) **Third Party Consents.** All consents of any Person required under any agreements in connection with the consummation of the transactions contemplated hereby shall have been obtained prior to or at the Closing Time.

(j) **Employment Contracts.** The Purchaser covenants and agrees that it will offer employment and enter into employment contracts, conditional upon the Closing, to the employees listed on Schedule 3.1(z) on terms no less favourable than the terms and conditions of their current employment with the Company. The Vendor shall be responsible for and shall indemnify and save harmless the Purchaser from any liabilities for severance and termination costs in respect of such employees who do not accept employment with the Purchaser. The Purchaser shall be responsible for severance and termination costs in respect of any of such employees terminated by the Purchaser after they commence employment with the Purchaser. The Vendor shall assume and shall indemnify the Purchaser from and against any obligations owing to or in respect of any employees up to and including the date on which such employees commence employment with the Purchaser except for severance and termination costs in the event that such employees who accept employment with the Purchaser are thereafter terminated by the Purchaser.

(k) (intentionally blank)

(l) **Non-competition Agreements.** Each of the Vendor, the Company and the Subsidiaries and their senior officers and directors will enter into a non-competition agreement with the Purchaser, substantially in the form of Schedule 5.1(l) hereto, for a period of three years covering all jurisdictions of the world provided that XML will have continuing rights to develop and market the Qube software under an OEM agreement with Xformity, Inc.

(m) **Escrow Agreement.** The Vendor shall have executed and delivered to the Purchaser the Escrow Agreement in a form substantially similar to that set out in Schedule 2.3.

(n) **Bulk Sales Compliance.** The Vendor shall have complied with any applicable bulk sales legislation in respect of the sale of the Assigned Assets to the Purchaser in a manner satisfactory to the Purchaser, acting reasonably;

(o) (intentionally blank).

(p) **Resignations/Releases.** At the Closing Time, the Vendor shall cause to be delivered to the Purchaser the resignations of all directors and officers of the Company together with executed releases of such directors and officers in favour of the Company.

(q) **Bluestream Agreement.** Within 30 days following the execution of this Agreement, the Company shall have entered into a reseller agreement with Bluestream Database Software Corporation in form satisfactory to the Purchaser.

In case any of the foregoing conditions shall not be fulfilled or performed at or before the Closing Time to the satisfaction of the Purchaser, acting reasonably, the Purchaser in its sole discretion may terminate this Agreement by notice in writing to the Vendor and in such event the Purchaser shall be released from all obligations hereunder, provided that any of the said conditions may be waived in whole or in part by the Purchaser without prejudice to its rights of termination in the event of the non-fulfilment or breach of any other condition or conditions, any such waiver to be binding on the Purchaser only if the same is in writing.

5.2

Conditions Precedent to the Obligations of the Vendor. The obligations of the Vendor to complete the sale of the Assigned Assets hereunder and the other transactions contemplated hereby shall be subject to the satisfaction of or compliance with, at or before the Closing Time, each of the following conditions precedent (each of which is hereby acknowledged to be for the exclusive benefit of the Vendor and may be waived by the Vendor in writing in whole or in part):

(a) **Truth and Accuracy of Representations at Closing Time.** All of the representations and warranties of the Purchaser made in or pursuant to this Agreement shall be true and correct in all respects as at the Closing Time and with the same effect as if made at and as of the Closing Time (except as such representations and warranties may be affected by the occurrence of events or transactions expressly contemplated and permitted hereby) and the Vendor shall

have received a certificate dated the Closing Date from a senior officer of the Purchaser confirming, after due inquiry and investigation, the truth and correctness in all respects of such representations and warranties.

(b) **Performance of Covenants.** The Purchaser shall have performed and complied with all terms, covenants and conditions required by this Agreement to be performed or complied with by it prior to or on the Closing Date.

(c) **Receipt of Closing Documentation.** All documents to be delivered by the Purchaser relating to the due authorization and completion of the transactions contemplated hereby and all actions and proceedings to be taken by the Purchaser on or prior to the Closing Time in connection with the performance by the Purchaser of its obligations under this Agreement shall be satisfactory to the Vendor acting reasonably, and the Vendor shall have received copies of all such documents or other evidence as it may reasonably request in form and substance satisfactory to the Vendor and their counsels including the legal opinion of Purchaser's counsel substantially in the form of Schedule 5.2(c) hereto.

(d) **Due Authorization.** This Agreement and the transactions contemplated hereby shall be duly authorized by all necessary action of the board of directors of the Vendor and the Purchaser on or September 1, 2003 and, by the shareholders of the Vendor on or before October 30, 2003, subject to the provisions of Section 7.3 below and consented to in writing by Paradigm Group delivered to the Purchaser on or before September 1, 2003. .

(e) **Compliance with Regulatory Requirements and Registrations.** All consents, approvals, orders and authorizations of any Persons or governmental or regulatory authorities (or registrations, declarations, filings or records with any such authorities) and all such registrations, recordings and filings with public or regulatory authorities as may be required in connection with the issuance to the Vendor of the Xenos Shares and in connection with the completion of any of the transactions contemplated by this Agreement, the execution of this Agreement, the Closing or the performance of any of the terms and conditions hereof shall have been obtained on or before the Closing Time, including, without limitation, the requisite approval by a majority of the shareholders of the Vendor obtained at a meeting duly convened and properly conducted pursuant to a definitive proxy statement filed with and approved by the United States Securities and Exchange Commission in accordance with applicable corporate and securities laws.

(f) **No Proceedings.** No action or Proceeding, at law or in equity, shall be pending or threatened by any Person, governmental authority, regulatory body or agency to enjoin or prohibit the purchase and sale of the the Assigned Assets contemplated hereby or the right of the Purchaser to own the Assigned Assets or the issue to the Vendor of the Xenos Shares contemplated hereby or the right of the Vendor to own the Xenos Shares.

(g) **Third Party Consents.** All consents of any Person required under any agreements in connection with the consummation of the transactions contemplated hereby shall have been obtained prior to or at the Closing Time.

(h) **No Material Adverse Change.** There shall have been no material adverse change in the affairs, assets, liabilities, condition (financial or otherwise), earnings, prospects, operations or business of the Purchaser from that shown on or reflected in the Purchaser's public filings or otherwise disclosed or required to be disclosed to Vendor under this Agreement before the date of this Agreement.

(i) **Indemnity Agreement.** The Vendor and the Purchaser shall enter into an Indemnity Agreement in favour of the Purchaser relating to any litigation exposure regarding the intellectual property assets and the Company for events occurring prior to the Closing Time, substantially in the form of Schedule 5.1(h) hereto.

(j) **Vendor Indemnity Agreement.** The Vendor and the Purchaser shall enter into a Vendor Indemnity Agreement in form satisfactory to counsel to the parties in favour of the Vendor relating to any obligations or liabilities arising from any contracts, agreements or other executory commitments assigned by Vendor to the Purchaser and assumed by the Purchaser pursuant to this Agreement related or arising from events, transactions or occurrences after the Closing Time.

(k) **Escrow Agreement.** The Vendor and the Purchaser shall have executed and delivered an Escrow Agreement substantially in the form of Schedule 2.3 hereto.

In case any of the foregoing conditions shall not be fulfilled or performed at or before the Closing to the satisfaction of the Vendor, acting reasonably, the Vendor may terminate this Agreement by notice in writing to the Purchaser and in such event the Vendor shall be released from all obligations hereunder, provided that any of the said conditions may be waived in whole or in part by the Vendor without prejudice to their rights of termination in the event of the non-fulfilment or breach of any other condition or conditions, any such waiver to be binding the Vendor only if the same is in writing.

ARTICLE VI **INDEMNIFICATION**

6.1

Indemnification by the Vendor. The Vendor hereby agrees to indemnify and save harmless the Purchaser from all Losses suffered or incurred by the Purchaser as a result of or arising, directly or indirectly, out of or in connection with:

(a) any breach by the Vendor of or any inaccuracy of any representation or warranty of the Vendor contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto, provided that the Vendor shall not be required to indemnify or save harmless the Purchaser in respect of any breach or inaccuracy of any representation or warranty unless the Purchaser shall have provided notice to the Vendor in accordance with Section 6.3 on or prior to the expiration of the applicable time period related to such representation and warranty as set out in Section 3.4 hereto; and

(b) any breach or non-performance by the Vendor of any covenant to be performed by it on or before the Closing Time that is contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto.

6.2

Indemnification by the Purchaser. The Purchaser hereby agrees to indemnify and save harmless the Vendor from all Losses suffered or incurred by the Vendor as a result of or arising directly or indirectly, out of or in connection with:

(a) any breach by the Purchaser of or any inaccuracy of any representation or warranty of the Purchaser contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto, provided that the Purchaser shall not be required to indemnify or save harmless the Vendor in respect of any breach or inaccuracy of any representation or warranty unless the Vendor shall have provided notice to the Purchaser in accordance with Section 6.3 on or prior to the expiration of the applicable time period related to such representation and warranty as set out in Section 3.4 hereto; and

(b) any breach or non-performance by the Purchaser of any covenant to be performed by it on or before the Closing Time that is contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto.

6.3

Notice of Claim. In the event that a party (the "Indemnified Party") shall become aware of any claim, proceeding or other matter (a "claim") in respect of which another party (the "Indemnifying Party") has agreed to indemnify the Indemnified Party pursuant to this Agreement, the Indemnified Party shall promptly give written notice thereof to the Indemnifying Party. Such notice shall specify whether the Claim arises as a result of a claim by a Person against the Indemnified Party (a "Third Party Claim") or whether the Claim does not so arise (a "Direct Claim") and shall also

specify with reasonable particularity, to the extent that the information is available, the factual basis for the Claim and the amount of the Claim, if known. If, through the fault of the Indemnified Party, the Indemnifying Party does not receive notice of any Claim in time to contest effectively the determination of any liability susceptible of being contested, the Indemnifying Party shall be entitled to set-off against the amount claimed by the Indemnified Party the amount of any Losses incurred by the Indemnifying Party resulting from the Indemnified Party's failure to give such notice on a timely basis.

6.4

Direct Claims. With respect to any Direct Claim, following receipt of notice from the Indemnified Party of the Claims, the Indemnifying Party shall have 60 days to make such investigation of the Claim as is considered necessary or desirable. For the purpose of such investigation, the Indemnified Party shall make available to the Indemnifying Party all information which the Indemnified Party has relating to the Claim, together with all such other information as the Indemnifying Party may reasonably request. If all parties agree at or prior to the expiration of such 60 day period (or any mutually agreed upon extension thereof) to the validity and amount of such Claim, the Indemnifying Party shall immediately pay to the Indemnified Party the full agreed upon amount of the Claim, failing which the matter shall be referred to binding arbitration in such manner as the parties may agree or shall be determined by a court of competent jurisdiction.

6.5

Third Party Claims. With respect to any Third Party Claim, the Indemnifying Party shall have the right, at their expense, to participate in or assume control of the negotiation, settlement or defence of the Claim and, in such event, the Indemnifying Party shall reimburse the Indemnified Party for all the Indemnified Party's out-of-pocket expenses as a result of such participation or assumption. If the Indemnifying Party elects to assume such control, the Indemnified Party shall have the right to participate in the negotiation, settlement or defence of such Third Party Claim and to retain counsel to act on its behalf, provided that the fees and disbursements of such counsel shall be paid by the Indemnified Party unless the Indemnifying Party consents to the retention of such counsel or unless the named parties of any action or proceeding include both the Indemnifying Party and the Indemnified Party and a representation of both the Indemnifying Party and the Indemnified Party by the same counsel would be inappropriate due to the actual or potential differing interests between them (such as the availability of different defences). If the Indemnifying Party, having elected to assume such control, thereafter fails to defend the Third Party Claim within a reasonable time, the Indemnified Party shall be entitled to assume such control and the Indemnifying Party shall be bound by the results obtained by the Indemnified Party with respect to such Third Party Claim. If any Third Party Claim is of a nature such that the Indemnified Party is required by applicable law to make a payment to any Person (a "Third Party") with respect to the Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnified Party may make such payment and the Indemnifying Party shall, forthwith after demand by the Indemnified Party, reimburse the Indemnifying Party for such payment. If the amount of any liability of the Indemnified Party under the Third Party Claim in respect of which such payment was made, as finally determined, is less than the amount that was paid by the Indemnifying Party to the Indemnified Party, the Indemnified Party shall, forthwith after receipt of the difference from the Third Party, pay the amount of such difference to the Indemnifying Party.

6.6

Settlement of Third Party Claims. If the Indemnifying Party fails to assume control of the defence of any Third Party Claim, the Indemnified Party shall have the exclusive right to contest, settle or pay the amount claimed. Whether or not the Indemnifying Party assumes control of the negotiation, settlement or defence of any Third Party Claim, the Indemnifying Party shall not settle any Third Party Claim without the written consent of the Indemnified Party, which consent shall not be reasonably withheld or delayed; provided, however, that the liability of the Indemnifying Party shall be limited to the proposed settlement amount if any such consent is not obtained for any reason.

6.7

Co-operation. The Indemnified Party and the Indemnifying Party shall co-operate fully with each other with respect to Third Party Claims and shall keep each other fully advised with respect thereto (including supplying copies of all relevant documentation promptly as it becomes available).

ARTICLE VII GENERAL

7.1

Public Notices. All public notices, press releases and other publicity or responses to enquiries concerning the transactions contemplated by this Agreement shall be jointly planned and co-ordinated by the Vendor and the Purchaser and no one shall act unilaterally in this regard without the prior approval of the other, such approval not to be unreasonably withheld, unless such disclosure shall be required to meet timely disclosure obligations of either party under applicable securities or other laws in circumstances where prior consultation with the other party is not practicable, in which case immediate notice of such disclosure shall be given to the other party.

7.2

Notices. Any notice, demand, request, consent, approval or other communication which is required or permitted to be given or made by one party to the other pursuant to any provision of this Agreement shall be given or made in writing and shall be served personally or sent by prepaid registered mail or transmitted by facsimile or other form of recorded communication tested prior to transmission addressed to the respective parties as follows:

(a) the Vendor or XML: XML-Global Technologies, Inc.

C/O 1818 Cornwall Avenue, Suite 22

Vancouver, British Columbia

V6J 1C7

Attention: The Chief Operating Officer

Telecopier: 604-717-1107

(b) the Purchaser: Xenos Group Inc.

95 Mural Street, Suite 201

Richmond Hill, Ontario

L4B 3G2

Attention: Mr. S. Butts

Telecopier: 905-709-1023

or to such other address as either party may from time to time advise the other party hereto by notice in writing. Every such notice so given shall be deemed to be received on the date of delivery if served personally, on the date of transmission if electronically transmitted, provided in either case that if such day is not a Business Day then the notice shall be deemed to have been received on the next following Business Day, or on the fourth Business Day following the day of mailing, if sent by mail; provided that in the event of an interruption of postal service at any time prior to the deemed receipt of any notice sent by mail, then such notice, unless earlier delivered or actually received, shall be deemed to be received on the fourth Business Day following the date of resumption of normal postal service.

7.3

Termination. This Agreement may be terminated only in the following manner and upon the following events:

by either Vendor or the Purchaser:

- (i) if both of Vendor and the Purchaser mutually consent in writing to such termination;
- (ii) if: the Closing has not been effected on or prior to the close of business on December 31, 2003;
- (iii) if, at any time prior to the Closing Date, the Purchaser in its sole discretion, is not satisfied with the results of its due diligence review of the Business and Assigned Assets;
- (iv) if either party shall have failed to comply in any material respect with any of its covenants or agreements contained in this Agreement required to be complied with prior to the date of such termination, which failure to comply has not been cured within ten (10) business days following receipt by the party of written notice from the other party of such failure to comply, or such shorter period as may otherwise be specified herein;
- (v) if there has been a breach of a representation, warranty, covenant or obligation of either party that gives rise to a failure of the fulfillment of a condition of a party to effect the Closing pursuant to Article 5, which breach has not been cured within ten (10) business days following receipt by the party of written notice of the breach from the other party; and

The right of any party hereto to terminate this Agreement pursuant to this Section 7.3 shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any party hereto, any person controlling any

such party or any of their respective officers or directors, whether prior to or after the execution of this Agreement. The termination of this Agreement by the Vendor or Purchaser pursuant to this clause 7.3, or any other provision of this Agreement, shall not terminate the covenants and obligations of the parties pursuant to clauses 4.4(c), 6.1, 6.2, 7.1 or 7.4 which covenants and obligations shall be deemed to continue in perpetuity.

7.4

Confidentiality. Each of the Vendor and Purchaser will hold, and will use its reasonable best efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning the other parties furnished to it in connection with the transactions contemplated by this Agreement, except to the extent that such information can be shown to have been (i) previously known on a non-confidential basis by such party, (ii) in the public domain through no fault of such party or (iii) later lawfully acquired by such party from sources other than the other party, *provided* that each of the Vendor and Purchaser may disclose such information to its officers, directors, employees, accountants, counsel, consultants, advisors and agents in connection with the transactions contemplated by this Agreement so long as such party informs such Persons of the confidential nature of such information and directs them to treat it confidentially. Each of the Vendor and Purchaser shall satisfy its obligation to hold any such information in confidence if it exercises the same care with respect to such information as it would take to preserve the confidentiality of its own similar information. If this Agreement is terminated, each of the Vendor and Purchaser will, and will use its best efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to the other party, upon request, all documents and other materials, and all copies thereof, that it obtained, or that were obtained on their behalf, from the other parties in connection with this Agreement and that are subject to such confidence.

7.5

Schedules. For all purposes of this Agreement, including limitation of representations hereunder by reason of facts listed in the Schedules hereto, each of the parties shall be deemed to be on notice for all purposes of this Agreement of each and every statement made or information described in any Schedule hereto, even if there is no express cross-reference.

7.6

Expenses. All costs and expenses (including, without limitation, the fees and disbursements of legal counsel) incurred in connection with this Agreement and the transactions contemplated hereby (the "Transaction Expenses") shall be paid by the party incurring such expenses.

7.7

Time of the Essence. Time shall be of the essence hereof and of each and every part hereof.

7.8

Further Assurance. The parties hereto shall with reasonable diligence do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated hereby and each party shall execute and deliver to the other such further documents, instruments, papers and information as may be reasonably requested by the other in order to carry out the purpose and intent of this Agreement whether before or after the Closing.

7.9

Law and Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and each party hereby irrevocably attorns to the non-exclusive jurisdiction of the courts of such province and all courts competent to hear appeals therefrom in respect of all matters arising out of this Agreement.

7.10

Counterparts and Facsimile Execution. For the convenience of the parties, this Agreement may be executed in several counterparts and by original or facsimile signature and each such counterpart when so executed shall be, and be deemed to be, an original instrument and such counterpart together shall constitute one and the same instrument (and notwithstanding their date of execution shall be deemed to bear date as of the date of this Agreement).

7.11

Successors and Assigns. The provisions of this Agreement shall enure to the benefit of and shall be binding upon the parties hereto and their respective successors, permitted assigns, heirs and personal representatives. This Agreement shall not be assignable by either of the parties hereto without the written consent of the other party hereto.

7.12

Waivers. The parties hereto may, by written agreement:

- (a) extend the time for the performance of any of the obligations or other acts of the parties hereto;
- (b) waive any inaccuracies in the warranties, representations, covenants or other undertakings contained in this Agreement or in any document or certificate delivered pursuant to this Agreement; or
- (c) waive compliance with or modify any of the warranties, representations, covenants or other undertakings or obligations contained in this Agreement and waive or modify performance of any of the parties thereto.

7.13

Joint and Several Liability. All covenants and undertakings of the Vendor hereunder shall be deemed to be covenants and undertakings of XML and each Subsidiary and the liability of the Vendor hereunder shall be deemed to be the joint and several liability of the Vendor, XML and each Subsidiary.

IN WITNESS WHEREOF this Agreement has been executed by each of the parties as of the date first above written.

XML -Global Technologies, Inc.

per: _____
authorized signature

XML Technologies Inc.

per: _____
authorized signature

XML Global Research Inc.

per: _____
authorized signature

Xtract Informatics Inc.

per: _____
authorized signature

Xenos Group Inc.

per: _____
authorized signature

Termination Agreement and Mutual General Release

May __, 2003

This Termination Agreement and Mutual General Release ("Release") is entered into between XML-Technologies, Inc., a Nevada corporation, and its parent XML-Global Technologies, Inc., a Colorado corporation, and their affiliates (collectively, "XML"), with offices at 1818 Cornwall Avenue, Suite 22, Vancouver, British Columbia V6J 1C7, Canada and Information Builders, Inc., a New York corporation and its unincorporated division, iWay Software Company, and their affiliates (collectively, "iWay"), with offices at 2 Penn Plaza, New York, New York 10121-2898.

WHEREAS, XML and iWay are parties to various agreements, as amended, including, but not limited to (a) a Software Licensing and Support Agreement executed by XML on June 12, 2002 and by iWay on June 17, 2002 (the "Software Agreement") and (b) an OEM Resellers Agreement dated August 21, 2002 and an OEM Resellers Agreement dated May 15, 2001 (the "OEM Agreements"); and

WHEREAS, certain disputes have arisen between the parties; and

WHEREAS, the parties desire to amicably resolve all such disputes and to terminate their relationship,

NOW, THEREFORE, it is agreed as follows:

1. Within five business days after the execution of this Release, and as a condition to its becoming effective, iWay shall pay to XML the sum of \$63,300, representing all sums due to XML under the Software Agreement. This payment shall be subject to audit and adjustment as provided for in the Software Agreement.
2. The OEM Agreements and all other agreements between the parties hereby are terminated and of no further force and effect.
3. The Software Agreement hereby is acknowledged by the parties to have terminated on April 21, 2003. The parties shall have no further obligations or liabilities to the other under the Software Agreement. Without limiting the generality of the foregoing XML shall have no further obligation to provide source or object code for GTI or Transform to iWay or to provide support and maintenance of GTI or Transform to iWay. iWay retains all of the rights to GTI and Transform granted to it by the Software Agreement, without recourse as to XML.
4. iWay shall have the right to: (a) contract with third parties including, but not limited to, Yellow Dragon, to acquire rights with respect to any products formerly owned by XML or now or hereinafter licensed by XML to such third parties, to the extent consistent with and subject to any and all agreements between XML and such third parties respecting confidentiality, trade secrets and proprietary rights of XML and (b) hire former XML personnel, to the extent consistent with and subject to any and all agreements between XML and such former employees respecting the maintenance of XML confidential information and trade secrets, non-appropriation of XML intellectual property or proprietary information, ownership of works for hire developed during the period of employment, and non-competition.
5. Except as otherwise provided for herein, XML and iWay, together with their respective officers, directors, partners, employees, attorneys, agents, affiliates, representatives, successors and assigns, both past and present, each irrevocably and unconditionally releases the other party, together with its affiliates, agents, employees, officers, directors, representatives, shareholders, attorneys, successors and assigns, of and from all claims and obligations and from any rights claimed or asserted by any reason and any other rights, whether statutory, contractual, or tortious, known or unknown, foreseen or unforeseen, at law or in equity, arising from any fact, transaction or

occurrence; and each party agrees not to sue or bring any legal proceeding against the other, or its principals or affiliates, based upon any fact, transaction or occurrence up to the present date.

1. IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the day first above written.

XML-Technologies, Inc.

By: _____

Name: _____

Title: _____

ML-Global Technologies, Inc.

By: _____

Name: _____

Title: _____

Way Software Company

By: _____

Name: _____

Title: _____

Information Builders, Inc.

By: _____

Name: _____
Title: _____

661603 B.C. LTD.
230-8211 Sea Island Way
Richmond, British Columbia
V6X 2W3

March 27, 2003

XML Global Technologies, Inc.
c/o 1818 Cornwall Avenue, Suite 9
Vancouver, BC
V6J 1C7

Dear Sirs:

Re: Xtract Technology

This will confirm our agreement concerning the purchase and sale of certain software known as Xtract and related materials and intellectual property, as follows:

1. On the Closing Date (as herein defined) 661603 B.C. Ltd. (the "Purchaser") will purchase from XML Global Technologies, Inc. (the "Vendor") all of the Vendor's right, title and interest in and to the computer software known commercially as Xtract Stolen Property Intelligence Software (the "Software"), including all related documentation, toolkits, development libraries and other material necessary or desirable for the purpose of developing, maintaining, supporting, marketing or otherwise offering the Software for commercial use (the Software and all such other material is collectively referred to as the "Purchased Materials") for the Purchase Price (as herein defined) on and subject to the terms set out in this letter.

2. The purchase price for the Purchased Materials (the "Purchase Price") is the sum of C\$75,000.00 payable on Friday, April 4, 2003 or such later date on which the Conditions Precedent (as herein defined) are met to the reasonable satisfaction of the Purchaser (the "Closing Date"). Purchaser is responsible for paying any sales taxes that may be due.

3. The Purchaser has completed its due diligence review and is satisfied with its findings.

4. The Software is purchased "as is, where is".

5. In order to induce the Purchaser to pay the Purchase Price and otherwise to complete the transactions hereby contemplated, the Vendor warrants and represents to the Purchaser that:

a. The Vendor is a company duly incorporated and validly existing under the laws of Colorado and has the power and capacity to enter into this agreement and complete the transactions hereby contemplated;

b. The Vendor is the sole and absolute owner of the Purchased Materials and all persons who have contributed to the development of the Purchased Materials have assigned all of the rights they might otherwise have in the Purchased Materials to the Vendor;

c. This agreement and the transactions hereby contemplated have been duly authorized by all necessary corporate proceedings;

d. The Purchased Materials are as described in Schedule "A" hereto;

e. No person, firm or corporation has any rights to use, develop, market, support or otherwise make use of the Purchased Materials other than the City Vancouver Police Department in accordance with those agreements attached hereto as Schedule "B";

f. All software used in the development, modification or use of the Software has been legally and validly licensed or purchased by the Vendor and will be assigned or transferred, as the case may be, to the Purchaser on the Closing Date;

g. No part of the Purchased Materials infringes upon any copyright or other intellectual property right of any person;

h. Neither the execution nor delivery of this agreement or the completion of the transactions hereby contemplated will breach, or cause the breach, of any of the constating documents of the Vendor or of any agreement to which it is a party or by which it is bound.

6. The obligation of the Purchaser to complete the purchase of the Purchase Materials is subject to the following conditions (collectively the "Conditions Precedent"):

a. the Vendor shall have entered into agreements with the Vancouver Police Department for the licence and support of the Software (including, if required by the Vancouver Police Department, an agreement relating to the escrow of the source code for the Software) and the Purchaser shall be satisfied with the terms of such agreements;

b. the Vendor shall have granted to the Purchaser a non-exclusive, transferable, perpetual licence for the use of the embedded and patented transformation tool known as Go-XML Transform so that the Purchaser may use such tool for the development, support and on-going maintenance of the Software, but not for any purpose outside of the scope of the functionality for which the Software has been designed.

c. the Vendor shall have permitted such of its employees or former employees to be employed by the Purchaser or such other firm designated by the Purchaser, either as employees or contractors, to continue with the development, support, marketing or other use of the Purchased Materials, as the Purchaser may require

d. the Vendor shall have delivered to the Purchaser or its agent a full and complete copy of the Purchased Materials; and

e. The Vancouver Police Department shall have confirmed, to the reasonable satisfaction of the Purchaser, that neither it, nor any governmental agency or authority that it may represent, claims any ownership or other rights in or to the Software other than as may be contained in those agreements set out in Schedule "B".

7. If the Conditions Precedent are not satisfied to the reasonable satisfaction of the Purchaser by the close of business on April 4, 2003, the Purchaser may, at its option, terminate this agreement without notice and the parties shall thereafter have no further obligation to each other arising out of this agreement.

8. This agreement will be governed by and interpreted in accordance with the laws of the Province of British Columbia.

9. Time shall be of the essence hereof.

10. This agreement will be binding upon and enure to the benefit of the parties hereto, their successors and permitted assigns.

11. Any dispute arising out of this agreement shall be referred to a single arbitrator appointed and acting under the (British Columbia) Commercial Arbitration Act.

Please confirm that the foregoing accurately sets out our agreement by signing the enclosed copy of this letter, without alteration or amendment, and returning that copy to us not later than the close of business on April 2, 2003.

Yours truly,

661603 B.C. LTD.

Per:

Authorized Signatory

Confirmed and agreed this ____ day of March 2003.

XML Global Technologies, Inc.

Per:

Authorized Signatory

TRANSFER AGREEMENT

Assignment of Technology

This agreement (the "Agreement") is made as of the 14th day of April 2003.

BETWEEN

:

Liang Wang, Kai Xu, Hai bBo Fan, Jianwen Zhang (the "Developers")

AND:

XML Global Technologies, Inc. a Colorado company and its wholly-owned subsidiary Xtract Informatics, Inc. a British Columbia company (collectively "XML Global") having an office at: Suite 9, 1818 Cornwall Avenue, Vancouver, BC

WHEREAS:

- A. The Developers have developed a new XML Transformation kernel (the "Technology") that operates ten times faster than GoXML Transform.
- B. XML Global wishes to acquire the Technology to further develop unique software products for the market.

NOW THEREFORE

for good and valuable consideration, the Developers and XML Global agree to the following:

- A. The Developers sell, assign and transfer to XML Global all rights in the Technology and all rights to the Technology including ownership of the Technology itself and including the right to all copyright in the Technology for all countries, which the Developers own today or to which the Developers could be entitled in the future. The purpose of this assignment of rights to XML Global is for XML Global to then own the entire rights to the Technology and be able to use those rights to the same extent as the Developers if the assignment had not taken place.
- B. The Developers waive in favour of XML Global, all moral rights of the Developers in relation to the Technology in all countries including Canada.

- C. The Developers pledge and promise that they have the full right to assign the Technology and that they have not signed any document which would contradict this assignment and they further assert that they will not sign any such contradictory document.
- D. XML Global accepts the above assignment and waiver.

- E. In exchange for the assignment and waiver, XML Global shall issue 4,000,000 share purchase warrants (the "Warrants") to each of the four named Developers, for a total of 16,000,000 share purchase warrants. Each share purchase warrant gives the holder the right to purchase one common stock issued by XML Global Technologies, Inc., at the time of the holder's choosing, at a price of US\$0.04 per common stock. The Warrants shall vest upon the signing of this Agreement by all parties. The Developers have full and unfettered discretion in exercising their rights stipulated under the terms of the Warrants.

- F. If XML Global sells, assigns and transfers the rights in and to the Technology before April 14, 2004, XML Global must deal with the transferee at arm's length and at fair market value. The Developers are entitled to receive 50% of the gross sales revenue from XML Global as soon as practicable.

- G. The Developers shall suggest a candidate, who shall have a technology background and the requisite industry profile, for directorship on the Board of Directors candidate of XML Global that has a technology background and the requisite industry profile.

- H. XML Global Technologies, Inc. and Xtract Informatics, Inc. represent and warrant to the Developers that they have authorized the signatory who has signed this agreement on their behalf to enter into and execute this Agreement on their behalf without affixing their common seals.

- I. This Agreement is governed by and is to be construed in accordance with the laws of British Columbia, Canada.

- J. Time is of the essence in this Agreement.

- K. No modification of this Agreement is effective unless it is in writing and signed by the parties.

- L. This Agreement and any modification of it constitute the entire agreement between the parties with regards to the sale, assignment and transfer of the Technology.

M.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Each party hereto will receive by delivery or facsimile transmission a duplicate original of the Agreement executed by each party, and each party agrees that the delivery of the Agreement by facsimile transmission will be deemed to be an original of the Agreement so transmitted.

THE DEVELOPERS

XML Global

Liang Wang

Peter Shandro
Chairman of the Board
Xtract Informatics, Inc.

Kai Xu

Hai Bbo Fan

Jianwen Zhang

Executed at _____ (city), _____ (province), this _____ day of April, 2003.

Executed at _____ (city), _____ (state), this _____ day of April, 2003, by Zhang, Jianwen _____ (initial).

GRANT OF RIGHT OF FIRST OPTION

This agreement (the "Agreement") is made as of the 14th day of April 2003.

BETWEEN

:

Liang Wang, Kai Xu, Hai bBo Fan, Jianwen Zhang (the "Developers")

AND:

XML Global Technologies, Inc. a Colorado company and its wholly-owned subsidiary Xtract Informatics Inc. a British Columbia company (collectively "XML Global") having an office at: Suite 9, 1818 Cornwall Avenue, Vancouver, BC

WHEREAS:

- A. The Developers have developed a new XML Transformation kernel (the "Technology") that operates ten times faster than GoXML Transform.

- B. XML Global has acquired the ownership, copyright and other rights and interests in and to the Technology from the Developers pursuant to the Transfer Agreement dated April 14, 2003.

- C. XML Global and the Developers wish to work together and develop the Technology to create software products for the market.

NOW THEREFORE

for the consideration of one dollar, to be paid by the Developers upon signing of this Agreement by all parties, XML Global agrees to the following:

- A. XML Global grants to the Developers a right of first option, effective starting on April 14, 2004 until April 14, 2007, inclusive. If XML Global at any time during this three-year period proposes to sell, assign, or transfer the rights in and to the Technology, it shall give written notice to the Developers at least seven days in advance of the proposed completion date, thereby binding the parties to negotiate on an exclusive basis in the following prescribed manner. Within 48 hours of the receipt of notice, the Developers shall waive their right of first option in writing to XML Global, or make

a written offer to XML Global for the rights to and in the Technology. Within 48 hours of the receipt of an offer from the Developers, XML Global shall accept or reject the offer in writing. If XML Global rejects the offer, it shall attach a counter-offer (the "Counter-Offer") to the rejection notice to the Developers. Within 48 hours of the receipt of the rejection notice and the Counter-Offer, the Developers shall accept or reject the Counter-Offer in writing. If the Developers waives their right of first option or reject the Counter-Offer, both parties are released from the exclusive negotiation, and XML Global is free to enter into contract with a third party. However, XML Global shall not enter into contract for the sale, assignment, or transfer of the rights in and to the Technology with such a third party for less than the price and terms proposed by XML Global in the Counter-Offer. The delivery of the written notices of proposed sale, waivers, offers, rejections and the Counter-Offer, may be made by facsimile transmission or in person, either to a director of Global XML or to any one of the Developers.

B. XML Global Technologies, Inc. and Xtract Informatics Inc. represent and warrant to the Developers that they have authorized the signatory who has signed this agreement on their behalf to enter into and execute this Agreement on their behalf without affixing their common seals.

C. This Agreement is governed by and is to be construed in accordance with the laws of British Columbia, Canada.

D. Time is of the essence in this Agreement.

E. No modification of this Agreement is effective unless it is in writing and signed by the parties.

F. This Agreement and any modification of it constitute the entire agreement between the parties with regards to the first right of option.

G. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Each party hereto will receive by delivery or facsimile transmission a duplicate original of the Agreement executed by each party, and each party agrees that the delivery of the Agreement by facsimile transmission will be deemed to be an original of the Agreement so transmitted.

Liang Wang

Peter Shandro
Chairman of the Board
Xtract Informatics, Inc.

Kai Xu

Hai Bbo Fan

Jianwen Zhang

Executed at _____ (city), _____ (province), this _____ day of April, 2003.

Executed at _____ (city), _____ (state), this _____ day of April, 2003, by Zhang,
Jianwen _____ (initial).

CERTIFICATION

I, Garry Kupecz, certify that:

1. I have reviewed this annual report on Form 10-KSB of XML - Global Technologies, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 3, 2003

/s/ Garry Kupecz

Garry Kupecz, Chief Operating
Officer and Principal Executive
Officer

CERTIFICATION

I, Simon Anderson, certify that:

1. I have reviewed this annual report on Form 10-KSB of XML - Global Technologies, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that

could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 3, 2003

/s/ Simon Anderson

Simon Anderson,
Principal Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of XML - Global Technologies, Inc. (the "Company") on Form 10-KSB for the year ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Garry Kupecz,, Chief Operating Officer and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Garry Kupecz

Garry Kupecz, Chief Operating
Officer and Principal Executive Officer
October 3, 2003