

Matrikon Inc.
10405 Jasper Avenue
Suite 1800
Edmonton, AB T5J 3N4
Canada

Phone
780-448-1010

Fax
780-448-9191

Web
www.matrikon.com

Matrikon reports first quarter 2005 results

HIGHLIGHTS

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Revenue growth of 5% to \$14.96 million ▪ Net income of \$0.20 million (including \$1.11 million after tax foreign currency translation losses) ▪ Gross margin improved to 54% ▪ Earnings per share of \$0.01 | <ul style="list-style-type: none"> ▪ Improved margin in consulting business achieved through higher margin, strategic consulting engagements and increased utilization ▪ Matrikon reiterates fiscal year 2005 guidance for revenue growth of 14% to 23% and net income growth of 49% to 89% |
|--|---|

Edmonton, AB –January 12, 2005 —Matrikon Inc. (TSX: MTK), a leading provider of solutions for industrial intelligence, today reported consolidated financial results for the fiscal year 2005 first quarter, which ended November 30, 2004.

“We are very pleased with the results of the first quarter of 2005 and the tremendous turnaround in the growth and profitability of our consulting business,” said Nizar J. Somji, Matrikon’s president and chief executive officer. “Our first quarter results were impacted by the strong Canadian dollar, resulting in largely non-cash losses from the revaluation of foreign denominated net assets. We are operating efficiently, and have strategic consulting contracts in place. Our momentum is building and we are in a position to capitalize on this momentum throughout 2005.”

First quarter revenue grew 5% to \$14.96 million from \$14.30 million in the comparable period of fiscal 2004. Net income for the first quarter was \$0.20 million (or \$0.01 per share) compared to \$0.87 million (or \$0.03 per share) in the comparable period of fiscal year 2004. The effect of foreign exchange translation loss was a decline in first quarter income before taxes of \$1.71 million, compared to a decline of \$0.66 million in the first quarter of fiscal 2004. The after tax impact to net income for the first quarter was a decline of \$1.11 million (\$0.03 per share). The realized foreign currency translation loss for the first quarter was \$0.53 million related to exchanging US dollars into Canadian dollars; this portion of foreign exchange losses is not recoverable if rates become more favorable.

Subsequent to the first quarter, December software sales were a new record for a single month and management expects this to have a positive impact on second quarter results. Matrikon’s annual global sales conference and first annual global service conference, to be held in mid January 2005, are expected to build momentum and position the company for strong growth throughout calendar year 2005.

Outlook

Based on:

- first quarter results for revenue and expenses
- record product sales in December
- current contracts underway
- continuing ability to win new business at the current pace
- other factors remaining favorable

Management expects the company to achieve revenue growth of 14% to 23% and net income growth of 49% to 87% during fiscal year 2005. Due to the various risks associated with the numerous factors that may affect actual results, Matrikon discloses a target range.

CANADA
Edmonton, Alberta
Calgary, Alberta
Fort McMurray, Alberta
Vancouver, British Columbia
Toronto, Ontario
Quebec City, Quebec

AUSTRALIA
Newcastle, New South Wales
Brisbane, Queensland
Gladstone, Queensland
Melbourne, Victoria
Perth, Western Australia

USA
St. Louis, Missouri
Houston, Texas

EUROPE
Aberdeen, Scotland

MIDDLE EAST
Al Khubar, Saudi Arabia

Quarter Highlights:

- Detroit Edison selected ProcessNet and ProcessDoctor to be part of its generation optimization strategy to assist with monitoring and improving efficiencies of plant operations. ProcessNet will also provide the foundation for their corporate performance monitoring at seven of their fossil fuel plants.
- Engineered Products Industries LLC (EPI) selected Matrikon's targeted production scheduling and enterprise resource planning (ERP) solution. The technology provides a full range of functionality from financial management to detailed labor and material planning.
- Matrikon announced several changes to the executive team:
 - Shafin U. Kanji, formerly chief financial officer of Matrikon, was promoted to the newly created position of executive vice president of operations
 - Nimal Rodrigo joined Matrikon as chief financial officer
 - Floyd Bjorgan, formerly managing director of Australia, returned to Matrikon's head office in the new role of vice president human resources and administration.
 - Sam Crisafulli, formerly a senior executive in Matrikon Australia, assumed the role of managing director in Australia.
- Subsequent to the quarter, Matrikon was honored to be named as one of the Fastest Growing Companies by Alberta Venture magazine, and to the Control Top 50, which rates the largest process automation companies in North America. Matrikon was #39 on the list this year compared to # 42 in 2004.

Conference Call Thursday, January 13 at 8:00 am Eastern

Matrikon President and CEO Nizar J. Somji and CFO Nimal Rodrigo will hold a conference call to discuss fiscal year results on Thursday, January 13 at 8:00 am Eastern (6:00 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 Thursday, January 20. To access the playback service, please dial 416-640-1917 in Toronto or 1-877-289-8525 elsewhere, reservation number 21106508#.

The conference call will also be web cast at
<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=985380>

For more information, contact:

Nicole Sayler
Corporate Communications & Investor Relations
780-945-4010
email: nicole.sayler@matrikon.com

Management's Discussion & Analysis

January 7, 2004

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 November 30, 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, 2004.

Company Overview

Matrikon is a growing international provider of industrial plant intelligence 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 industrial solution integrators in North America with a client base diversified across a number of vertical industries, including oil and gas, energy and utilities, forestry, petrochemicals and refining, and mining.

Matrikon is listed on the Toronto Stock Exchange under the trading symbol "MTK". As at January 7, 2005 there were 29,507,911 common shares of the corporation issued and outstanding and 1,900,208 options outstanding.

At November 30, 2004, Matrikon had 488 employees, including 56 in administrative services, 65 in sales and marketing, 66 in product development and support, and 301 in services.

Items of note in the first quarter

Canadian dollar appreciation continues to negatively affect results

Matrikon operates internationally with over two thirds of our business conducted in foreign currencies, predominantly US dollars. Accordingly, our results are affected by exchange rate fluctuations of various currencies relative to the Canadian dollar. The rapid increase of the Canadian dollar relative to the US dollar in the first quarter negatively affected results, while the British Pound made a slight gain compared to the Canadian dollar. The effect of foreign exchange translation loss was a decline in first quarter income before taxes of \$1.71 million, compared to a decline of \$0.66 million in the first quarter of fiscal 2004. The after tax impact to net income for the first quarter was a decline of \$1.11 million (\$0.03 per share). The realized foreign currency translation loss for the first quarter was \$0.53 million related to exchanging US dollars into Canadian dollars.

It is management's belief that Matrikon's continued global expansion functions as an offset to currency fluctuations by diversifying the currencies used, thereby lessening our dependency on any one currency. While the diversification of revenue currency continues, the US dollar is still the largest component at 37% of revenue. Management's plans for continued growth and expansion in Europe is expected to further reduce reliance on US currency in the future. The following table compares the percentage of revenue from each of the main currencies in which Matrikon conducts business and the average exchange rate to one Canadian dollar for the period for the first quarter of fiscal year 2005 and the first quarter of fiscal year 2004.

	% Revenue by Currency			Period End Exchange Rate		
	30-Nov-04	30-Nov-03	Change	30-Nov-04	30-Nov-03	Change
Australian Dollar	20%	25%	(5)	0.93	0.94	(0.01)
Canadian Dollar	26%	20%	6	-	-	-
British Pound	15%	-	15	2.25	2.24	0.01
United States Dollar	37%	52%	(15)	1.19	1.30	(0.11)
Other Currencies	2%	3%	(1)	NA	NA	NA

Stock Based Compensation

For fiscal year 2005, Matrikon is required to retroactively reflect the CICA recommendations for stock based compensation, which requires expensing the fair value of stock options on the income statement. The impact of stock based compensation was a decrease in income before taxes of \$0.19 million (\$0.01 per share) for the first quarter of 2005 and \$0.15 million (\$0.01 per share) for the first quarter of 2004.

Restated figures for each quarter of fiscal year 2004 are available at:

www.matrikon.com/investors/f_downloads.asp

Results of Acquisition

On May 18, 2004, Matrikon acquired PI Automation in Europe. The financial impact of the acquisition in the first quarter can be seen in the table below and should be considered when reviewing comparable results from the first quarter of 2004.

3 Months Ended November 30 (\$000s Canadian)	Matrikon Inc.		Matrikon Europe		Consolidated	
		%		%		%
Total revenue	\$ 13,408	100	\$ 1,548	100	\$ 14,956	100
Cost of sales	6,256	47	576	37	6,832	46
Gross profit	7,152	53	972	63	8,124	54
Expenses	(5,406)	(40)	(556)	(36)	(5,962)	(40)
Other income (expenses)	(1,862)	(14)	14	1	(1,848)	(12)
Income before income taxes	(116)	(1)	430	28	314	2

Revenue

3 Months Ended November 30 (\$000s Canadian)	FY2005 % of Rev		FY2004 % of Rev		2005 vs 2004 % Change
Total Revenue	\$14,956	100	\$14,302	100	5
Consulting fees	11,364	76	8,374	59	36
Equipment sales	696	5	2,011	14	(65)
Total services and related	12,060	81	10,385	73	16
Software license fees	1,609	11	2,881	20	(44)
Extended support	1,287	8	1,036	7	24
Total product and related	2,896	19	3,917	27	(26)

Revenue grew by 5% to \$14.96 million in the first quarter of fiscal year 2005 compared to \$14.30 million in the same period of fiscal year 2004.

Revenue growth was led by consulting fees, which increased 36% to \$11.36 million in the first quarter. The increase in consulting revenue follows record product sales in the fourth quarter of fiscal year 2004 (product implementation), along with recent contract wins in strategic consulting areas of solution integration, enterprise asset management and enterprise resource planning.

Software license fees decreased by 44% to \$1.61 million compared to the first quarter of fiscal year 2004. Following Matrikon's first annual users conference, MVP, in May 2004, record product sales were achieved in the fourth quarter of fiscal year 2004. This resulted in a reduction in product sales in the first quarter of 2005. A new single month record for product sales was set in December (subsequent to the quarter).

Extended support revenue increased by 24% to \$1.29 million in the first quarter from \$1.04 million in the comparable period of fiscal year 2004. Management expects extended support revenue to continue to grow as software license fee revenue increases.

Equipment sales, which include third party software and hardware, decreased by 65% over the first quarter of fiscal year 2004. Equipment sales are ancillary to consulting engagements and will continue to fluctuate each period.

Revenue from product licensing, training and support was 21% of revenue; revenue from implementation of Matrikon products was 26%, and consulting revenue (related to third party products or general consulting) was 53%. Matrikon's goal is to achieve a balance of one-third revenue for each of these aspects of our business.

Quarterly Results

The following table presents a summary of consolidated operating results for the last eight quarters and the current quarter. The quarterly numbers have been restated as a result of the retroactive application of stock based compensation.

(\$000s Canadian)	Restated								
	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
Revenue	\$ 11,800	\$ 12,480	\$ 12,284	\$ 12,316	\$ 14,302	\$ 10,152	\$ 13,372	\$ 16,570	\$ 14,956
Gross Profit	\$ 5,913	\$ 6,759	\$ 6,471	\$ 6,036	\$ 7,324	\$ 4,515	\$ 6,271	\$ 9,101	\$ 8,124
Gross Margin %	50%	54%	53%	49%	51%	44%	47%	55%	54%
Net income (loss)	\$ 551	\$ 635	\$ 213	\$ 654	\$ 867	\$ (355)	\$ 167	\$ 1,358	\$ 204
Net income %	5%	5%	2%	5%	6%	(3%)	1%	8%	1%
Weighted average shares outstanding (000s)	24,210	24,209	24,215	24,224	27,274	28,877	29,270	29,321	29,465
EPS - basic	0.02	0.03	0.01	0.03	0.03	(0.01)	0.01	0.05	0.01
EPS - diluted	0.02	0.03	0.01	0.03	0.03	(0.01)	0.01	0.05	0.01
Headcount	423	434	444	448	476	485	486	465	488

Segment Results

Matrikon has five strategic business units: Eastern Canada/United States, Western Canada, Australia, Europe, and Products. Management added a sixth segment starting in fiscal year 2005 to capture corporate expenses and more accurately reflect the results of the five main segments (Corporate segment). Matrikon evaluates each business unit's performance and reports segmented information according to this structure.

3 Months Ended (\$000s Canadian)	Eastern Canada & United States	Western Canada	Australia	Europe	Products & Support	Corporate	Total
November 30, 2004							
Revenue	\$ 2,067	\$ 5,689	\$ 2,179	\$ 1,548	\$ 3,473	\$ -	\$ 14,956
Gross Margin %	51%	46%	30%	63%	82%	-	54%
Income before income taxes	\$ 438	\$ 1,439	\$ 314	\$ 430	\$ 1,068	\$ (3,375)	\$ 314
Revenue change % (FY2005 - FY2004)	5%	25%	(37%)	-	(20%)	-	5%
Employees at November 30, 2004	55	194	88	21	87	43	488
November 30, 2003							
Revenue	\$ 1,964	\$ 4,540	\$ 3,463	\$ -	\$ 4,335	\$ -	\$ 14,302
Gross Margin %	54%	32%	31%	-	87%	-	51%
Income before income taxes	\$ 495	\$ 111	\$ 735	\$ -	\$ 1,762	\$ (1,602)	\$ 1,411
Employees at November 30, 2003	51	211	89	-	89	36	476

Eastern Canada & US: Revenue for the Eastern Canada & US segment grew by 5% over the first quarter of fiscal year 2004, however gross margin was down by 3%, as a result of increased cost of sales and a higher headcount than the comparable period.

Western Canada: Western Canada revenue grew by 25% over the first quarter of fiscal year 2004, while cost of sales remained relatively constant due to lower equipment sales in the current quarter than in the comparable period a year ago. This resulted in an improvement in gross margin of 14%. Many of the large projects Matrikon is engaged in are executed through the Western Canada region.

Australia: Australian revenue decreased by 37% over the first quarter of 2004. The primary contributor to the decrease was related to project progress. Revenue is expected to improve in the second quarter as work continues on these projects. Cost of sales decreased by 36% compared to the first quarter of fiscal year 2004 as a result in the reduction in equipment sales.

Europe: The synergies of the European acquisition completed in May 2004 continue to grow. Europe achieved a gross margin of 63% as a result of the high margin consulting projects this segment is engaged in. In addition, the European segment often uses employees borrowed from other lower-cost base segments.

Products & Support: Following Matrikon's first annual users conference, MVP, in May 2004, record product sales were achieved in the fourth quarter of fiscal year 2004. This resulted in a reduction in product sales in the first quarter of 2005. A new single month record for product sales was set in December (subsequent to the quarter). Margin for the products and support segment declined by 5% as a result of reduced software license fees in the quarter since costs in this group are relatively fixed.

First quarter product revenue by suite was as follows:

3 Months Ended November 30	FY2005	FY2004
Process Suite	23%	61%
Connectivity (OPC Suite)	74%	37%
Other	3%	2%

Corporate: The corporate segment includes all shared corporate services, including accounting, information technology and human resources that can not be directly allocated to other segments. In addition to these corporate expenses, the corporate segment includes other income or expenses and amortization. The main factor in the increased corporate loss before income taxes is foreign currency translation losses of \$1.71 million and amortization of \$0.26 million.

Gross Margin

3 Months Ended November 30

(\$000s Canadian)	FY2005	FY2004	Change	% Change
Gross profit	\$ 8,124	\$ 7,324	\$ 800	11
% of revenue	54	51	3	

Gross margin improved to 54% of revenue, up from 51% in the first quarter of fiscal year 2004 and at the high end of the quarterly target range of 50% to 55%. Gross margin was strong in spite of lower product sales as a result of an increase in higher margin, strategic consulting engagements related to the implementation of Matrikon products, solutions integration, enterprise asset management projects and enterprise resource planning projects. Consulting gross margin was 48% in the period compared to 34% in the first quarter of 2004. Gross margin also benefited from a reduction in lower margin equipment sales in the period.

As the cost of sales is relatively fixed (predominantly personnel related), gross margin will be driven by product sales, related support, and Matrikon's ability to increase margin on consulting services.

Operating Expenses

3 Months Ended November 30

<i>(\$000s Canadian)</i>	FY2005	FY2004	Change	% Change
Consulting G&A	\$ 1,715	\$ 1,788	\$ (73)	(4)
% of revenue	11	13	(2)	
Sales & marketing	\$ 1,685	\$ 1,542	\$ 143	9
% of revenue	11	11	-	
Research & development	\$ 752	\$ 587	\$ 165	28
% of revenue	5	4	1	
General & administrative	\$ 1,385	\$ 1,179	\$ 206	17
% of revenue	9	8	1	

Combined operating expenses were \$5.96 million (40% of revenue) for the first quarter of fiscal 2005 compared to \$5.37 million (38% of revenue) for the first quarter of fiscal 2004. As the increase in operating expenses is predominantly a result of the European acquisition, our cost structure has remained relatively constant, which has improved our gross margins.

Research and development is reduced each period by Scientific Research & Experimental Development credits (SR&ED). Excluding SR&ED credits, research and development expenses were \$0.88 million (6% of revenue) in the first quarter of 2005 compared to \$0.71 million (5% of revenue) in the comparable period of 2004.

Other Income (Expenses)

Other expenses are made up of stock based compensation (\$0.19 million) offset by interest income (\$0.05 million). In the previous year, other expenses was comprised of stock based compensation of (\$0.15 million), offset by prior year SR&ED credits (\$0.11 million) and other miscellaneous expense recoveries (\$0.10 million) not occurring in the current year.

Net Income

3 Months Ended November 30

<i>(\$000s Canadian)</i>	FY2005	FY2004	Change	% Change
Net income	\$ 204	\$ 867	\$ (663)	(76)
% of revenue	1	6	(5)	
Earnings per share	0.01	0.03	(0.02)	(67)

Net income as a percentage of revenue was 1% in the quarter compared to 6% in the comparable period of 2004 and 8% in the fourth quarter of 2004. Net income was significantly impacted by foreign currency fluctuations, particularly the increasing strength of the Canadian dollar relative to the US dollar to the end of the quarter.

Currency translation losses had an after tax impact to net income of \$1.11 million (or \$0.03 per share) in the first quarter, compared to a loss of \$0.43 million (or \$0.02 per share) in the comparable period. The realized foreign currency translation loss for the first quarter was \$0.53 million related to exchanging US dollars into Canadian currency.

Liquidity and Capital Resources

As at (\$000s Canadian)	30-Nov-04	31-Aug-04	30-Nov-03	Q1-Q4 Change	Q1-Q4 % Change
Cash and equivalents	\$ 7,746	\$ 6,311	\$ 9,059	\$ 1,435	23
Trade receivables	13,004	16,771	14,572	(3,767)	(22)
Other receivables	3,162	2,432	2,324	730	30
Average collection period (trade receivables)	94 days	95 days	90 days	1 day	
Contracts in progress	2,537	1,830	2,696	707	39
Current liabilities	8,852	10,446	8,790	(1,594)	(15)

At November 30, 2004, accounts receivable were \$16.17 million compared to \$19.20 million at August 31, 2004. This decrease is a result of collecting some large invoices in the quarter. In addition, the revaluation of foreign currency accounts receivable reduced accounts receivable by \$0.84 million. Trade receivables in the quarter were \$13.00 million compared to \$16.77 million at August 31, 2004. The average collection period for trade receivables was 94 days in the first quarter compared to 95 days as at August 31, 2004. Matrikon's client base consists primarily of Fortune 500 companies with strong credit ratings; hence bad debt expense has been minimal at less than 0.6% per annum.

Current liabilities decreased from \$10.45 million at the end of the fourth quarter to \$8.85 million at the end of the first quarter. The major contributors to this change are reductions in deferred revenue of \$0.87 million and income taxes payable of \$0.41 million.

Cash provided by operating activities was \$1.57 million in the first quarter of 2005, compared to cash used in operating activities of \$0.24 million in the comparable period of 2004.

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, 2004 and November 30, 2004, Matrikon had \$nil outstanding on the line of credit.

Matrikon had cash and equivalents of \$7.75 million at the end of the first quarter compared to \$6.31 million at August 31, 2004. Management believes that the financial position of the company is adequate to carry out current growth strategies.

The following table summarizes Matrikon's contractual obligations:

(\$000s Canadian)	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Operating lease obligations	\$ 6,858	\$ 2,786	\$ 3,558	\$ 514	nil
Foreign exchange forward contracts (\$US at 1.23)	\$ 3,690	\$ 3,690	\$ -	\$ -	\$ -

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, relative stability in foreign currency exchange rates, 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)*

<i>As at</i>	November 30, 2004 (Unaudited)	August 31, 2004 (Audited)
ASSETS		(Restated)
Current		
Cash and equivalents	\$ 7,746	\$ 6,311
Accounts receivable	16,166	19,203
Contracts in progress	2,537	1,830
Future income taxes	178	178
Prepays	652	564
	27,279	28,086
Future income taxes	1,105	1,212
Capital assets	2,238	2,168
Intangible assets	690	911
Goodwill	10,667	10,667
	\$ 41,979	\$ 43,044
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 4,713	\$ 5,032
Deferred revenue	2,953	3,821
Income taxes payable	343	750
Future income taxes	843	843
	8,852	10,446
Future income taxes	422	422
Commitments <i>(Note 7)</i>		
Shareholders' equity		
Share capital <i>(Note 4)</i>	23,895	23,624
Contributed surplus	1,242	1,188
Retained earnings	7,568	7,364
	32,705	32,176
	\$ 41,979	\$ 43,044

MATRIKON INC.**Consolidated Statements of Income and Retained Earnings***(Thousands of Canadian dollars except per share amounts)*

	Quarter Ended	
	November 30, 2004	November 30, 2003
	(Unaudited)	(Unaudited)
		(Restated)
Revenue		
Consulting fees	\$ 11,364	\$ 8,374
Equipment sales	696	2,011
Software license fees	1,609	2,881
Extended support	1,287	1,036
	14,956	14,302
Cost of sales	6,832	6,978
	8,124	7,324
Expenses		
Consulting	1,715	1,788
Sales and marketing	1,685	1,542
Research and development	752	587
General and administrative	1,385	1,179
Amortization	425	277
Total expenses	5,962	5,373
Income before the undernoted	2,162	1,951
Foreign currency translation loss	(1,711)	(655)
Other income (expenses) <i>(Note 5)</i>	(137)	115
Income before income taxes	314	1,411
Income tax expense		
Current	3	3
Future	107	541
	110	544
Net income	\$ 204	\$ 867
Retained earnings, beginning of quarter <i>(Note 3)</i>	\$ 7,364	\$ 5,327
Net income	\$ 204	\$ 867
Retained earnings, end of quarter	\$ 7,568	\$ 6,194
Earnings per share		
Basic earnings per share	0.01	0.03
Diluted earnings per share	0.01	0.03
Weighted average number of shares outstanding		
Basic	29,465	27,274
Diluted	30,061	27,867

MATRIKON INC.**Consolidated Statements of Cash Flows***(Thousands of Canadian dollars)*

	Quarter Ended	
	November 30, 2004	November 30, 2003
	(Unaudited)	(Unaudited)
		(Restated)
OPERATING ACTIVITIES		
Net income	\$ 204	\$ 867
Items not affecting cash:		
Future income taxes	107	541
Amortization	425	277
Stock based compensation	190	153
	\$ 926	\$ 1,838
Changes in non-cash working capital	648	(2,080)
Cash provided by (used in) operating activities	\$ 1,574	\$ (242)
INVESTING ACTIVITIES		
Purchase of intangible assets	-	(178)
Purchase of capital assets	(274)	(299)
Cash provided (used in) investing activities	\$ (274)	\$ (477)
FINANCING ACTIVITIES		
Proceeds of share issue, net of share issue costs	135	9,483
Cash provided by financing activities	\$ 135	\$ 9,483
Change in cash and equivalents	\$ 1,435	\$ 8,764
Cash and equivalents, beginning of quarter	6,311	295
Cash and equivalents, end of quarter	\$ 7,746	\$ 9,059
Supplementary cash flow disclosure:		
Income taxes paid (recovered)	410	(78)
Interest paid (recovered)	(17)	11

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended November 30, 2004 and November 30, 2003

Thousands of Canadian dollars except share and per share amounts

1. CONSOLIDATED FINANCIAL STATEMENT PRESENTATION

The unaudited interim consolidated financial statements for the quarter ended November 30, 2004 should be read in conjunction with the consolidated financial statements for the year ended August 31, 2004. These interim financial statements conform in all material respects to the requirements of Canadian generally accepted accounting principles for interim financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements follow the same accounting policies and methods as the consolidated financial statements for the year ended August 31, 2004, except as described in note 3.

3. CHANGE IN ACCOUNTING POLICY

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 this change in policy on the financial statements of the Corporation 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 were granted, are credited to share capital. The impact of this restatement on the consolidated financial statements is as follows:

	As 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
Three months ended November 30, 2003:			
Other income	\$ 250	\$ (135)	\$ 115
Net income	\$ 1,002	\$ (135)	\$ 867
Net earnings per common share:			
Basic	\$ 0.04	\$ (0.01)	\$ 0.03
Diluted	\$ 0.04	\$ (0.01)	\$ 0.03

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended November 30, 2004 and November 30, 2003

Thousands of Canadian dollars except share and per share amounts

4. SHARE CAPITAL

(a) Issued shares

	3 Months ended November 30, 2004		3 Months ended November 30, 2003	
	Number of Shares	\$ 000's	Number of Shares	\$ 000's
Authorized in unlimited numbers				
Common shares				
Issued				
Balance, beginning of period	29,383,297	\$ 23,624	24,224,306	\$ 12,948
Private placement, net of share issue costs	-	-	4,545,455	9,400
Stock options exercised	68,012	187	46,574	99
Employee stock ownership plan	44,862	84	-	-
Balance, end of period	29,496,171	\$ 23,895	28,816,335	\$ 22,447

(b) Stock Options

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

	Number of Shares	Weighted Average Exercise Price
Balance, August 31, 2004	1,957,360	\$ 2.12
Granted	37,500	2.90
Exercised	(68,012)	1.99
Cancelled	(10,728)	2.29
Expired	-	-
Balance, November 30, 2004	1,916,120	\$ 2.14

The following table summarizes information about share options outstanding November 30, 2004:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
2.88 - 3.60	378,000	5.60	\$3.03	62,500	\$2.89
2.00 - 2.49	661,219	2.92	2.04	661,219	2.04
1.70 - 1.99	768,151	3.37	1.86	637,151	1.87
1.36 - 1.69	108,750	3.71	1.56	108,750	1.56
	1,916,120	3.68	\$ 2.14	1,469,620	\$1.97

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended November 30, 2004 and November 30, 2003

Thousands of Canadian dollars except share and per share amounts

4. SHARE CAPITAL (CONTINUED)

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

	November 2004	November 2003
Risk free interest rate	3.51%	4.70%
Expected life	3 years	5 years
Expected volatility	66%	72%
Expected dividends	-	-

For the three months ended November 30, 2004 the Corporation recorded \$179 (\$135 for the three months ended November 30, 2003) in compensation expense related to stock options.

(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.

For the three months ended November 30, 2004 \$45 (\$18 for the 3 months ended November 30, 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
August 2003	2,366	December 2004
November 2003	19,614	March 2005
February 2004	36,797	June 2005
May 2004	3,231	September 2005
August 2004	9,641	December 2005
November 2004	22,646	March 2006

During the three months ended November 30, 2004, the Corporation recognized a reduction in compensation expense of \$34 (nil for the three months ended November 30, 2003) with respect to forfeitures of common shares eligible to be issued under the employee share ownership program.

5. OTHER INCOME (EXPENSES)

	November 2004	November 2003 (Restated)
Scientific Research and Development	\$ -	\$ 109
Interest income	53	61
Gain on sale on capital assets	-	3
Sundry expense recoveries	-	95
Compensation expense (Note 4 (b)&(c))	(190)	(153)
	\$ (137)	\$ 115

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended November 30, 2004 and November 30, 2003

Thousands of Canadian dollars except share and per share amounts

6. 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 Corporation has modified their business units to include a Corporate segment to further align the Corporation's segments with current business management practices. The distribution of revenue, expenses, capital assets and goodwill by business unit is as follows:

	Eastern Canada and United States	Western Canada	Australia	Europe	Products and support	Corporate	Total
Q1 2005							
3 Months Ending							
30-Nov-04							
Total revenue	\$ 2,067	\$ 5,689	\$ 2,179	\$ 1,548	\$ 3,473	\$ -	\$ 14,956
Cost of sales	1,019	3,070	1,535	576	632	-	6,832
Gross margin	1,048	2,619	644	972	2,841	-	8,124
Expenses	(610)	(1,180)	(330)	(556)	(1,772)	(1,514)	(5,962)
Other income (expenses) and foreign exchange translation	-	-	-	14	(1)	(1,861)	(1,848)
Income before income taxes	\$ 438	\$ 1,439	\$ 314	\$ 430	\$ 1,068	\$ (3,375)	\$ 314
Capital assets	\$ 279	\$ 1,353	\$ 521	\$ 85	\$ -	\$ -	\$ 2,238
Goodwill	\$ 960	\$ 2,001	\$ 1,098	\$ 2,100	\$ 4,508	\$ -	\$ 10,667

	Eastern Canada and United States	Western Canada	Australia	Europe	Products and support	Corporate	Total
Q1 2004							
3 Months Ending							
30-Nov-03							
Total revenue	\$ 1,964	\$ 4,540	\$ 3,463	\$ -	\$ 4,335	\$ -	\$ 14,302
Cost of sales	897	3,098	2,402	-	581	-	6,978
Gross margin	1,067	1,442	1,061	-	3,754	-	7,324
Expenses	(572)	(1,331)	(326)	-	(1,992)	(1,152)	(5,373)
Other income (expenses) and foreign exchange translation	-	-	-	-	-	(540)	(540)
Income before income taxes	\$ 495	\$ 111	\$ 735	\$ -	\$ 1,762	\$ (1,692)	\$ 1,411
Capital assets	\$ 260	\$ 1,044	\$ 511	\$ -	\$ -	\$ -	\$ 1,815
Goodwill	\$ 552	\$ 1,151	\$ 793	\$ -	\$ 2,946	\$ -	\$ 5,442

Goodwill balances and corporate infrastructure balances for fiscal 2004 have been reclassified to conform to the current period's presentation.

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended November 30, 2004 and November 30, 2003

Thousands of Canadian dollars except share and per share amounts

7. COMMITMENTS

Forward Contracts

Subsequent to the end of the quarter, the Corporation entered into foreign currency forward exchange contracts to manage cash flows between currencies for a short-term period. The Corporation has entered into the following contracts to sell United States dollars:

Expiry Date	Amount Contracted (U.S. \$)	Rate
January 2005	1,000	1.23
February 2005	1,000	1.23
March 2005	1,000	1.23