

Matrikon announces second quarter results

SECOND QUARTER 2004 SUMMARY

<ul style="list-style-type: none"> • Revenue of \$10.15 million; \$24.45 year-to-date • Net loss of \$0.23 million; net income of \$0.77 million year-to-date 	<ul style="list-style-type: none"> • Software and support revenue of \$2.94 million; \$6.85 year-to-date • EPS (\$0.01)
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Edmonton, AB –April 21, 2004— Matrikon Inc. (TSX: MTK), a leading industrial IT solutions provider, today reported consolidated financial results for the second quarter of fiscal year 2004, which ended February 29, 2004.

Second quarter revenue was \$10.15 million compared to \$12.45 million in the second quarter of 2003. Year-to-date revenue was \$24.45 million compared to \$24.28 million in the comparable period of 2003. Net loss for the second quarter was \$0.23 million (or a loss of \$0.01 per share) compared to net income of \$0.77 million (or \$0.03 per share) in the comparable period of 2003. Year-to-date net income was \$0.77 million compared to \$1.40 million in the first six months last year.

“We are disappointed with our results this quarter,” said Nizar J. Somji, Matrikon’s president and chief executive officer. “Traditionally, the second quarter is our weakest, however this year it was weaker than we anticipated and affected more areas of the business than expected.

“Our below-expectation performance is the result of several factors:

- Sales were soft for both products and services. We have found that the larger contracts that we have been working to close have a lengthened sales cycle.
- Utilization, which is typically weak in the second quarter due to a week long holiday shutdown at the end of December and the Australian summer period, was even lower than projected, particularly in Western Canada and Australia. In Australia, several delayed projects resulted in excess capacity.
- Three projects incurred unanticipated cost overruns, which impacted both revenue and earnings.

“The quarter also had some very positive events, including three new contracts for MxSuite, indicating solid momentum within the manufacturing space.” These MxSuite contracts did not meet the requirements for revenue recognition in the second quarter.

“We are confident in our market opportunities and continue to work towards closing several large projects.

“Prior to becoming a public company, we had gone through periods of rationalization and were able to recover quickly, and as a much stronger company. We are confident in our ability to achieve similar results. However, due to the setback of this quarter, we have revised our guidance downwards for the balance of the year.”

“We appreciate the ongoing support of our shareholders as we build a stronger and more profitable company.”

Outlook

Based on second quarter results and the unforeseen extended sales cycle for closing larger contracts, management estimates revenue and earnings growth for the year will be in the range of 0% to 10%, excluding acquisitions.

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Highlights:

- Matrikon is in the final stages of negotiating an acquisition of a company that supplies web-based plant performance solutions. The acquisition is subject to Board approval by both companies. Further information on the acquisition will be available once the acquisition is approved.
- MxSuite was selected by three customers in the second quarter, including a leading designer and manufacturer of non-electronic consumer housewares products, a top tier American machine tool manufacturer and a major Asian automotive manufacturer. These contracts did not meet the requirements for recognition into revenue in the quarter. The prospects for MxSuite continue to improve with the general recovery of manufacturing industries. To further extend momentum, a distributor has been added to supplement Matrikon's internal Mx sales team.
- An agreement in principle has been reached with respect to settling the lawsuit filed by OSISOFT, Inc. and the lawsuit commenced by Matrikon against OSISOFT. The parties are working towards formalizing the settlement.
- Matrikon is pleased to be hosting its first annual Users Group event, MVP 2004, in early May. MVP will bring together international clients from the process and manufacturing industries to collaborate and share their experiences on obtaining maximum benefit from Matrikon solutions. Matrikon's industry and product advisory board meetings will be held immediately following MVP.

Conference Call Wednesday, April 21 at 9:00 am Eastern

Matrikon President and CEO Nizar J. Somji and CFO Shafin U. Kanji will hold a conference call to discuss second quarter results on Wednesday, April 21 at 9:00 am Eastern (7:00 am Mountain). To participate live, call 416-640-4127 in the Toronto area and 1-800-814-4857 for all other areas.

A replay will be available until midnight on Wednesday, April 28, 2004. To access the playback service, please dial 416-640-1917 in Toronto or 1-877-289-8525 elsewhere, reservation number 21047112#.

The conference call will also be web cast at

<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=785180>

For more information, contact:

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Management's Discussion & Analysis

The following Management's Discussion and Analysis should be read in conjunction with the financial statements and notes to the consolidated financial statements for the quarter ended February 29, 2004 and Management's Discussion and Analysis and notes to the consolidated financial statements appearing in the Annual Report for the fiscal year ended August 31, 2003.

Company Overview

Matrikon is an international provider of industrial information technology (IT) solutions that enable plants to produce their goods more efficiently. Solutions include data acquisition and storage, data analysis for plant optimization, decision support systems, data connectivity and web-delivered data presentation for improved collaboration. Matrikon is one of the largest process control system integrators in North America with a client base diversified across a number of vertical industries, including oil and gas, energy and utilities, forestry, chemicals, mining and discrete manufacturing.

Matrikon is listed on the Toronto Stock Exchange under the trading symbol "MTK". As at April 15, 2004 there were 29,285,017 common shares of the corporation issued and outstanding and 1,774,658 options granted.

At February 29, 2004, Matrikon had 485 employees, including 52 in administrative services, 77 in sales and marketing, 70 in product development and support, and 286 in services.

Items of note in the second quarter

Management is disappointed to report a loss in the second quarter of 2004. This quarter has traditionally been Matrikon's weakest quarter due to several factors, including a week-long company shut-down in December, summer holidays in Australia, and lengthened sales cycles due to the start of a new budget year for most customers.

In the second quarter of 2004, several additional factors contributed to the loss.

- Sales of both products and services were lower than anticipated. At the same time, sales and marketing staff have increased by 83% (35 people) over the comparable period of 2003 and by 35% (20 people) since the first quarter. It typically takes new sales personnel 12 to 18 months to begin to close large deals, thus the sales and marketing expenses precede the expected increase in sales by several months.
- Several product sales which closed in the quarter, including three Mx Suite sales, had not met the criteria to be recognized into revenue in the period.
- Several Australian projects were delayed, resulting in excess capacity and reduced revenue.

The comparative quarter of 2003 had exceptionally strong product sales (a record that has not yet been matched) and therefore is not representative of the historic seasonality of Matrikon's business.

Ongoing focus on improving systems to drive profitability

Integration between project management and project accounting applications completed in the second quarter will provide improved capability for online real-time project monitoring on a go-forward basis. Management expects that this visibility will enable project managers to improve profit margins on large projects.

Changes to reportable business segments

As Matrikon has transitioned to a solutions focused company, business unit reporting has become less meaningful as a means of analyzing company performance. Beginning this quarter, Matrikon's business segments are modified based on products or geographic area, reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance. This change provides greater accountability with a single person with clearly identified responsibility for the performance and profitability of each segment. The new segments are: Eastern Canada, Western Canada, United States, Australia, and Products & Support.

Agreement reached with respect to lawsuit

An agreement in principle has been reached with respect to settling the lawsuit filed by OSIsoft, Inc. and the lawsuit commenced by Matrikon against OSIsoft. The parties are working towards formalizing the settlement.

Negotiating acquisition

Matrikon is in the final stages of negotiating the acquisition of a company that supplies web-based plant performance solutions. The acquisition is subject to Board approval by both companies. Further information on the acquisition will be available once the acquisition is approved.

Reclassified 2003 financial information

Currency translation gains or losses were applied against revenue prior to the first quarter of fiscal year 2004. As these gains or losses have become more significant, they are now presented as foreign currency translation to provide greater transparency as to the impact on Matrikon's business. The figures for the quarter ended February 28, 2003 have been reclassified to conform to current disclosure. Reclassified figures for fiscal years 2002 and 2003 are available at: http://www.matrikon.com/investors/documents/02-03_reclassified.xls.

Revenue

3 Months Ended <i>(in thousands of Canadian dollars)</i>	29-Feb-04	<i>Reclassified</i>		2004 vs 2003	
		%	28-Feb-03	%	% Change
Total Revenue	\$10,152	100	\$12,450	100	(18)
Consulting fees	6,357	63	7,301	59	(13)
Equipment sales	859	8	1,057	8	(19)
Total services and related	7,216	71	8,358	67	(14)
Software license fees	1,891	19	3,312	27	(43)
Extended support	1,045	10	780	6	34
Total product and related	2,936	29	4,092	33	(28)

6 Months Ended <i>(in thousands of Canadian dollars)</i>	29-Feb-04	<i>Reclassified</i>		2004 vs 2003	
		%	28-Feb-03	%	% Change
Total Revenue	\$24,454	100	\$24,280	100	1
Consulting fees	14,731	60	16,556	68	(11)
Equipment sales	2,870	12	1,664	7	72
Total services and related	17,601	72	18,220	75	(3)
Software license fees	4,772	20	4,724	19	1
Extended support	2,081	8	1,336	6	56
Total product and related	6,853	28	6,060	25	13

Revenue in the second quarter of 2004 declined by 18% to \$10.15 million. The second quarter has traditionally been the weakest quarter for the company, however the comparable quarter of 2003 had exceptionally strong software sales and therefore is not representative of historic seasonality.

MxSuite sales to three clients did not meet Matrikon's criteria for revenue recognition at the end of the second quarter of 2004.

Management expects software sales to continue to grow throughout the remainder of the year, including several corporate license agreements.

Extended support increased by 34% in the second quarter to \$1.05 million and by 56% in the year-to-date period to \$2.08 million. Extended support is expected to continue to grow based on strong software sales in fiscal year 2003.

Equipment sales, which include third party software and hardware, decreased by 19% over the second quarter of fiscal year 2003. Equipment sales are ancillary to consulting engagements and will continue to fluctuate each period. A single project in Australia accounted for \$0.60 million of equipment sales in the second quarter of 2004.

Year-to-date revenue from product licensing and support was 28% of revenue; revenue from implementation of Matrikon products was 17%, and consulting revenue (related to third party products or general consulting) was 55%. Matrikon's long-term goal is to achieve a balance of one-third revenue for each of these aspects of our business.

Segment Revenues

Starting with the second quarter of 2004, management has modified the company's business segments to align with current business management practices. Segmented information for fiscal years 2002 and 2003 under the current presentation is available at: http://www.matrikon.com/investors/f_downloads.asp. The new business units are Eastern Canada, Western Canada, United States, Australia, and Products & Support. Matrikon evaluates each business unit's performance and reports segmented information according to this structure. As shown in the table below, the decline in software licenses and in the project revenue for the Western Canada operating unit had the largest impact on revenue decline in the second quarter of 2004. For the six month period, the decline in Western Canada project revenue had the greatest impact.

<i>(in thousands of Canadian dollars)</i>	<i>Reclassified</i>				2004 % of revenue
	29-Feb-04	28-Feb-03	Change	% Change	
Eastern Canada	\$ 506	\$ 690	\$ (184)	(27)	5
Western Canada	3,651	4,275	(624)	(15)	36
United States	838	913	(75)	(8)	8
Australia	2,063	1,659	404	24	20
Products & Support	3,094	4,913	(1,819)	(37)	31
TOTAL	\$ 10,152	\$ 12,450	\$ (2,298)	(18)	100

<i>(in thousands of Canadian dollars)</i>	<i>Reclassified</i>				2004 % of revenue
	29-Feb-04	28-Feb-03	Change	% Change	
Eastern Canada	\$ 1,598	\$ 990	\$ 608	61	7
Western Canada	8,175	10,306	(2,131)	(21)	33
United States	2,007	2,270	(263)	(12)	8
Australia	5,184	3,347	1,837	55	21
Products & Support	7,490	7,367	123	2	31
TOTAL	\$ 24,454	\$ 24,280	\$ 174	1	100

Gross Margin

<i>(in thousands of Canadian dollars)</i>	<i>Reclassified</i>			
	29-Feb-04	28-Feb-03	Change	% Change
Gross margin	\$ 4,515	\$ 6,729	\$ (2,214)	(33)
% of revenue	44	54	(10)	

6 Months Ended <i>(in thousands of Canadian dollars)</i>	<i>Reclassified</i>			
	29-Feb-04	28-Feb-03	Change	% Change
Gross margin	\$ 11,839	\$ 12,672	\$ (833)	(7)
% of revenue	48	52	(4)	

Gross margin declined to 44% of revenue from 54% in the second quarter of fiscal 2003.

Gross margin was impacted by the decrease in higher margin product sales and a reduction in hours billed by project staff due to the weeklong holiday shutdown in December and the summer months in Australia. Management expects that gross margin may remain at a lower than normal level for the next quarter to two quarters as initiatives to improve efficiency are introduced and take effect.

The following table compares gross margin for each revenue stream:

3 Months Ended <i>Gross Margin %</i>	29-Feb-04
Consulting	24
Equipment	24
Products	100
Support	85

Operating Expenses

3 Months Ended <i>(in thousands of Canadian dollars)</i>	29-Feb-04	28-Feb-03	Change	% Change
Consulting G&A	\$ 1,654	\$ 1,569	\$ 85	5
% of revenue	16	13	3	
Sales & marketing	\$ 1,958	\$ 1,090	\$ 868	80
% of revenue	19	9	10	
Research & development	\$ 836	\$ 654	\$ 182	28
% of revenue	8	5	3	
General & administrative	\$ 1,331	\$ 1,298	\$ 33	3
% of revenue	13	10	3	

6 Months Ended <i>(in thousands of Canadian dollars)</i>	29-Feb-04	28-Feb-03	Change	% Change
Consulting G&A	\$ 3,442	\$ 3,221	\$ 221	7
% of revenue	14	13	1	
Sales & marketing	\$ 3,500	\$ 2,238	\$ 1,262	56
% of revenue	14	9	5	
Research & development	\$ 1,423	\$ 1,330	\$ 93	7
% of revenue	6	5	1	
General & administrative	\$ 2,510	\$ 2,508	\$ 2	-
% of revenue	10	10	-	

Combined operating expenses increased 13% to \$6.09 million (60% of revenue) for the second quarter of fiscal 2004 compared to \$5.37 million (38% of revenue) in the first quarter of fiscal 2004 and \$5.00 million (40% of revenue) for the second quarter of fiscal 2003.

Sales and marketing expenses increased by 80% over the second quarter of 2003. Over the same time period, sales and marketing staff increased by 83% to 77 from 42. In addition, sales and marketing expenses reflect some of the pre-event expenses related to Matrikon's User Group conference which will be

held in the beginning of May. Sales and marketing expenses are expected to remain elevated next quarter as this event takes place.

Other Income

Other income includes \$0.59 million for SR&ED tax credits receivable for prior years. This is the final adjustment for the years ended August 31, 2002 and 2003 and is recorded following Canada Revenue Agency's assessment.

Net Income (Loss)

3 Months Ended

<i>(in thousands of Canadian dollars)</i>	29-Feb-04	28-Feb-03	Change	% Change
Net income	\$ (230)	\$ 770	\$ (1,000)	(130)
% of revenue	(2)	6	(8)	
Earnings per share	(0.01)	0.03	(0.04)	(133)

6 Months Ended

<i>(in thousands of Canadian dollars)</i>	29-Feb-04	28-Feb-03	Change	% Change
Net income	\$ 772	\$ 1,400	\$ (628)	(45)
% of revenue	3	6	(3)	
Earnings per share	0.03	0.06	(0.03)	(50)

Net income decreased by 130% to a net loss of \$0.23 million compared to net income of \$0.77 million in the second quarter of 2003. For the six-month period, net income decreased by 45% to \$0.77 million or 3% of revenue. Management expects a slight loss to break-even for the third quarter.

The net loss in the second quarter of fiscal 2004 was reduced by \$0.60 million (\$0.39 million net of tax) for non-cash foreign currency translation gains, compared to a non-cash foreign currency translation loss of \$0.64 million (\$0.38 million net of tax) in the comparable period. In addition, future tax reductions in the second quarter of fiscal 2004 reduced the net loss by a further \$0.11 million, compared to a reduction to net income for future income tax expenses of \$0.57 million in the comparable period of 2003.

Liquidity and Capital Resources

As at	29-Feb-04	30-Nov-03	31-Aug-03	Q2-Q1 Change	Q2-Q1 % Change
<i>(in thousands of Canadian dollars)</i>					
Cash and equivalents	\$ 10,419	\$ 9,059	\$ 295	\$ 1,360	15
Accounts receivable	14,285	16,896	13,897	(2,611)	(15)
Trade receivables	11,459	14,572	13,083	(3,113)	(21)
Average collection period (trade receivables)	89 days	93 days	92 days	4 days	-
Contracts in progress	2,350	2,696	3,457	(346)	(13)
Other current liabilities	7,430	8,790	8,512	(1,360)	(15)

At February 29, 2004, accounts receivable was \$14.29 million compared to \$16.90 at November 30, 2003 and \$13.90 million at August 31, 2003. This decrease is primarily due to reduced sales in the period. The average collection period for trade receivables was 89 days at the end of the second quarter compared to 93 days at the end of the first quarter and 92 days as at August 31, 2003. Matrikon's client base consists primarily of Fortune 500 companies with strong credit ratings; hence bad debt expense has been minimal at less than 0.5% per annum.

Current liabilities decreased to \$7.41 million at the end of the second quarter from \$8.79 million at the end of the first quarter.

Cash provided by operating activities was \$1.37 million in the second quarter compared to \$1.21 million in the comparable period last year.

Matrikon has a \$7.00 million operating line of credit at a variable interest rate of the bank's prime plus 25 basis points. At August 31, 2003 and February 29, 2004 Matrikon had \$nil outstanding on the line of credit.

Matrikon had cash and equivalents of \$10.42 million at the end of the second quarter compared to \$0.30 million at August 31, 2003 and \$9.06 million at November 30, 2003. On September 24, 2003 Matrikon completed a private placement for 4,545,455 common shares to a group of institutional investors at a price of \$2.20 for net proceeds of \$9.36 million. The net proceeds will be used to fund growth and to enable Matrikon to consider investments or acquisitions that complement our growth strategies. Management believes that the financial resources of the company are sufficient to carry out growth strategies.

Normal Course Issuer Bid – no shares repurchased to date

Matrikon announced a normal course issuer bid on June 6, 2003. Under the bid, the Company may acquire up to 1,211,215 common shares, representing 4% of the current issued and outstanding common shares of the Company. The bid commenced June 9, 2003 and will end June 8, 2004. No shares have been repurchased under the bid to date.

Forward-Looking Statements

This Management's Discussion and Analysis contains forward-looking statements. The words "anticipates", "designed to", "plans", "believes", "expects", "will", "are confident that" and similar expressions are intended to identify such forward looking statements. These forward looking statements are made in light of the company's experience, its perception and assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. The material assumptions which underlie management's expectations for revenue and earnings per share include, but are not limited to, continued ability to close business at the same rate achieved in the past, continued market demand for Matrikon's products and service solutions, continued ability to retain and attract qualified employees, and continued availability of its existing line of credit. Readers should note that some assumptions, although considered reasonable at the date of the preparation of the forward-looking statement, might not materialize.

These forward looking statements are not guarantees of future performance and actual results could differ materially as a result of changes to Matrikon's plans and the impact of factors, risks and uncertainties, known and unknown, to which Matrikon's business is subject. The forward-looking statements in this press release speak only as of the date hereof. The factors which could cause actual results to differ materially from this level of revenue and earnings include, but are not limited to, changes to intensity of competition and a change in payroll costs (due to the service nature of the company, payroll is a significant component of costs). Readers are also referred to risk factors described in filings made by Matrikon from time to time with the securities regulators.

MATRIKON INC.

Consolidated Balance Sheets

(Thousands of Canadian dollars)

	February 29, 2004 (Unaudited)	August 31, 2003 (Audited)
ASSETS		
Current		
Cash and equivalents	\$ 10,419	\$ 295
Accounts receivable	14,285	13,897
Contracts in progress	2,350	3,457
Future income taxes	235	235
Prepays	533	361
	<hr/> 27,822	<hr/> 18,245
Future income taxes	1,095	1,354
Capital assets	1,898	1,682
Intangible assets (Note 1)	611	665
Goodwill	5,442	5,442
	<hr/> \$ 36,868	<hr/> \$ 27,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 4,218	\$ 4,994
Deferred revenue	2,611	3,038
Income taxes payable	31	82
Future income taxes	570	398
	<hr/> 7,430	<hr/> 8,512
Shareholders' equity		
Share capital (Note 2)	22,693	12,948
Contributed surplus	74	29
Retained earnings	6,671	5,899
	<hr/> 29,438	<hr/> 18,876
	<hr/> \$ 36,868	<hr/> \$ 27,388

MATRIKON INC.

Consolidated Statements of Income and Retained Earnings

(Thousands of Canadian dollars except per share amounts)

	Quarter Ended		6 Months Ended	
	February 29, 2004	February 28, 2003	February 29, 2004	February 28, 2003
Revenue				
Consulting fees	\$ 6,357	\$ 7,301	\$ 14,731	\$ 16,556
Software license fees	1,891	3,312	4,772	4,724
Equipment sales	859	1,057	2,870	1,664
Extended support	1,045	780	2,081	1,336
	10,152	12,450	24,454	24,280
Cost of sales	5,637	5,721	12,615	11,608
	4,515	6,729	11,839	12,672
Expenses				
Consulting	1,654	1,569	3,442	3,221
Sales and marketing	1,958	1,090	3,500	2,238
Research and development (Note 3)	836	654	1,423	1,330
General and administrative	1,331	1,298	2,510	2,508
Amortization	312	388	589	715
Total expenses	6,091	4,999	11,464	10,012
Income (loss) before the undernoted	(1,576)	1,730	375	2,660
Foreign currency translation (loss) gain	604	(635)	(51)	(526)
Other income (Note 3)	658	303	908	314
Income (loss) before income taxes	(314)	1,398	1,232	2,448
Income tax expense				
Current (recovery)	26	58	29	(13)
Future (reduction)	(110)	570	431	1,061
	(84)	628	460	1,048
Net income (loss)	\$ (230)	\$ 770	\$ 772	\$ 1,400
Retained earnings, beginning of quarter	\$ 6,901	\$ 3,904	\$ 5,899	\$ 3,274
Net income (loss)	(230)	770	772	1,400
Retained earnings, end of quarter	\$ 6,671	\$ 4,674	\$ 6,671	\$ 4,674
Earnings per share				
Basic earnings per share	(0.01)	0.03	0.03	0.06
Dilutive earnings per share	(0.01)	0.03	0.03	0.06
Weighted average number of shares outstanding				
Basic	28,877	24,209	28,120	24,209
Dilutive	30,045	24,246	29,451	24,257

MATRIKON INC.

Consolidated Statements of Cash Flows

(Thousands of Canadian dollars)

	Quarter Ended		6 Months Ended	
	February 29, 2004	February 28, 2003	February 29, 2004	February 28, 2003
OPERATING ACTIVITIES				
Net income (loss)	\$ (230)	\$ 770	\$ 772	\$ 1,400
Items not affecting cash:				
Future income taxes	(110)	570	431	1,061
Amortization	312	388	589	715
Stock based compensation (Note 2c)	27	-	45	-
	\$ (1)	\$ 1,728	\$ 1,837	\$ 3,176
Changes in non-cash working capital	1,373	(522)	(707)	(1,168)
Cash provided by operating activities	\$ 1,372	\$ 1,206	\$ 1,130	\$ 2,008
INVESTING ACTIVITIES				
Purchase of intangible assets	-	-	(178)	-
Cash consideration for business acquisition	-	-	-	(124)
Purchase of capital assets	(274)	11	(573)	(332)
Cash provided (used in) investing activities	\$ (274)	\$ 11	\$ (751)	\$ (456)
FINANCING ACTIVITIES				
Repayment of bank indebtedness	-	(1,742)	-	(1,756)
Proceeds of share issue, net of share issue costs	262	-	9,745	(3)
Cash provided by (used in) financing activities	\$ 262	\$ (1,742)	\$ 9,745	\$ (1,759)
Cash increase	\$ 1,360	\$ (525)	\$ 10,124	\$ (207)
Cash and equivalents, beginning of quarter	9,059	603	295	285
Cash and equivalents, end of quarter	\$ 10,419	\$ 78	\$ 10,419	\$ 78
Supplementary cash flow disclosure:				
Income taxes paid (recovered)	168	391	90	616
Interest paid (recovered)	(11)	34	-	80

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended February 29, 2004 and February 28, 2003

Thousands of Canadian dollars except share and per share amounts

The unaudited interim consolidated financial statements for the quarter ended February 29, 2004 should be read in conjunction with the consolidated financial statements for the year ended August 31, 2003. These interim financial statements conform in all material respects to the requirements of Canadian generally accepted accounting principles for interim financial statements.

Unless otherwise noted, these financial statements are prepared in accordance with the same accounting policies and methods as the consolidated financial statements for the year ended August 31, 2003.

1. Purchase of Intangible Assets

On October 31, 2003 Matrikon Inc. reached an agreement with the shareholder of Comcept Technologies Inc. ("Comcept"), 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.

2. Share Capital

(a) Issued shares

	6 Months ended February 29, 2004		6 Months ended February 28, 2003	
	Number of Shares	\$ 000's	Number of Shares	\$ 000's
Authorized in unlimited numbers				
Common shares				
Issued				
Balance, beginning of period	24,224,306	\$ 12,948	23,721,985	\$ 11,990
Issued for Hunter Control	-	-	479,830	958
Private placement, net of share issue costs	4,545,455	9,357	-	-
Stock options exercised	210,299	388	500	-
Employee purchase plan	45,416	-	20,991	(3)
Balance, end of period	29,025,476	\$ 22,693	24,223,306	\$ 12,945

On September 10, 2003 the Corporation issued 4,545,455 common shares through private placement for \$2.20 per share. After deducting underwriting and other expenses amounting to \$643, the amount credited to capital stock was \$9,357.

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended February 29, 2004 and February 28, 2003

Thousands of Canadian dollars except share and per share amounts

2. Share Capital (continued)

(b) Stock Options

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:

	3 Months ended February 2004	6 Months ended February 2004	3 Months ended February 2003	6 Months ended February 2003
Compensation costs	\$ 125	\$ 260	\$ 135	\$ 213
Net earnings (loss):				
As reported	\$ (230)	\$ 772	\$ 770	\$ 1,400
Pro forma	\$ (355)	\$ 512	\$ 635	\$ 1,187
Basic earnings per share:				
As reported	\$ (0.01)	\$ 0.03	\$ 0.03	\$ 0.06
Pro forma	\$ (0.01)	\$ 0.02	\$ 0.03	\$ 0.05
Diluted earnings per share:				
As reported	\$ (0.01)	\$ 0.03	\$ 0.03	\$ 0.06
Pro forma	\$ (0.01)	\$ 0.01	\$ 0.03	\$ 0.05

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:

	2004	2003
Risk free interest rate	3.71%	4.75%
Expected life	5 years	5 years
Expected volatility	81%	61%
Expected dividends	-	-

The following stock options, with expiry dates up to October 2011, remain outstanding:

	Number of Shares	Weighted Average Exercise Price
Balance, August 31, 2003	2,127,682	\$ 1.90
Granted	162,000	2.90
Exercised	(210,299)	1.85
Expired	-	-
Cancelled	(45,184)	2.11
Balance, February 29, 2004	2,034,199	\$ 1.98

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended February 29, 2004 and February 28, 2003

Thousands of Canadian dollars except share and per share amounts

2. Share Capital (continued)

The following table summarizes information about share options outstanding at February 29, 2004:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
3.60	81,500	6.81	\$ 3.60	-	\$ 3.60
2.00 - 2.45	801,814	3.72	2.05	690,814	2.02
1.70 - 1.99	997,135	4.10	1.85	651,635	1.87
1.36 - 1.69	153,750	4.48	1.57	152,750	1.57
	2,034,199	4.09	\$ 1.98	1,495,199	\$ 1.91

(c) Employee Stock Ownership Program

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 quarter.

Based on the shares registered under this program on February 29, 2004, compensation expense of \$27 has been recorded in the current quarter (November 30, 2003 - \$18) with a corresponding credit to contributed surplus. 44,776 Common Shares remain eligible under the program for issuance on August 31, 2004 for shares registered prior to April 30, 2003, 6,339 Common shares registered in May 2003 remain eligible for issuance in September 2004, 3,337 Common shares registered in August 2003 remain eligible for issuance in December 2004, and 19,614 Common shares registered in November 2003 remain eligible for issuance in March 2005.

3. 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 the second quarter is a reduction of research and development expenses of \$125, and for the six months ending February 29, 2004 \$ 250.

In addition, other income includes \$ 481 (November 30, 2003 - \$109) of SR&ED tax credits receivable for prior periods.

4. Segmented Information

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. The distribution of revenue and expenses by business unit is as follows:

MATRIKON INC.**Notes to the Consolidated Financial Statements**

Quarter ended February 29, 2004 and February 28, 2003

Thousands of Canadian dollars except share and per share amounts

4. Segmented Information (continued)

Q2 2004 3 Months Ended February 29, 2004	Eastern Canada	Western Canada	United States	Australia	Products and Support	Total
Revenue	\$ 506	\$ 3,651	\$ 838	\$ 2,063	\$ 3,094	\$ 10,152
Cost of Sales	652	2,587	479	1,614	305	5,637
<i>Gross Margin</i>	(146)	1,064	359	449	2,789	4,515
Expenses	\$ 236	\$ 2,217	\$ 359	\$ 786	\$ 2,493	\$ 6,091
Other income (expenses) and foreign exchange translation	(87)	1,471	3	(125)	-	1,262
<i>Income before income taxes</i>	\$ (469)	\$ 318	\$ 3	\$ (462)	\$ 296	\$ (314)
<i>Capital assets</i>	\$ 95	\$ 1,151	\$ 149	\$ 503	\$ -	\$ 1,898
<i>Goodwill</i>	\$ -	\$ 3,695	\$ 1,747	\$ -	\$ -	\$ 5,442

Q2 2003 3 Months Ended February 28, 2003	Eastern Canada	Western Canada	United States	Australia	Products and Support	Total
Revenue	\$ 690	\$ 4,275	\$ 913	\$ 1,659	\$ 4,913	\$ 12,450
Cost of Sales	416	2,512	900	1,273	620	5,721
<i>Gross Margin</i>	274	1,763	13	386	4,293	6,729
Expenses	\$ 162	\$ 2,215	\$ 506	\$ 533	\$ 1,583	\$ 4,999
Other income (expenses) and foreign exchange translation	175	(346)	1	(162)	-	(332)
<i>Income before income taxes</i>	\$ 287	\$ (798)	\$ (492)	\$ (309)	\$ 2,710	\$ 1,398
<i>Capital assets</i>	\$ 120	\$ 1,128	\$ 248	\$ 288	\$ -	\$ 1,784
<i>Goodwill</i>	\$ -	\$ 3,695	\$ 1,747	\$ -	\$ -	\$ 5,442

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended February 29, 2004 and February 28, 2003

Thousands of Canadian dollars except share and per share amounts

4. Segmented Information (continued)

Q2 2004 6 Months Ended February 29, 2004	Eastern Canada	Western Canada	United States	Australia	Products and Support	Total
Revenue	\$ 1,598	\$ 8,175	\$ 2,007	\$ 5,184	\$ 7,490	\$ 24,454
Cost of Sales	1,227	5,670	1,095	3,674	949	12,615
<i>Gross Margin</i>	371	2,505	912	1,510	6,541	11,839
Expenses	\$ 439	\$ 4,202	\$ 803	\$ 1,540	\$ 4,480	\$ 11,464
Other income (expenses) and foreign exchange translation	204	817	3	(167)	-	857
<i>Income before income taxes</i>	\$ 136	\$ (880)	\$ 112	\$ (197)	\$ 2,061	\$ 1,232
<i>Capital assets</i>	\$ 95	\$ 1,151	\$ 149	\$ 503	\$ -	\$ 1,898
<i>Goodwill</i>	\$ -	\$ 3,695	\$ 1,747	\$ -	\$ -	\$ 5,442

Q2 2003 6 Months Ended February 28, 2003	Eastern Canada	Western Canada	United States	Australia	Products and Support	Total
Revenue	\$ 990	\$ 10,306	\$ 2,270	\$ 3,347	\$ 7,367	\$ 24,280
Cost of Sales	438	5,990	1,697	2,485	998	11,608
<i>Gross Margin</i>	552	4,316	573	862	6,369	12,672
Expenses	\$ 310	\$ 4,493	\$ 1,163	\$ 1,006	\$ 3,040	\$ 10,012
Other income (expenses) and foreign exchange translation	240	(281)	9	(180)	-	(212)
<i>Income before income taxes</i>	\$ 482	\$ (458)	\$ (581)	\$ (324)	\$ 3,329	\$ 2,448
<i>Capital assets</i>	\$ 120	\$ 1,128	\$ 248	\$ 288	\$ -	\$ 1,784
<i>Goodwill</i>	\$ -	\$ 3,695	\$ 1,747	\$ -	\$ -	\$ 5,442

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended February 29, 2004 and February 28, 2003

Thousands of Canadian dollars except share and per share amounts

5. 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.

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