

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all of the information included in this annual report have been prepared by and are the responsibility of management and the Board of Directors of Matrikon Inc. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments based on currently available information. The significant accounting policies which management believes are appropriate for the Corporation are described in Note 2 of the consolidated financial statements.

The Corporation has developed and maintains an appropriate system of internal controls in order to ensure, on a reasonable and cost-effective basis, that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. The Board has appointed an Audit Committee comprised of four independent Directors.

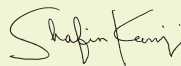
The Audit Committee reviews the consolidated financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

KPMG LLP have been appointed as external auditors to perform an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements.



Nizar J. Somji
President and Chief Executive Officer

Edmonton, Alberta
October 15, 2004



Shafin U. Kanji
Chief Financial Officer

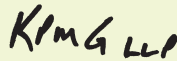
AUDITORS' REPORT

To the Shareholders of Matrikon Inc.

We have audited the consolidated balance sheets of Matrikon Inc. as at August 31, 2004 and 2003 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 from 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 the Corporation as at August 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Edmonton, Alberta
October 15, 2004

CONSOLIDATED BALANCE SHEETS

As at August 31 Thousands of Canadian dollars	2004	2003
ASSETS		
<i>Current</i>		
Cash	\$6,311	\$295
Accounts receivable (Note 5 (d))	19,203	13,897
Contracts in progress	1,830	3,457
Future income taxes (Note 5 (a))	178	235
Prepaid expenses	564	361
	28,086	18,245
Future income taxes (Note 5 (a))	1,212	1,354
Capital assets (Note 6)	2,168	1,682
Intangible assets (Note 7)	911	665
Goodwill	10,667	5,442
	\$43,044	\$27,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current</i>		
Accounts payable and accrued liabilities	\$5,032	\$4,994
Deferred revenue	3,821	3,038
Income taxes payable	750	82
Future income taxes (Note 5 (a))	843	398
	10,446	8,512
Future income taxes (Note 5 (a))	422	-
Commitments (Note 13)		
Shareholders' equity		
Share capital (Note 9 (a))	23,421	12,948
Contributed surplus (Note 9 (c))	178	29
Retained earnings	\$ 8,577	5,899
	32,176	18,876
	\$43,044	\$27,388

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

Years ended August 31 Thousands of Canadian dollars	2004	2003
REVENUE		
Consulting fees	\$ 34,556	\$ 33,353
Equipment sales	5,508	3,816
Software license fees	9,804	8,753
Extended support	4,528	2,958
	54,396	48,880
Cost of sales	27,185	23,701
Gross profit	27,211	25,179
EXPENSES		
Consulting	6,448	7,537
Sales and marketing	7,428	4,800
Research and development (Note 5 (d))	2,991	2,465
General and administrative	5,160	4,442
Amortization	1,498	1,368
TOTAL EXPENSES	23,525	20,612
Income before the undernoted	3,686	4,567
Foreign currency translation loss	(177)	(1,012)
Other income (Note 12)	779	829
Income before income taxes	4,288	4,384
Income tax expense		
Current	794	576
Future	816	1,183
	1,610	1,759
NET INCOME	\$ 2,678	\$ 2,625
Retained earnings, beginning of year	\$ 5,899	\$ 3,274
Net income	\$ 2,678	\$ 2,625
Retained earnings, end of year	\$ 8,577	\$ 5,899
Earnings per share		
Basic earnings per share	0.09	0.11
Diluted earnings per share	0.09	0.11
Weighted average number of common shares outstanding (000s) (Note 9(e))		
Basic	28,729	24,221
Diluted	29,517	24,317

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31 Thousands of Canadian dollars	2004	2003
OPERATING ACTIVITIES		
Net income	\$ 2,678	\$ 2,625
Items not affecting cash:		
Future income taxes	816	1,183
Amortization	1,498	1,368
Gain on sale of assets	(1)	(70)
Employee stock ownership plan (Note 9 (c))	149	29
	\$ 5,140	\$ 5,135
Changes in non-cash working capital	(1,676)	(2,194)
Cash provided by operating activities	\$ 3,464	\$ 2,941
INVESTING ACTIVITIES		
Purchase of intangible assets	(178)	-
Business acquisition net of cash acquired (Note 4)	(6,463)	(124)
Proceeds from sales of capital assets	2	253
Purchase of capital assets	(1,282)	(786)
Cash used in investing activities	\$ (7,921)	\$ (657)
FINANCING ACTIVITIES		
Repayment of bank indebtedness	-	(2,273)
Proceeds of share issue, net of share issue costs	10,473	(1)
Cash provided by (used in) financing activities	\$ 10,473	\$ (2,274)
Cash increase	\$ 6,016	\$ 10
Cash, beginning of year	295	285
Cash, end of year	\$ 6,311	\$ 295
Supplementary cash flow disclosure:		
Income taxes paid (recovered)	206	667
Interest paid (recovered)	181	235

See accompanying notes to the consolidated financial statements

Years ended August 31, 2004 and August 31, 2003
 Thousand of dollars except per share amounts
 Canadian dollars unless otherwise noted.

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 for August 31, 2004 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 consolidated financial statements for August 31, 2003 include the accounts of Matrikon Inc. and its wholly-owned subsidiaries: Matrikon International Inc., Matrikon (Australia) Pty Limited., TigrSoft (India) Private Ltd., a 99.7% owned subsidiary and Matrikon Business Systems Inc., a 51% owned subsidiary until November 30, 2002, when Matrikon Inc. purchased the remaining 49% for a nominal amount.

(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, valuation of future income taxes, intangible assets, 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 software license revenues, implementation revenues, consulting services and extended support revenues. 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. Revenue from implementation activity is recognized as services are delivered. Consulting services are recognized on the percentage-of-completion basis. Contracts in progress are recorded at the lower of cost and normal profit earned and their estimated realizable value based on the percentage-of-completion method. Losses are provided for in the period when they become apparent. 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%
Leased assets	Declining balance	20%
Automotive	Declining balance	30%

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) Intangible Assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and mea-

sured 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%
Development costs	Straight line	50%
Drivers, software technology and customer lists	Straight line	10% - 33%

(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 are 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 exchange rate in effect at the time of the transaction. Amortization is translated at the exchange rates used in translating the underlying assets. 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 foreign exchange contracts (used to manage foreign currency exposures on export sales). These instruments are not recognized in the consolidated financial statements on inception. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate. The carrying amounts of derivative financial instruments, which comprise accrued gains and losses not yet realized, are included in accounts receivables in the case of contracts in a gain position and in accounts payable and accrued liabilities in the case of contracts in a loss position.

(i) Income Taxes

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future

tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. 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.

(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. The Corporation discloses the pro forma effect of accounting for these awards under the fair value based method (see Note 9 (d)).

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) Goodwill

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. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

(l) Guarantees

A guarantee is a contract or an indemnification agreement that contingently requires the Corporation to make payments (either in cash, financial instruments, other assets, shares of our stock or provision of services) to a third party based on a) changes in an underlying interest rate, foreign exchange rate, equity price or commodity price, index or other variable, that is related to an asset, a liability or an equity security of the guaranteed party, b) failure of another party to perform under an obligating agreement or c) failure of a third party to pay its indebtedness when due.

(m) 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 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 or warrants 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

(a) Stock Based Compensation

Effective September 1, 2002, the Corporation adopted the new Recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for stock based compensation and other stock based payments. The new Recommendations are applied prospectively to all stock based payments to non-employees and to employee awards that are direct awards of stock, call for settlement in cash and other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after September 1, 2002.

(b) Guarantees

Effective March 1, 2003, the Corporation adopted the new Recommendations of the Canadian Institute of Chartered Accountants with respect to Accounting Guideline 14 ("AcG-14"), Disclosure of Guarantees, which requires that certain disclosures be made by a guarantor about its obligations under guarantees in its interim and annual consolidated financial statements for interim periods beginning on or after January 1, 2003.

4. BUSINESS ACQUISITION

On May 18, 2004 Matrikon Inc. reached an agreement with the shareholders of PI Automation Limited. ("PI Automation"). PI Automation, a privately owned company with 18 employees located in Aberdeen Scotland, was a supplier of turnkey web-based plant performance solutions and an integration partner of Matrikon's for over two years. Under the terms of the agreement, Matrikon's newly formed subsidiary, Matrikon UK Limited, made a cash payment of \$7,366 (£3,000) to purchase all the outstanding shares of PI Automation (subsequently renamed Matrikon Europe Limited). The results of Matrikon Europe's operations are included in these financial statements for the period since the acquisition.

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

Cash consideration	\$ 7,366
Acquisition costs	314
Total purchase consideration	7,680
Fair value of net assets acquired (see below)	2,455
Value ascribed to goodwill	\$5,225

Fair value of net assets acquired:

Cash	\$ 1,217
Other current assets	1,846
Capital assets	83
Intangible assets	685
Current liabilities	(1,129)
Future income tax liabilities - current	(110)
Future income tax liabilities - long-term	(137)
Fair value of net assets acquired	\$ 2,455

The Corporation estimates the value of amortizable intangible assets consisting of key contracts and agreements to be \$685 with useful lives of one to three years.

5. 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:

	2004	2003
Future tax assets:		
Non-capital loss carry forwards	\$1,077	\$1,280
Capital assets, principally due to differences in cost and amortization	24	9
Intangible assets, principally due to differences in cost and amortization	384	183
Unrealized foreign exchange losses	-	283
Other payables	290	284
Total gross future tax assets	1,775	2,039
Future tax liabilities:		
Capital assets, principally due to differences in cost and amortization	(19)	-
Contracts in progress	(171)	(370)
Investment tax credits	(683)	(394)
Deferred charges	(254)	(84)
Unrealized foreign exchange gains	(523)	-
Total gross future tax liabilities	(1,650)	(848)
Net future tax asset	\$125	\$1,191

Presented in the consolidated balance sheet as follows:

	2004	2003
Current assets	\$178	\$235
Non-current assets	1,212	1,354
Current liabilities	(843)	(398)
Non-current liabilities	(422)	-
	\$125	\$1,191

(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 35.2% to fiscal 2004 (36.80% in 2003) pre-tax income as a result of the following:

	2004	2003
Income before income taxes	\$4,288	\$4,384
Computed "expected" tax expense	1,510	1,613
Increase in income taxes resulting from:		
Adjustment to future assets and liabilities for enacted changes in tax laws and rates	-	108
Large corporation tax, other capital taxes and state taxes	11	23
Non taxable portion of foreign exchange gain (loss)	(48)	86
Permanent differences and other	137	(71)
Recorded tax expense	\$1,610	\$1,759

(c) Losses Carried Forward

At August 31, 2004 the Corporation had non-capital losses of approximately \$2,775 that may be carried forward and used to reduce taxable income in future years. The non-capital losses expire as follows:

Year of Expiry	Amount
2019	\$982
2020	1,312
2021	248
No expiry	233
	\$2,775

(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 2004 on the consolidated statement of income and retained earnings is a reduction of research and development expenses of \$600 (2003 \$482) and the consolidated balance sheet includes investment tax credits of \$1,539 (2003 \$1,348) in accounts receivable.

In addition, other income for 2004 includes \$589 of SR&ED tax credits receivable for prior periods (\$669 - 2003).

6. CAPITAL ASSETS

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

	Cost	Accumulated Amortization	2003 Net Book Value
Computer hardware	\$2,122	\$1,536	\$586
Computer software	1,063	911	152
Furniture and equipment	1,861	1,237	624
Leasehold improvements	493	229	264
Leased assets	96	43	53
Automotive	21	18	3
	\$5,656	\$3,974	\$1,682

Amortization provided for in the current period totals \$882 (\$698 in 2003).

Capital lease obligations of \$46 (\$65 in 2003) are included in accounts payable and accrued liabilities. Interest expense related to this obligation for the year was \$4 (\$5 for 2003).

7. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2004 Net Book Value
Technology rights	\$1,138	\$980	\$158
Customer lists	1,017	310	707
Development costs	668	668	-
Drivers and software technology	92	46	46
	\$2,915	\$2,004	\$911

	Cost	Accumulated Amortization	2003 Net Book Value
Technology rights	\$1,138	\$600	\$538
Customer lists	153	81	72
Development costs	668	668	-
Drivers and software technology	92	37	55
	\$2,051	\$1,386	\$665

Amortization of \$616 has been provided for in 2004 (\$670 in 2003) and is based on management's estimate of the economic life of the assets.

On October 31, 2003 Matrikon Inc. reached an agreement with the shareholder of Comcept Technologies Inc. ("Comcept"). Comcept was a privately owned independent consulting company with 4 employees located in Toronto, Ontario. On November 6, 2003, under the terms of the acquisition agreement, Matrikon Inc. purchased all programs, software, code, intellectual property, customer lists, data and other information and property relating to the business for consideration of \$178.

Additional intangible assets were acquired in the PI Automation acquisition as detailed in Note 4.

8. 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, 2004 or August 31, 2003.

9. SHARE CAPITAL

(a) Issued shares

	Number of Shares	\$ 000's
Authorized in unlimited numbers		
Common shares		
Issued		
Balance, August 31, 2002	23,721,985	\$ 11,990
Issued for Hunter Control	479,830	958
Stock options exercised	1,500	-
Cancelled shares	(26,618)	-
Employee purchase plan	47,609	-
Balance, August 31, 2003	24,224,306	\$ 12,948
Private placement, net of share issue costs	4,545,455	9,357
Stock options exercised	512,226	948
Warrants exercised	55,894	168
Employee purchase plan	45,416	-
Balance, August 31, 2004	29,383,297	\$23,421

On September 24, 2003 the Corporation issued 4,545,455 common shares through private placement for \$2.20 per share with 272,727 warrants (expiring September 24, 2005) that give the holder the ability to purchase common shares for \$3.00 per share. After deducting underwriting and other expenses amounting to \$643, the amount credited to capital stock was \$9,357.

(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. Options are granted to all new employees at the first Board of Directors meeting subsequent to the expiration of the probationary employment period (generally three months) and vest at the end of one year. 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, of which 2,986,274 remain available for issuance at August 31, 2004.

The following stock options, with expiry dates up to January 2013, remain outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2003	2,127,682	\$1.90
Granted	446,500	2.90
Exercised	(512,226)	1.85
Expired	-	-
Cancelled	(104,596)	2.29
Balance, August 31, 2004	1,957,360	\$2.12

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2002	1,629,190	\$1.86
Granted	840,500	1.82
Exercised	(1,500)	1.36
Expired	(60,000)	8.50
Cancelled	(280,508)	1.84
Balance, August 31, 2003	2,127,682	\$1.90

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 following table summarizes information about stock options outstanding at August 31, 2003:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
1.36	60,000	4.66	\$1.36	38,500	\$1.36
1.40 - 1.99	1,248,228	4.58	1.83	578,728	1.89
2.00 - 2.49	819,454	4.06	2.04	751,954	2.02
	2,127,682	4.38	\$1.90	1,369,182	\$1.95

(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 2004, \$149 (\$29 in 2003) of compensation expense has been recorded in other income with a corresponding credit to contributed surplus. 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
April 2003	44,776	August 2004
May 2003	6,346	September 2004
August 2003	3,337	December 2004
November 2003	19,614	March 2005
February 2004	40,595	June 2005
May 2004	4,819	September 2005
August 2004	10,629	December 2005

(d) Stock Compensation Plans

When the Corporation awards stock options to employees, no compensation cost is recognized in the consolidated statement of income and retained earnings for common

share options granted. Had compensation cost been determined based on the fair values at the grant dates for those options, the Corporation's net income and earnings per share would have been reduced to the amounts below:

(in 000's, expect per share amounts)	2004	2003
Compensation costs	\$641	\$572
Net earnings:		
As reported	\$2,633	\$2,625
Pro forma	\$1,992	\$2,053
Basic earnings per share:		
As reported	\$0.09	\$0.11
Pro forma	\$0.07	\$0.08
Diluted earnings per share:		
As reported	\$0.09	\$0.11
Pro forma	\$0.07	\$0.08

The above pro forma disclosure does not include the effects of awards granted before September 1, 2002. The fair value of common share options is estimated at the grant date using the Black-Scholes pricing model based on the following assumptions:

Risk free interest rate	3.83%	4.7%
Expected life	5 years	5 years
Expected volatility	79 %	80 %
Expected dividends	-	-

(e) Earnings per share

For fiscal 2004, the weighted average number of shares outstanding for the purposes of calculating basic earnings per share was 28,728,919 (24,220,797 in 2003).

In calculating diluted earnings per share, the weighted average number of shares outstanding (denominator), has been increased by 657,640 (42,217 in 2003) in respect of stock options and warrants using the treasury stock method and by 130,116 (54,203 in 2003) in respect of the Corporation's employee share ownership program. Thus, for fiscal 2004, the weighted average number of shares outstanding for the purposes of calculating the diluted earnings per share was 29,516,675 (24,317,217 in 2003). There are no items that impact the numerator for both fiscal 2004 and 2003 in calculating diluted earnings per share.

10. RELATED PARTY TRANSACTIONS

The Corporation leased facilities in India from an individual related to a former Vice President of the corporation. Approximately 2,000 square feet of office space had been leased over a 60 month term expiring October 31, 2003. For the year ended August 31, 2004 lease payments amounted to \$8 (\$36 in 2003). The terms and conditions of the lease reflected prevailing market conditions at the time the lease commenced.

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, expenses, capital assets and goodwill by business unit is as follows:

12 MONTHS ENDED August 31, 2004

	Eastern Canada	Western Canada	United States	Australia	Europe	Products	Total
Revenue	\$2,942	\$19,677	\$4,649	\$10,176	\$1,609	\$15,343	\$54,396
Cost of Sales	2,346	12,494	2,153	7,001	881	2,310	27,185
Gross Margin	596	7,183	2,496	3,175	728	13,033	27,211
Expenses	902	8,307	1,602	3,180	403	9,131	23,525
Other income (expenses) and foreign exchange translation loss	267	71	10	11	243	-	602
Income before income taxes	(\$ 39)	(\$1,053)	\$904	\$6	\$568	\$3,902	\$4,288
Capital assets	\$170	\$1,256	\$127	\$525	\$90	\$-	\$ 2,168
Goodwill	\$320	\$2,001	\$640	\$1,098	\$2,100	\$4,508	\$10,667

12 MONTHS ENDED August 31, 2003

	Eastern Canada	Western Canada	United States	Australia	Europe	Products	Total
Revenue	\$2,150	\$20,392	\$4,669	\$7,334	\$-	\$14,335	\$48,880
Cost of Sales	997	12,383	2,941	4,794	-	2,586	23,701
Gross Margin	1,153	8,009	1,728	2,540	-	11,749	25,179
Expenses	562	8,769	2,094	2,139	-	7,048	20,612
Other income (expenses) and foreign exchange translation loss	485	(1,048)	9	(25)	-	396	(183)
Income before income taxes	\$1,076	(\$ 1,808)	(\$ 357)	\$ 376	\$-	\$ 5,097	\$4,384
Capital assets	\$105	\$983	\$175	\$419	\$-	\$-	\$1,682
Goodwill	\$184	\$1,151	\$368	\$793	\$-	\$2,946	\$5,442

12. OTHER INCOME

	2004	2003
Scientific Research & Experimental Development tax credits (Note 5 (d))	\$589	\$669
Interest income	161	98
Gain on sale on capital assets	1	70
Sundry expense recoveries	177	47
Compensation expense (Note 9 (c))	(149)	(29)
Non controlling interest	-	(26)
	\$779	\$829

13. COMMITMENTS

(a) Leases

The Corporation has a number of lease commitments relating to office space and equipment. Lease terms range from 60 to 63 months expiring between September 2004 and June 2008. Remaining lease payments are as follows:

	Amount
2005	\$2,911
2006	2,298
2007	1,701
2008	600
2009	80
	\$7,590

(b) Forward Contracts

From time to time, the Corporation enters into forward exchange contracts for the sale of U.S. currency to manage exposure to currency rate fluctuations related primarily to its future net cash flows of U.S. dollars from operations. The purpose of the Corporation's foreign currency risk management activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. Unrealized gains on foreign exchange contracts are \$ Nil at August 31, 2004 and \$49 at August 31, 2003. At August 2003 the Corporation was committed to the following monthly forward exchange contract:

Start date	Expiry date	Amount Contracted U.S. \$	Rate
September 8, 2003	October 8, 2003	\$500	1.4847

(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 two performance guarantees outstanding. The maximum potential exposure under these guarantees represent a cumulative amount of approximately \$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. The financial impact of defending the lawsuits may become material.

14. FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash, 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.

Accounts receivable are derived from sales to a number of customers who operate in different industries and who are geographically dispersed. Credit review and collection procedures are in place and provisions are maintained for potential credit losses.

The Corporation is exposed to currency risk since it realizes most of its sales in foreign currencies. 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.

15. COMPARATIVE FIGURES

The Corporation has previously disclosed the following operating segments; Control and Automation, Industrial IS, Advanced Applications, Product Sales and Implementation, and Multidisciplinary projects. Effective January 1, 2004 the Corporation modified the business segments based on the products and services and/or geographic area reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance.

Currency translation gains or losses were previously applied against revenue. As these gains or losses have become more significant they have been presented as a separate line item labelled foreign currency translation on the consolidated statement of income and retained earnings in the current year.

Comparative figures for the prior year have been reclassified to conform to the current period's financial statement presentation.