

MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements have been prepared by Matrikon's management in accordance with Canadian generally accepted accounting principles. Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgments, are consistent with other information and operating data contained in the annual report and reflect our business transactions and financial position.

Management is also responsible for the information disclosed in the management's discussion and analysis including responsibility for the development of appropriate information systems, procedures and internal controls to ensure that the information used internally by management and disclosed externally is complete, relevant and reliable in all material respects.

The integrity and reliability of Matrikon's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and the appropriate delegation of authority and division of responsibilities.

Matrikon's business code of conduct, which is communicated to all levels in the organization, requires employees to maintain high standards in their conduct of the corporation's affairs.

Our shareholders' independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors' report outlines the nature of their examination and their opinion on Matrikon's consolidated financial statements.

The board of directors annually appoints an audit committee comprised of independent, financially literate and unrelated directors. This committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. KPMG LLP have unrestricted access to the audit committee. The audit committee reviews the financial statements, the report of the shareholders' auditors, and management's discussion and analysis and submits its report to the board of directors for formal approval. The audit committee is responsible for recommending external auditors for appointment by the shareholders annually.

The board of directors is responsible for reviewing and final approval of the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities.



Nizar J. Somji
CHIEF EXECUTIVE OFFICER



Nimal Rodrigo
CHIEF FINANCIAL OFFICER

Edmonton, Alberta
October 14, 2005

AUDITORS' REPORT

To the shareholders of Matrikon Inc.

We have audited the consolidated balance sheets of Matrikon Inc. as at August 31, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flows for each of the two years then ended. These financial statements are the responsibility of Matrikon's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Matrikon as at August 31, 2005 and 2004 and the results of its operations and its cash flows for each of the two years then ended in accordance with Canadian generally accepted accounting principles.



*Chartered Accountants
Edmonton, Alberta
October 14, 2005*

CONSOLIDATED BALANCE SHEETS

<i>As at August 31</i> <i>Thousands of Canadian dollars</i>	2005	2004 <i>(Restated - Note 3)</i>
ASSETS		
<i>Current</i>		
Cash and cash equivalents <i>(Note 5 (a))</i>	\$ 10,546	\$ 6,311
Accounts receivable <i>(Note 6 (d))</i>	20,782	19,203
Contracts in progress	3,557	1,830
Future income taxes <i>(Note 6 (a))</i>	639	178
Prepaid expenses	1,076	564
	36,600	28,086
Restricted cash <i>(Note 5 (b))</i>	2,302	-
Future income taxes <i>(Note 6 (a))</i>	1,474	1,212
Capital assets <i>(Note 7)</i>	2,572	2,168
Intangible assets <i>(Note 8)</i>	633	911
Goodwill	11,926	10,667
	\$ 55,507	\$ 43,044
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current</i>		
Accounts payable and accrued liabilities	\$ 6,502	\$ 5,032
Deferred revenue	4,073	3,821
Income taxes payable	2,364	750
Future income taxes <i>(Note 6 (a))</i>	828	843
	13,767	10,446
Future income taxes <i>(Note 6 (a))</i>	518	422
Commitments <i>(Note 13)</i>	-	-
Contingencies <i>(Note 14)</i>	-	-
<i>Shareholders' equity</i>		
Share capital <i>(Note 10 (a))</i>	27,125	23,624
Contributed surplus <i>(Note 10 (a) & 10 (c))</i>	1,501	1,188
Retained earnings	12,596	7,364
	41,222	32,176
	\$ 55,507	\$ 43,044

See accompanying notes to the consolidated financial statements
Approved on behalf of the Board:



Hugh Bolton
CHAIRMAN OF THE BOARD



Janice Rennie
CHAIR OF THE AUDIT COMMITTEE

CONSOLIDATED STATEMENTS OF INCOME & RETAINED EARNINGS

<i>Years ended August 31</i> <i>Thousands of Canadian dollars</i>	2005	2004 <i>(Restated - Note 3)</i>
REVENUE		
Consulting fees	\$ 45,990	\$ 34,556
Software license fees	10,454	9,804
Equipment sales	5,751	5,508
Extended s upport	5,618	4,528
	67,813	54,396
Cost of sales	31,094	27,185
Gross profit	36,719	27,211
EXPENSES		
Consulting	8,030	6,448
Sales and marketing	8,098	7,428
Research and development (Note 6 (d))	3,388	2,991
General and administrative	5,854	5,160
Amortization	1,726	1,498
TOTAL EXPENSES	27,096	23,525
Income before the undernoted	9,623	3,686
Foreign currency translation loss	(1,475)	(177)
Other income (loss) (Note 12)	(305)	138
Income before income taxes	7,843	3,647
Income tax expense (recovery) (Note 6 (b))		
Current	3,253	794
Future	(642)	816
	2,611	1,610
NET INCOME	\$ 5,232	\$ 2,037
Retained earnings, beginning of year	\$ 7,364	\$ 5,327
Net income	5,232	2,037
Retained earnings, end of year	\$ 12,596	\$ 7,364
Earnings per share		
Basic earnings per share	0.175	0.071
Diluted earnings per share	0.171	0.069
Weighted average number of common shares outstanding (000s) (Note 10 (e))		
Basic	29,842	28,729
Diluted	30,546	29,517

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended August 31</i> <i>Thousands of Canadian dollars</i>	2005	2004 <i>(Restated - Note 3)</i>
OPERATING ACTIVITIES		
Net income	\$ 5,232	\$ 2,037
Items not affecting cash:		
Future income taxes	(642)	816
Unrealized FX loss	(116)	-
Amortization	1,726	1,498
Gain on sale of assets	(1)	(1)
Compensation expense	829	790
	\$ 7,028	\$ 5,140
Changes in non-cash working capital	(667)	(1,676)
Cash provided by operating activities	\$ 6,361	\$ 3,464
INVESTING ACTIVITIES		
Purchase of intangible assets	-	(178)
Business acquisition net of cash acquired (Note 4)	2	(6,463)
Proceeds from sales of capital assets	2	2
Purchase of capital assets	(1,441)	(1,282)
Cash restricted for business acquisition (Note 5b)	(2,302)	-
Cash used in investing activities	\$ (3,739)	\$ (7,921)
FINANCING ACTIVITIES		
Repayment of bank indebtedness	-	-
Proceeds of share issue, net of share issue costs	1,613	10,473
Cash provided by financing activities	\$ 1,613	\$ 10,473
Cash & cash equivalents increase	\$ 4,235	\$ 6,016
Cash & cash equivalents, beginning of year	6,311	295
Cash & cash equivalents, end of year	\$ 10,546	\$ 6,311
Supplementary cash flow disclosure:		
Income taxes paid (recovered)	1,610	206
Interest paid (recovered)	88	181

See accompanying notes to the consolidated financial statements

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Matrikon Inc., (the "Corporation"), was incorporated on May 27, 1999 under the Alberta Business Corporations Act and is the continuing operation of Matrikon Consulting Inc., a privately held Corporation which was incorporated on September 21, 1988. The Corporation is engaged in the sale of software and information technology professional services. The Corporation's head office is located in Edmonton, Alberta, with sales and offices in the International marketplace.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

a) Basis of Consolidation

The consolidated financial statements include the accounts of Matrikon Inc., and its wholly-owned subsidiaries: Matrikon International, Inc., Matrikon (Australia) Pty Limited., Matrikon Business Systems Inc., Matrikon UK Limited, and TigrSoft (India) Private Ltd., a 99.7% owned subsidiary. The results of the operations from businesses acquired during the year are included from their respective dates of acquisition.

b) Use of Estimates

The preparation of financial statements in conformity with Canadian 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 presented. Actual results could differ from those estimates made by management. The significant items requiring management estimates include calculation of percentage completion related to contracts in progress and deferred revenue, allowances for doubtful accounts receivable, tax provisions, the fair value of identifiable intangible assets acquired in business acquisitions, capital assets and goodwill, as well as estimated useful lives of intangible assets and capital assets.

c) Revenue Recognition

The Corporation's revenue consists primarily of consulting fees, equipment sales, software license fees, and extended support fees. Revenue from fixed fee consulting contracts is recognized using the percentage of complete method. Contract revenue is recognized on the ratio of contract costs incurred to total estimated costs. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined. Revenue from time and material contracts is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed. Contracts in progress represent work in progress

that has been recognized as revenue but not yet invoiced to clients. Deferred revenue includes amounts that have been invoiced to clients but not yet recognized as revenue.

Equipment sales are ancillary to consulting projects and revenue is recognized as costs are incurred. Revenue is calculated based on cost plus a margin of profit. Software license revenues are recognized upon the customer's execution of a software license agreement, the receipt of a purchase order and shipment of the software, provided that no significant vendor obligations remain outstanding. Where significant vendor obligations are negotiated, software license revenues are recognized only after these obligations have been satisfied. Extended support revenues are deferred and recognized on a straight-line basis over the term of the maintenance period, which is usually one year.

Revenue for multi-element arrangements is recognized when there is evidence that an arrangement exists, delivery has occurred, the fees are fixed or determinable and collectability is probable. The fees are allocated on the basis of vendor specific objective evidence for the fair market value of each element. Revenue is then recognized for each element in the same manner as noted above for the respective single element agreements.

d) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization commences once the assets are placed into service and is calculated using the following methods and annual rates:

Asset	Amortization Method	Rate
Computer hardware	Declining balance	30%
Computer software	Declining balance	100%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight line	15% - 33%
Automotive	Declining balance	30%
Leased assets	Declining balance	20%

Amortization for capital assets amortized on a declining balance basis is calculated at one-half of the annual rate in the year in which assets are placed into service.

e) Research and Development

Research and development costs relate principally to software products intended for licensing to end-user customers. Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Development costs which meet these criteria are capitalized and amortized over their useful life. Scientific Research and Experimental Development (SR&ED) tax credits receivable in relation to these costs are

recorded using the cost reduction method. Changes to the estimated quantity of tax credits receivable for prior periods are recorded as Other Income or Other Expenses.

f) Goodwill & Intangible Assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. In accordance with CICA Handbook Section 3062, goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Management has established the fourth quarter as the period to test the annual impairment of goodwill.

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. The cost incurred to enhance the service potential of an intangible asset is capitalized as a betterment.

Costs incurred in the maintenance of the service potential of an intangible asset are expensed as incurred.

Intangible assets with finite lives are amortized over their useful lives. The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Asset	Amortization Method	Annual Rate
Technology rights	Straight line	33%
Drivers, software technology and customer lists	Straight line	10% - 100%

g) Translation of Foreign Currencies

The Corporation's foreign operations are integrated. Accordingly, the method used in translating the financial statements of its foreign operations is consistent with the method used by the Canadian operation to translate its foreign currency transactions.

Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the monthly average exchange rate (except amortization expense, which is translated at historical exchange rates). Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of net income.

h) Derivative Financial Instruments

The Corporation is party to certain derivative financial instruments principally forward currency exchange contracts to manage risk associated with net operating assets denominated in US dollars. These derivative contracts are not recognized in the consolidated financial statements on inception nor accounted for as hedges. These derivative contracts are marked to market and any changes in the market value are recorded in income or expense when the change occurs. The fair value of these instruments is recorded as accounts receivable or payable.

i) Income Taxes

In preparing the consolidated financial statements, the Corporation recognizes income taxes in each jurisdiction in which it operates. The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and the tax basis of assets and liabilities using the substantively enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized.

j) Stock Based Compensation

The Corporation accounts for all stock based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after September 1, 2002, using the fair value based method. No compensation cost is recorded for all other stock based employee compensation awards, which are accounted for using the intrinsic value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Under the fair value based method, compensation cost attributable to employees that are direct awards of stock, or stock appreciation rights that call for settlement by the issuance of equity instruments, is measured at fair value at the grant date and recognized over the vesting period. For awards that vest at the end of the period, compensation cost is recognized on a straight line basis.

k) Earnings Per Share

Basic earnings per share is computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share is computed

NOTES TO FINANCIAL STATEMENTS

using the treasury stock method, by dividing net earnings by the weighted average shares outstanding adjusted for additional shares from the assumed exercise of stock options or warrants, if dilutive. The number of additional shares is calculated by assuming the outstanding dilutive stock options are exercised and that the assumed proceeds are used to acquire common shares at the average market price during the period.

3. CHANGES IN ACCOUNTING POLICIES

During 2004, the Corporation adopted, on a retroactive basis, the transitional provisions of the CICA Handbook Section 3870, "Stock Based Compensation and Other Stock Based Payments". In accordance with the provisions of this section, the Corporation has accounted retroactively for all stock options granted, settled, or modified since September 1, 2002 using the fair value based method. The fair value based method requires the Corporation to expense the fair value of the options granted or modified during the period.

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued. Consideration paid by employees on the exercise of stock options was recorded as share capital. The Corporation had previously disclosed the effect of accounting for these awards under the fair value based method on a pro forma basis.

In accordance with Section 3870, this change in accounting policy has been applied retroactively and the amounts presented for prior periods have been restated. The effects of adopting this policy are detailed in the table below. When options are exercised, the proceeds received by the Corporation, together with the amount originally recorded as contributed surplus when the options are granted, are credited to share capital. The impact of this restatement on the consolidated financial statements is as follows:

	Previously reported	Adjustment	Restated
As at August 31, 2003:			
Retained earnings	\$ 5,899	\$ (572)	\$ 5,327
Contributed surplus	29	572	601
As at August 31, 2004:			
Retained earnings	8,577	(1,213)	7,364
Contributed surplus	178	1,010	1,188
Share capital	23,421	203	23,624
Year ended August 31, 2004:			
Other income	779	(641)	138
Net income	2,678	(641)	2,037
Net earnings per share			
Basic	0.09	(0.02)	0.07
Diluted	0.09	(0.02)	0.07

4. BUSINESS ACQUISITION

On April 26, 2005 Matrikon International Inc. (a U.S. subsidiary of Matrikon Inc.) acquired certain assets and liabilities of Resolution Integration Solutions, Inc. ("Resolution"). The results of Resolution are included in these financial statements for the period since the acquisition. Resolution, located in Solon, Ohio is a plant management information system technology company.

The aggregate purchase price was \$1,485 comprised entirely of 328,266 common shares of the Corporation valued at \$1,371 plus acquisition costs of \$114. The value of the 328,266 common shares issued was determined based on the average market price of the Corporation's common shares for the 5 day period before the terms of the acquisition were agreed to and announced.

The following table summarizes the total purchase consideration and the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition, including goodwill and other intangible assets.

Total purchase consideration and the associated goodwill are calculated as follows:

Common shares issued by the Corporation upon acquisition of Resolution (000's)	328
Market price of common shares, per share	\$ 4.18
Total share consideration	1,371
Acquisition costs	114
Total purchase consideration	1,485
Fair value of net assets acquired (see below)	(226)
Value ascribed to goodwill	1,259
Fair value of net assets acquired:	
Cash	\$ 2
Other current assets	681
Intellectual Property – Resolution software	315
Customer contracts and/or relationships	63
Non-current assets	32
Current liabilities	(867)
Fair value of net assets acquired	\$ 226

The amounts ascribed to Customer contracts and relationships and Intellectual property will be amortized over a period between one to three years. The Corporation anticipates that amounts ascribed to the intangible assets and goodwill will be deductible for income tax purposes.

Under the terms of the acquisition agreement, a purchase price adjustment clause exists. Specifically, 220,340 of the common shares are to be held in escrow and will be released back to the Corporation within one year of the acquisition date if other current assets are not realized or other representations and warranties are not fulfilled. Should the shares

placed in escrow be released back to the Corporation, the purchase price will be adjusted.

5. CASH AND CASH EQUIVALENTS

(a) Cash and Cash Equivalents

The Corporation considers deposits in banks, certificates of deposit and unrestricted investments with initial maturities of three months or less as cash and cash equivalents.

The major components of cash and cash equivalents are as follows:

	2005	2004
Cash on deposit	\$10,546	\$6,311

(b) Restricted Cash

Restricted cash of \$2,302 (2004 – nil) relate to funds being held to acquire Matrikon Deutschland subsequent to year-end.

6. INCOME TAXES

(a) Future Taxes

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are presented below:

	2005	2004
Future tax assets:		
Non capital loss carry forward	\$1,120	\$1,077
Capital assets, principally due to differences in cost and amortization	5	24
Intangible assets, principally due to differences in cost and amortization	349	384
Unrealized foreign exchange losses	485	-
Other payables	154	290
Total gross future tax assets	2,113	1,775
Future tax liabilities:		
Capital assets, principally due to differences in cost and amortization	(18)	(19)
Intangible assets, principally due to differences in cost and amortization	(97)	-
Contracts in progress	(242)	(171)
Investment tax credits	(788)	(683)
Deferred charges	(189)	(254)
Other payables	(12)	-
Unrealized foreign exchange gains	-	(523)
Total gross future tax liabilities	(1,346)	(1,650)
Net future tax asset	767	125

Presented in the consolidated balance sheet as follows:

	2005	2004
Current assets:	\$639	\$178
Non-current assets	1,474	1,212
Current liabilities	(828)	(843)
Non-current liabilities	(518)	(422)
	767	125

(b) Income Tax Provision

The income tax provision differs from the amounts computed by applying the combined federal, provincial and foreign income tax rate of 33.1% to fiscal 2005 (2004 – 35.2%) pre-tax income as a result of the following:

	2005	Restated 2004
Income before income taxes	\$7,843	\$3,647
Computed "expected" tax expense	2,599	1,284
Increase in income taxes, resulting from:		
Large corporation tax, other capital taxes and state taxes	-	11
Non taxable portion of foreign exchange gain (losses)	-	(48)
Permanent differences and other	12	363
Recorded tax expense	2,611	1,610

(c) Losses Carried Forward

At August 31, 2005 the Corporation had non-capital losses of approximately \$2,843 that may be carried forward and used to reduce taxable income in future years. Losses incurred in the United States are subject to the restrictions in Section 382 of the Internal Revenue Code. The non-capital losses expire as follows:

Year of Expiry	Amount
2019	\$771
2020	1,185
2021	190
2023	50
2025	647
	2,843

(d) Scientific Research and Experimental Development Tax Credits (SR&ED)

Beginning in fiscal 2004 the Corporation began accruing, on a quarterly basis, SR&ED tax credits receivable in relation to research and development expenses incurred. The impact in 2005 on the consolidated statement of income and retained earnings is a reduction of research and development expenses of \$600 (2004 - \$600) and the consolidated balance sheet includes investment tax credits of \$2,345 (2004 – \$1,539) in accounts receivable.

In addition, other income for 2005 includes \$166 of SR&ED tax credits receivable for prior periods (2004 – \$589).

NOTES TO FINANCIAL STATEMENTS

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	2005 Net Book Value
Computer hardware	\$3,174	\$2,092	\$1,082
Computer software	1,880	1,689	191
Furniture & equipment	2,755	1,684	1,071
Leasehold improvements	607	396	211
Automotive	46	29	17
Leased assets	-	-	-
	8,462	5,890	2,572

	Cost	Accumulated Amortization	2004 Net Book Value
Computer hardware	\$2,515	\$1,771	\$744
Computer software	1,499	1,259	240
Furniture & equipment	2,302	1,465	837
Leasehold improvements	591	309	282
Automotive	46	22	24
Leased assets	95	54	41
	7,048	4,880	2,168

Amortization provided for capital assets in the current period totals \$1,070 (2004 – \$882).

Capital lease obligations of \$nil (2004 – \$46) are included in accounts payable and accrued liabilities. Interest expense related to this obligation for the year was \$nil (2004 – \$4).

8. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2005 Net Book Value
Technology rights	\$1,138	\$1,138	\$-
Customer lists	1,080	733	347
Drivers & software technology	407	121	286
	2,625	1,992	633

	Cost	Accumulated Amortization	2004 Net Book Value
Technology rights	\$1,138	\$980	\$158
Customer lists	1,017	310	707
Drivers & software technology	92	46	46
	2,247	1,336	911

Amortization of \$656 has been provided for intangible assets in 2005 (2004 – \$616) and is based on management's estimate of the economic life of the assets.

Once an intangible asset is fully amortized, the gross carrying amount and the related accumulated amortization are removed from the account.

Intangible assets in the amount of \$378 were acquired in the Resolution Integration Solutions acquisition as detailed in Note 4.

9. BANK INDEBTEDNESS

The Corporation has an authorized line of credit of \$7,000 with a Canadian chartered bank bearing a floating interest rate of 0.25% above the bank's prime lending rate. The Corporation has provided a general security agreement covering all assets of the Corporation as security for the facility. No amounts were drawn under this facility as at August 31, 2005 or August 31, 2004.

10. SHARE CAPITAL

(a) Issued Shares

	Share Capital		Contributed Surplus
	# of shares	\$000s (Restated)	\$000s (Restated)
Authorized in unlimited numbers:			
Common shares			
Issued			
Balance, 31-Aug-03	24,224,306	\$12,948	\$601
Private placement, net of share issue costs	4,545,455	9,357	-
Stock options exercised	512,226	1,151	438
Warrants exercised	55,894	168	-
Employee ownership plan	45,416	-	149
Balance, 31-Aug-04	29,383,297	\$23,624	\$1,188
Shares issued for acquisition of Resolution Integration Solutions (Note 4)	328,266	1,371	-
Stock options exercised	528,604	1,290	319
Warrants exercised	185,005	555	-
Employee ownership plan	99,631	285	(6)
Balance, 31-Aug-2005	30,524,803	\$27,125	\$1,501

(b) Stock Options

The Corporation has a stock option plan under which its directors and employees may receive options to purchase Common Shares at a price equal to market value at the date of granting. Current options granted expire five years after the vesting date, however prior options issued were valid for 10 year periods. 3,500,000 Common Shares were reserved for the exercise of these options. The following stock options, with expiry dates up to April 2015, remain outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, 31-Aug-04	1,957,360	\$2.12
Granted	344,000	3.65
Exercised	(528,604)	2.00
Expired	-	-
Cancelled	(57,456)	2.63
Balance, 31-Aug-05	1,715,300	\$2.45

	Number of Options	Weighted Average Exercise Price
Balance, 31-Aug-03	2,127,682	\$1.90
Granted	446,500	2.90
Exercised	(512,226)	1.85
Expired	-	-
Cancelled	(104,596)	2.29
Balance, 31-Aug-04	1,957,360	\$2.12

The following table summarizes information about stock options outstanding at August 31, 2005:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$1.36 – 1.69	66,350	3.15	\$1.56	66,350	\$1.56
1.70 – 1.99	597,963	2.69	1.86	546,463	1.86
2.00 – 2.49	419,337	2.20	2.03	419,337	2.03
2.88 – 3.60	501,650	5.49	3.17	241,650	2.97
4.11 – 4.15	130,000	5.68	4.13	-	-
	1,715,300	3.63	\$2.45	1,273,800	\$2.11

The following table summarizes information about share options outstanding at August 31, 2004:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$1.36 – 1.69	122,750	3.96	\$1.56	121,750	\$1.56
1.70 – 1.99	787,401	3.63	1.86	631,401	1.87
2.00 – 2.49	702,209	3.21	2.05	666,209	2.04
2.88 – 3.60	345,000	5.81	3.05	62,500	2.89
	1,957,360	3.88	\$2.12	1,481,860	\$1.97

The fair value of common share options are estimated at the grant date using the Black-Scholes pricing model based on the following assumptions:

	2005	2004
Risk free interest rate	3.12%	3.83%
Expected life	3 years	5 years
Expected volatility	50%	79%
Expected dividend	-	-

During fiscal 2005, \$550 (2004 – \$641) has been recorded in compensation expense relating to stock options with a corresponding credit to contributed surplus. In addition, \$231 (2004 – \$203) has been reclassified from contributed surplus to share capital in relation to the exercise of stock options.

(c) Employee Stock Ownership Plan

The Corporation also has an employee share ownership program, whereby the Corporation will issue one Common Share from Treasury at no cost to the employee for every two shares that are purchased in the market by the employee and held for 16 months. Common Shares valued to a maximum of 10% of the employee's earnings in the prior calendar year may be registered for participation in the program at the end of every fiscal quarter.

During fiscal 2005, \$351 (2004 – \$149) of compensation expense has been recorded in other income with a corresponding credit to contributed surplus. In addition, \$286 (2004 - \$nil) has been reclassified from contributed surplus to share capital relating to the issuance of matching shares under this program during the year. The following table summarizes common shares eligible to be issued under the program:

Date of Registration	Common Shares Eligible for Issuance	Date Eligible for Issuance
May 2004	3,959	September 2005
August 2004	9,241	December 2005
November 2004	19,750	March 2006
February 2005	70,425	June 2006
May 2005	19,664	September 2006
August 2005	18,211	December 2006

During the year ended August 31, 2005, the Corporation recognized a reduction in compensation expense of \$72 (2004 – \$ nil) with respect to forfeitures of common shares eligible to be issued under the employee share ownership program.

(d) Warrants

The Corporation has 31,828 (2004 – 216,833) common share warrants outstanding, which are convertible into an equivalent number of common shares at \$3.00 which expire September 24, 2005. Subsequent to year end, all outstanding warrants were converted to common shares.

(e) Earnings Per Share

For fiscal 2005, the weighted average number of shares outstanding for the purposes of calculating basic earnings per share was 29,841,579 (2004 – 28,728,919).

In calculating diluted earnings per share, the weighted average number of shares outstanding (denominator), has been increased by 563,316 (2004 – 657,640) in respect of stock options and warrants using the treasury stock method and by 141,250 (2004 – 130,116) in respect of the Corporation's employee share ownership program. Thus, for fiscal 2005, the weighted average number of shares outstanding for the purposes of calculating the diluted earnings per share was 30,546,145 (2004 – 29,516,675). There are no items that impact the numerator for both fiscal 2005 and 2004 in calculating diluted earnings per share.

NOTES TO FINANCIAL STATEMENTS

11. SEGMENT DISCLOSURE

Matrikon operates the following business segments, which have been segmented based on the way that management organizes the segments within the business for making operating decisions and assessing performance. Intercompany consulting work is charged to the segments at rates equivalent to the amount recovered from the client, which varies based on the nature of the project. The distribution of revenue and expenses by business unit is as follows:

12 MONTHS ENDED 31-Aug-05 (CAN\$000s)	Eastern Canada & United States	Western Canada	Australia	Europe	Products	Corporate	Total
Revenue	\$8,167	\$21,773	\$12,279	\$6,639	\$18,955	-	\$67,813
Cost of sales	4,365	12,378	8,306	2,737	3,308	-	31,094
Gross margin	3,802	9,395	3,973	3,902	15,647	-	36,719
Expenses	(2,754)	(5,424)	(1,733)	(1,783)	(8,713)	(6,689)	(27,096)
Other income (expenses) & foreign exchange translation gain (loss)	-	-	-	261	1	(2,042)	(1,780)
Income before income taxes	1,048	3,971	2,240	2,380	6,935	(8,731)	7,843
Capital assets	290	1,403	608	153	-	118	2,572
Goodwill	960	2,001	1,098	2,100	5,767	-	11,926

12 MONTHS ENDED 31-Aug-04 Restated (CAN\$000s)	Eastern Canada & United States	Western Canada	Australia	Europe	Products	Corporate	Total
Revenue	\$7,591	\$19,677	\$10,176	\$1,609	\$15,343	-	\$54,396
Cost of sales	4,499	12,494	7,001	881	2,310	-	27,185
Gross margin	3,092	7,183	3,175	728	13,033	-	27,211
Expenses	(2,831)	(5,537)	(1,504)	(214)	(8,500)	(4,939)	(23,525)
Other income (expenses) & foreign exchange translation gain (loss)	10	-	(5)	117	-	(161)	(39)
Income before income taxes	269	1,133	1,550	410	5,385	(5,100)	3,647
Capital assets	297	1,256	525	90	-	-	2,168
Goodwill	960	2,001	1,098	2,100	4,508	-	10,667

12. OTHER INCOME

	2005	Restated 2004
Scientific research & development (Note 6d)	\$166	\$589
Interest income	293	161
Gain on sale of capital assets	1	1
Sundry expense recoveries	64	177
Compensation expense (Note 10b&c)	(829)	(790)
	(305)	138

13. COMMITMENTS

(a) Leases

The Corporation has a number of lease commitments relating to office space and equipment. Lease terms range from 3 to 64 months expiring between September 2005 and August 2012. In addition to minimum lease payments, our office facility leases require payment of our proportionate share of real estate taxes and building operating expenses. A schedule of minimum lease payments under operating leases are as follows:

	Amount
2006	\$1,836
2007	1,246
2008	848
2009	504
2010	509
Subsequent years	950

(b) Forward Contracts

Unrealized gains on forward exchange contracts are \$319 at August 31, 2005 (2004 - \$nil). At August 31, 2005 the Corporation was committed to the following forward exchange contracts:

Expiry date	Amount Contracted US\$	Rate
September 2005	\$1,500	1.25
October 2005	1,500	1.25
November 2005	1,500	1.24
December 2005	1,500	1.24

(c) Performance Guarantees

A performance guarantee is an irrevocable assurance that the Corporation will make payments under the terms of an obligating agreement. Matrikon currently has 7 (2004 - 2) performance guarantees outstanding. The maximum potential exposure under these guarantees represent a cumulative amount of approximately \$339 (2004 - \$297). However, based on the Corporation's experience, the Corporation believes that any potential payment will not be significant.

(d) Legal Claims

The Corporation and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate unrecorded liability of the Corporation arising from these claims is immaterial.

14. CONTINGENCIES

(a) Tax Matters - Loss Carry-forwards:

During fiscal 2005, the Australian taxation authorities have indicated that they disagree with the tax losses claimed by Matrikon Pty Limited (Australian Subsidiary of Matrikon Inc.) in the amount of \$796 AUD (\$732 CAN) for company tax returns filed in 2002, 2003 and 2004. At August 31, 2005, the Corporation has utilized these tax losses in computing income tax expense. If these tax losses are disallowed, the impact would be an increase in tax expense of \$238 AUD (\$220 CAN).

No amended assessments relating to prior year returns have been issued; however, a position paper issued by the Australian Taxation Office (ATO) indicated that the Corporation had not met the criteria to utilize the loss carry-forwards obtained from the acquisition of Hunter Control Pty Limited.

Management, based on independent advice, believes that the ATO's position is without merit and is vigorously defending the action. As the outcome of this matter is not currently determinable, no liability has been recorded.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash & cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The carrying values of these financial instruments are considered to approximate fair value because of their near-term maturity.

16. CREDIT RISK

Financial instruments that subject the Corporation to credit risk consist primarily of cash & cash equivalents, accounts receivable, and costs. Accounts receivable are derived from sales to diverse clients in various industries and sectors of the economy and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. Credit review and collection procedures are in place and provisions are maintained for potential credit losses.

From time to time, the Corporation is exposed to currency risk since it realizes most of its sales in foreign currency (GBP, AUD, USD). Consequently, the majority of the Corporation's trade receivable balance and a portion of its cash resources are denominated in foreign currencies. Therefore, the carrying value of these assets will fluctuate with changes in the exchange rates. The Corporation is constantly reviewing its exposure to exchange rate fluctuations and takes action to mitigate risks where appropriate.

17. SUBSEQUENT EVENTS – ACQUISITION

On September 1, 2005 the Corporation acquired 100% of the shares of Matrikon Deutschland AG ("MD") for cash consideration of \$2,302.

Matrikon Deutschland AG is a system integrator offering turn-key industrial IT project execution and has been a distribution partner of the Corporation since 2002. In July 2004, MD became an exclusive distributor of Matrikon technology in Germany and licensed the Matrikon name.

This acquisition will be accounted for using the purchase method and the results of MD will be consolidated with those of the Corporation from the date of the acquisition. The Corporation is in the process of finalizing the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition including goodwill and other intangible assets; thus, the allocation of the purchase price is subject to refinement.

The following reflects the preliminary purchase allocation for the acquisition of MD (unaudited):

Total purchase consideration and the associated goodwill are calculated as follows:

Total consideration - Cash paid on closing	\$2,302
Acquisition costs	47
Total purchase consideration	2,349
Fair value of net assets acquired (see below)	(1,023)
Value ascribed to goodwill	1,326

FAIR VALUE OF NET ASSETS ACQUIRED:

Working capital	\$117
Intangible assets	425
Non-current assets	481
Fair value of net assets acquired	\$1,023

An amount of \$157 EUR (\$229 CAN) is being held back and will be paid on April 1, 2006, provided there are no material disputes arising from the purchase agreement.