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Matrikon™ delivers record revenue and strong earnings in the third quarter of 2005 and raises guidance for full year results

HIGHLIGHTS

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|---|---|
| <ul style="list-style-type: none"> ▪ Revenue growth of 28% to a record \$17.14 million in the third quarter ▪ Year-to-date revenue growth of 29% to \$48.82 million ▪ Earnings per share of \$0.05 in the third quarter; \$0.14 year-to-date | <ul style="list-style-type: none"> ▪ Gross margin of 55% in the quarter; 54% year-to-date ▪ Revised fiscal year revenue guidance to 20–24% growth or \$65 - \$67 million (from \$62 - \$67 million) and net income guidance to \$5 - \$6 million (from \$4 - \$5 million) |
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Edmonton, AB –July 5, 2005 —Matrikon Inc. (TSX: MTK), a leading provider of solutions for industrial intelligence, today reported financial results for the third quarter of fiscal year 2005, which ended May 31, 2005.

Third quarter revenue grew 28% to a record \$17.14 million from \$13.37 million in the comparable period of fiscal 2004. Year-to-date revenue grew 29% to \$48.82 million compared to \$37.83 million in the first nine months of 2004. Net income for the third quarter was \$1.56 million (or \$0.05 per share) compared to net income of \$0.17 million (or \$0.01 per share) in the comparable period of fiscal year 2004. Year-to-date income was \$4.11 million compared to \$0.68 million in the first nine months of last year.

Matrikon’s president and chief executive officer, Nizar J. Somji comments on the quarter: “We continued to execute on our strategy in the third quarter and are excited about the momentum we have built over the past nine months and the future prospects for our solutions. Our second users conference in May was larger and more focused than the previous one and has resulted in new opportunities and closer relationships with our existing clients.

“While we have made tremendous progress in many areas, there is always room for improvement. We remain committed to continuing to improve efficiency, increase revenue and profit and transition to a more solutions-focused company.”

Outlook

Based on nine month results, the recovery of the US dollar relative to the Canadian dollar, and the increased customer demand for Matrikon’s total solutions, management has narrowed estimates for revenue to \$65 to \$67 million (previously \$62 to \$67 million) and increased net income estimates to \$5 to \$6 million (previously \$4 to \$5 million). Any significant change in the US dollar relative to the Canadian dollar could impair Matrikon’s ability to achieve the revised net income estimate.

Quarter Highlights:

- On April 26, 2005, Matrikon completed the acquisition of Resolution Integration Solutions, Inc. (RIS). This technology acquisition complements Matrikon’s strategic direction and provides an industrial intelligence infrastructure to deliver a single version of plant data. The technology meets the needs of customers for more accurate enterprise information by aggregating data from disparate sources, extracting information and data from standalone applications and providing consistent, comprehensive and auditable information across the industrial enterprise.
- Matrikon hosted its second annual users group event at the beginning of May. Client attendance at MVP 2005 increased by 40% over 2004 and was

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successful at introducing attendees to Matrikon's vision for the recently acquired Resolution technology and enhancing client understanding of Matrikon's technology and industry solutions.

- Matrikon released ProcessMORE™ v5 featuring improved performance and user control. ProcessMORE is a solution for reducing operating and maintenance costs and increasing equipment effectiveness. ProcessMORE captures and analyzes downtime events to identify problematic equipment, measure maintenance performance and associate material variables with downtime events.
- Matrikon announced that it had signed an alliance program agreement with MRO Software, Inc. (Nasdaq:MROI), the leading provider of strategic asset and service management solutions. Under the agreement, Matrikon and MRO Software will jointly offer asset management capabilities and solutions to all industries, including the mining, oil and gas and utilities sectors.
- Matrikon announced that a large Canadian heavy oil producer is rolling out its well optimization solution to all wells following the successful pilot of the technology at 100 wells over the past year. Matrikon's well optimization solution has proven production gains of 4-7% for onshore wells and has also proven successful in increasing production and reducing costs in the land based operation of offshore platform recovery facilities.

Conference Call Wednesday, July 6 at 8:30 am Eastern

Matrikon President and CEO Nizar J. Somji and CFO Nimal Rodrigo will hold a conference call to discuss third quarter results on Wednesday, July 6 at 8:30 am Eastern time (6:30 am Mountain time). 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, July 13, 2005. To access the playback service, please dial 416-640-1917 in Toronto or 1-877-289-8525 elsewhere, reservation number 21128718#.

The conference call will also be web cast at

<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1162700>

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Management's Discussion & Analysis

July 5, 2005

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 May 31, 2005 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 integrated industrial 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 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 July 5, 2005 there were 30,270,304 common shares of the corporation issued and outstanding. In addition, there were 1,817,156 outstanding options to purchase common shares.

At May 31, 2005, Matrikon had 511 employees, including 60 in administrative services, 71 in sales and marketing, 84 in product development and support and 296 in services.

Items of note in the third quarter

Acquisition of RIS

On April 26, 2005, Matrikon acquired Resolution Integration Solutions, Inc. (RIS). The results of RIS are included in these financial statements within the Eastern Canada & US segment since the date of acquisition.

Progress continues to be made towards integrating RIS into Matrikon, including the integration of RIS technology with Matrikon solutions. It is expected that sales training will be ready for the first quarter of 2006. In the mean time, several opportunities to deploy Resolution with existing Matrikon clients are being pursued. Management expects that Resolution-based solutions will entail a lengthy sales cycle that could impact results for the next several quarters as the integration is completed. The impact in the third quarter was a net operating loss of \$0.07 million.

Second annual users group results in new opportunities

Matrikon's second annual users group conference – MVP – was held in early May. The conference was attended by clients and partners from around the world, with a 40% increase in client participation over the previous year. Attendees were introduced to Matrikon's vision for the recently acquired Resolution technology and provided with an enhanced understanding of Matrikon's technologies and industry solutions. As a result, several new opportunities were identified and management believes the length of the sales cycle on pre-existing opportunities may also be reduced as a result of MVP.

Stock Based Compensation

Starting in 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 is a reduction in income before taxes of \$0.21 million (\$0.01 per share) for the third quarter of 2005 and a decrease of \$0.24 million (\$0.01 per share) for the third quarter of 2004. The year-to-date impact of stock based compensation is a decrease in income before taxes of \$0.60 million (\$0.02 per share) for the first nine months of 2005 and \$0.54 million (\$0.02 per share) at the end of comparable period in 2004.

Restated figures for each quarter of fiscal year 2004 are available at:
www.matrikon.com/investors/f_downloads.asp

Results of Matrikon Europe

On May 18, 2004, Matrikon acquired PI Automation in Europe (now known as Matrikon Europe). The financial impact of the acquisition in the third quarter can be seen in the table below and should be considered when reviewing comparable results from the third quarter of 2004, when the results of Matrikon Europe were included from May 18 to May 31 only.

3 Months Ended						
May 31, 2005	Matrikon Inc.		Matrikon Europe		Consolidated	
<i>(\$000s Canadian)</i>		%		%		%
Total revenue	\$ 15,683	100%	\$ 1,455	100%	\$ 17,138	100%
Cost of sales	6,953	44%	701	48%	7,654	45%
Gross profit	8,740	56%	744	51%	9,484	55%
Expenses	6,867	44%	462	32%	7,329	43%
Other income (expenses)	(17)	(0%)	45	3%	28	0%
Income before income taxes	1,856	12%	327	22%	2,183	13%

9 Months Ended						
May 31, 2005	Matrikon Inc.		Matrikon Europe		Consolidated	
<i>(\$000s Canadian)</i>		%		%		%
Total revenue	\$ 43,925	100%	\$ 4,892	100%	\$ 48,817	100%
Cost of sales	20,460	47%	2,106	43%	22,566	46%
Gross profit	23,465	53%	2,786	57%	26,251	54%
Expenses	18,195	41%	1,324	27%	19,519	40%
Other income (expenses)	(1,062)	(2%)	222	5%	(840)	(2%)
Income before income taxes	4,208	10%	1,684	34%	5,892	12%

Revenue

3 Months Ended					2005 vs 2004
<i>(\$000s Canadian)</i>	31-May-05	% of Rev	31-May-04	% of Rev	% Change
Total Revenue	\$17,138	100%	\$13,372	100%	28%
Consulting fees	12,619	74%	9,142	68%	38%
Equipment sales	872	5%	1,518	11%	(43%)
Total services and related	13,491	79%	10,660	80%	27%
Software license fees	2,131	12%	1,604	12%	33%
Extended support	1,516	9%	1,108	8%	37%
Total product and related	3,647	21%	2,712	20%	34%

9 Months Ended					2005 vs 2004
<i>(\$000s Canadian)</i>	31-May-05	%	31-May-04	%	% Change
Total Revenue	\$48,817	100%	\$37,826	100%	29%
Consulting fees	34,269	70%	23,873	63%	44%
Equipment sales	3,365	7%	4,388	12%	(23%)
Total services and related	37,634	77%	28,261	75%	33%
Software license fees	6,944	14%	6,376	17%	9%
Extended support	4,239	9%	3,189	8%	33%
Total product and related	11,183	23%	9,565	25%	17%

Consulting fees were a record \$12.62 million for the three months ended May 31, 2005, representing growth of 38% over the comparable period in 2004. The European segment, acquired in the third quarter of 2004, contributed \$1.43 million to consulting revenue in the current quarter and \$4.27 million year-to-date. As a result of Matrikon's strategic focus on solutions and higher value consulting, the average daily billing rate for services increased by 26% over the same period last year. Strong software license revenues in the second quarter of 2005 continue to have a positive impact on consulting revenue.

Software license fees did not meet management's expectations in the quarter, however the software pipeline remains strong with several opportunities for site and corporate licenses expected to close in the fourth quarter.

Extended support revenue increased by 37% to \$1.52 million in the third quarter from \$1.11 million in the comparable period of fiscal year 2004. Extended support revenue has demonstrated steady growth over the past three years following growing software license revenue.

Year-to-date revenue from product licensing, training and support was 27% of total revenue (excluding equipment); revenue from the implementation of Matrikon products was 25%, and consulting revenue (related to third party products or general consulting) was 48%.

Quarterly Results

The following table presents a summary of consolidated operating results for the past eight quarters and the current quarter. The quarterly numbers for fiscal years 2003 and 2004 have been restated as a result of the retroactive application of stock based compensation.

(\$000s Canadian)	Restated								
	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
Revenue	\$ 12,284	\$ 12,316	\$ 14,302	\$ 10,152	\$ 13,372	\$ 16,570	\$ 14,956	\$ 16,723	\$ 17,138
Gross Profit	\$ 6,471	\$ 6,036	\$ 7,324	\$ 4,515	\$ 6,271	\$ 9,101	\$ 8,124	\$ 8,643	\$ 9,484
Gross Profit %	53%	49%	51%	44%	47%	55%	54%	52%	55%
Net income (loss)	\$ 213	\$ 654	\$ 867	\$ (355)	\$ 167	\$ 1,358	\$ 204	\$ 2,353	\$ 1,557
Net income %	2 %	5 %	6 %	(3%)	1 %	8 %	1 %	14 %	9 %
Weighted average shares outstanding (000s)	24,215	24,224	27,274	28,877	29,270	29,321	29,465	29,633	29,845
EPS - basic	0.01	0.03	0.03	(0.01)	0.01	0.05	0.01	0.08	0.05
EPS - diluted	0.01	0.03	0.03	(0.01)	0.01	0.05	0.01	0.08	0.05
Headcount	444	448	476	485	486	465	488	491	511

Segment Results

Matrikon has five strategic business segments: Eastern Canada/United States, Western Canada, Australia, Europe, and Products. Management added a sixth segment (Corporate segment) starting in fiscal year 2005 to capture corporate expenses and more accurately reflect the results of the five main segments. Matrikon evaluates each segment'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
May 31, 2005							
Revenue	\$ 2,458	\$ 5,715	\$ 2,861	\$ 1,445	\$ 4,659	\$ -	\$ 17,138
Gross Margin %	41%	47%	41%	51%	83%	-	55%
Income before income taxes	\$ 275	\$ 1,196	\$ 644	\$ 327	\$ 1,534	\$ (1,793)	\$ 2,183
Revenue change % (Q3 2005 - Q3 2004)	(0%)	15 %	24 %	-	31 %	-	28 %
Employees at May 31, 2005	61	180	89	25	109	47	511
May 31, 2004							
Revenue	\$ 2,469	\$ 4,964	\$ 2,302	\$ 94	\$ 3,543	\$ -	\$ 13,372
Gross Margin%	51%	32%	29%	66%	76%	-	47%
Income before income taxes	\$ 556	\$ (139)	\$ 308	\$ 71	\$ 27	\$ (452)	\$ 371
Employees at May 31, 2004	43	217	89	13	89	35	486

9 Months Ended (\$000s Canadian)	Eastern Canada & United States	Western Canada	Australia	Europe	Products & Support	Corporate	Total
May 31, 2005							
Revenue	\$ 6,458	\$ 16,159	\$ 8,055	\$ 4,892	\$ 13,253	\$ -	\$ 48,817
Gross Margin %	48%	43%	33%	57%	81%	-	54%
Income before income taxes	\$ 1,179	\$ 2,989	\$ 1,454	\$ 1,684	\$ 4,596	\$ (6,010)	\$ 5,892
Revenue change % (Q3 2005 - Q3 2004)	18 %	23 %	2 %	-	18 %	-	29 %
Employees at May 31, 2005	61	180	89	25	109	47	511
May 31, 2004							
Revenue	\$ 5,458	\$ 13,126	\$ 7,888	\$ 94	\$ 11,260	\$ -	\$ 37,826
Gross Margin %	46%	31%	27%	66%	83%	-	48%
Income before income taxes	\$ 411	\$ (256)	\$ 975	\$ 71	\$ 2,731	\$ (2,589)	\$ 1,343
Employees at May 31, 2004	43	217	89	13	89	35	486

Eastern Canada & US: The results of RIS, acquired on April 26, 2005 are included in the Eastern Canada & US segment from the date of the acquisition. Excluding RIS, the Eastern Canada & US segment had a gross margin of 46% in the third quarter. This segment has grown from 43 employees in the comparable period of 2004 to 61 at the end of the third quarter in 2005. Some of the more recently hired employees were in training and not fully utilized in the third quarter, which had a further negative impact on gross margin. Income before income taxes in this segment was reduced by \$0.13 million for the completion of the performance of the settlement related to the OSIsoft lawsuit settled in September 2004.

Western Canada: Western Canada revenue grew by 15% over the third quarter of fiscal year 2004, while the gross margin improved to 47% of revenue from 32% in the comparable period last year. The company-wide average daily rate grew by 5% over the second quarter of 2005 and by 26% over the third quarter of 2004, validating the progress of our focus on improving project efficiencies and on attaining consulting projects which command higher rates. This increase in average daily rate applies to all service-based segments, however the impact is greatest in Western Canada, which has the largest proportion of consulting revenue. For the year-to-date period, revenue in this segment grew by 23% and gross margin improved to 43% from 31% in the comparable period.

Australia: Australian revenue increased by 24% over the third quarter of 2004 while gross margin improved to 41% in 2005 from 29% in the comparable period of 2004. Gross margin was positively impacted by reduced equipment sales in the quarter (\$0.54 million compared to \$0.91 million in the second quarter of 2005). For the year-to-date period, revenue in this segment grew by 2% and gross margin improved to 33% from 27% in 2004.

Europe: Europe's gross margin was 51% in the third quarter of 2005 compared to 56% in the second quarter of 2005. Comparative data for fiscal year 2004 is available only for a short time period (May 18 to May 31) and therefore is not an accurate comparison. Gross margin in Europe remains high due to high margin consulting projects and the use of employees borrowed from lower-cost base segments. Year-to-date gross margin was 57%.

Products & Support: Products and Support revenue increased 31% compared to the third quarter of fiscal 2004. Gross margin was 83% in the quarter compared to 76% in the second quarter of 2004.

Product sales were slightly below expectation for the quarter, however the pipeline remains strong with several opportunities for site and corporate licenses expected to close in the fourth quarter.

Comparative third quarter product revenue by suite was as follows:

3 Months Ended	31-May-05	31-May-04
ProcessSuite	42%	36%
Connectivity (OPC Suite)	58%	47%
Other	0%	17%

9 Months Ended	31-May-05	31-May-04
ProcessSuite	43%	54%
Connectivity (OPC Suite)	56%	37%
Other	1%	9%

Corporate: The corporate segment includes all shared corporate services (including accounting, information technology and human resources) that cannot be directly allocated to other segments. In addition to these corporate expenses, the corporate segment includes other income or expenses and amortization. The factors contributing to the increased corporate loss before income taxes for the first nine months of fiscal 2005 are an increase in foreign currency translation losses of \$1.04 million, an increase in other expenses of \$0.60 million, an increase in amortization of \$0.30 million, corporate expenses related to Matrikon Europe which were not present in the comparable quarter of \$0.32 million, and the increased headcount within the corporate segment from 35 to 47 people.

Gross Margin

3 Months Ended					
<i>(\$000s Canadian)</i>	31-May-05	31-May-04	Change	% Change	
Gross margin	\$ 9,484	\$ 6,271	\$ 3,213	51%	
% of revenue	55%	47%	8%		

9 Months Ended					
<i>(\$000s Canadian)</i>	31-May-05	31-May-04	Change	% Change	
Gross margin	\$ 26,251	\$ 18,110	\$ 8,141	45%	
% of revenue	54%	48%	6%		

Gross margin improved to 55% of revenue, up from 47% in the third quarter of fiscal year 2004 and is at the high end of management's quarterly target range of 50% to 55%. As Matrikon continues to focus on strategic priorities such as improving utilization and increasing average rates and is successful at increasing higher margin software license revenue and subsequent high margin maintenance and support revenue, this level of gross margin should be sustainable and continue to improve.

The gross margin improvement in the third quarter was primarily a result of improved efficiency in project execution. Consulting revenue gross margin was 46% in the period compared to 36% in the third quarter of 2004. Year-to-date consulting gross margin improved to 44% from 32% in the first nine months of 2004. Gross margin was also positively impacted by a reduction in lower margin equipment revenue in third quarter and year-to-date period.

Operating Expenses

3 Months Ended (\$000s Canadian)	31-May-05	31-May-04	Change	% Change	Employees at	
					31-May-05	31-May-04
Consulting G&A	\$ 2,281	\$ 1,591	\$ 690	43%	15	18
% of revenue	13%	12%	1%			
Sales & marketing	\$ 2,342	\$ 2,133	\$ 209	10%	71	74
% of revenue	14%	16%	(2%)			
Research & development	\$ 967	\$ 690	\$ 277	40%	66	53
% of revenue	6%	5%	1%			
General & administrative	\$ 1,305	\$ 1,294	\$ 11	1%	60	48
% of revenue	8%	10%	(2%)			

9 Months Ended (\$000s Canadian)	31-May-05	31-May-04	Change	% Change	Employees at	
					31-May-05	31-May-04
Consulting G&A	\$ 5,642	\$ 5,033	\$ 609	12%	15	18
% of revenue	12%	13%	(1%)			
Sales & marketing	\$ 5,830	\$ 5,633	\$ 197	3%	71	74
% of revenue	12%	15%	(3%)			
Research & development	\$ 2,527	\$ 2,113	\$ 414	20%	66	53
% of revenue	5%	6%	(1%)			
General & administrative	\$ 4,235	\$ 3,804	\$ 431	11%	60	48
% of revenue	9%	10%	(1%)			

Combined operating expenses were \$7.33 million (43% of revenue) for the third quarter of fiscal 2005 compared to \$6.11 million (46% of revenue) for the third quarter of fiscal 2004. Year-to-date combined operating expenses were \$19.52 million (40% of revenue) compared to \$17.57 million (46% of revenue) in the first nine months of 2004. For the third quarter, the increase in operating expenses is primarily attributable to the European and RIS acquisition, whose operating expenses were not included in last year's results for the full quarter, and other unusual expenses. For the year-to-date period, the increase in operating expenses is primarily attributable to the European acquisition. Excluding European expenses, operating expenses for the nine month period were \$18.20 million (37% of revenue).

Research and development is reduced each quarter by Scientific Research & Experimental Development credit (SR&ED credit) accruals of \$0.13 million.

Other Income (Expenses)

Other income in the third quarter of 2005 was comprised of interest income and other miscellaneous expense recoveries of \$0.12 million, offset by stock based compensation expense of \$0.21 million. Other income in the third quarter of 2004 was comprised of interest income of \$0.03 million offset by miscellaneous expenses of \$0.04 million and stock based compensation expense of \$0.24 million.

Net Income

3 Months Ended	Restated				
	(\$000s Canadian)	31-May-05	31-May-04	Change	% Change
Net income	\$	1,557	\$ 167	\$ 1,390	832%
% of revenue		9%	1%	8%	
Earnings per share		0.05	0.01	0.04	400%

9 Months Ended	Restated				
	(\$000s Canadian)	31-May-05	31-May-04	Change	% Change
Net income	\$	4,114	\$ 679	\$ 3,435	506%
% of revenue		8%	2%	7%	
Earnings per share		0.14	0.02	0.12	600%

Net income as a percentage of revenue increased to 9% in the third quarter from 1% in the comparable period of 2004. Management expects that net income as a percentage of revenue will continue to improve as the company continues to focus on higher value consulting projects and solutions incorporating Matrikon products.

The effective tax rate was reduced to 29% in the quarter as a result of increasing revenue from European operations, which have a lower tax rate, and a full-year adjustment in the quarter for the recent reduction in Alberta income tax rate to 33.62% from 35%. Management expects the effective tax rate to be approximately 33% going forward.

The recovery of the US dollar relative to the Canadian dollar positively impacted results in the third quarter with a foreign currency translation gain of \$0.11 million. Year-to-date foreign currency translation loss was reduced to \$0.64 million from \$0.75 million in the second quarter of 2005.

	Australian Dollar	Canadian Dollar	British Pound	United States Dollar	Other Currencies
% Billings by Currency					
May 31, 2005	16 %	28 %	16 %	37 %	3 %
February 28, 2005	16 %	24 %	17 %	42 %	1 %
May 31, 2004	18 %	27 %	6 %	47 %	2 %
Change (Q3 2005 - Q2 2005)	0 %	4 %	(1%)	(5%)	2 %
Change (Q3 2005 - Q3 2004)	(2%)	1 %	10 %	(10%)	1 %

Liquidity and Capital Resources

As at	31-May-05	28-Feb-05	31-May-04	31-Aug-04	Q3-Q2 Change	Q3-Q2 % Change
(\$000s Canadian)						
Cash and equivalents	\$ 11,366	\$ 9,592	\$ 3,025	\$ 6,311	\$ 1,774	18%
Trade receivables	14,616	15,647	15,439	16,771	(1,031)	(7%)
Other receivables	4,011	3,182	2,238	2,432	829	26%
Average collection period (trade receivables)	84 days	86 days	89 days	95 days	(2 days)	
Contracts in progress	3,596	2,577	2,536	1,830	1,019	40%
Current liabilities	11,527	10,526	8,424	10,446	1,001	10%

At May 31, 2005, accounts receivable were \$18.62 million compared to \$18.83 million at February 28, 2005 and \$19.20 million at August 31, 2004. The average collection period for trade receivables was 84 days at the end of the third quarter of 2005 compared to 86 days at the end of the second quarter of 2005 and 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 per annum has been minimal.

Current liabilities increased from \$10.53 million at the end of the second quarter of 2005 to \$11.53 million at the end of the third quarter. The major contributors to this change were an increase in deferred revenue of \$0.54 million and an increase in income taxes payable of \$0.60 million over the second quarter.

Cash provided by operating activities was \$1.77 million in the third quarter of 2005, compared to cash used in operating activities of \$1.02 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 February 28, 2005, Matrikon had \$nil outstanding on the line of credit.

Matrikon had cash and equivalents of \$11.37 million at the end of the third quarter of 2005 compared to \$9.59 million at the end of the second quarter of 2005 and \$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	Payment Due			
		Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Operating lease obligations	\$ 6,549	\$ 642	\$ 3,103	\$ 1,345	\$ 1,459
Foreign exchange forward contracts (\$US at 1.23)	\$ 11,500	\$ 11,500	\$ -	\$ -	\$ -

During the third quarter of 2005, leases on office space in Calgary and Edmonton were both extended (to 2010 and 2012 respectively).

Other Information

Additional information about Matrikon, including the Annual Information Form and continuous disclosure documents, is available on SEDAR at www.sedar.com

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>May 31, 2005</i> <i>(Unaudited)</i>	<i>August 31, 2004</i> <i>(Audited)</i>
ASSETS		(Restated)
Current		
Cash and equivalents	\$ 11,366	\$ 6,311
Accounts receivable	18,627	19,203
Contracts in progress	3,596	1,830
Future income taxes	612	178
Prepays	1,135	564
	35,336	28,086
Future income taxes	1,127	1,212
Capital assets	2,454	2,168
Intangible assets	684	911
Goodwill	12,088	10,667
	\$ 51,689	\$ 43,044
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 5,045	\$ 5,032
Deferred revenue	4,272	3,821
Income taxes payable	1,772	750
Future income taxes	438	843
	11,527	10,446
Future income taxes	837	422
Commitments <i>(Note 9)</i>		
Shareholders' equity		
Share capital <i>(Note 5)</i>	\$ 26,364	\$ 23,624
Contributed surplus <i>(Note 6)</i>	1,483	1,188
Retained earnings <i>(Note 3)</i>	11,478	7,364
	39,325	32,176
	\$ 51,689	\$ 43,044

MATRIKON INC.

Consolidated Statements of Income and Retained Earnings

(Thousands of Canadian dollars except per share amounts)

	Quarter Ended		9 Months Ended	
	May 31, 2005 (Unaudited)	May 31, 2004 (Unaudited)	May 31, 2005 (Unaudited)	May 31, 2004 (Unaudited)
Revenue		(Restated)		(Restated)
Consulting fees	\$ 12,619	\$ 9,142	\$ 34,269	\$ 23,873
Software license fees	2,131	1,604	6,944	6,376
Equipment sales	872	1,518	3,365	4,388
Extended support	1,516	1,108	4,239	3,189
	17,138	13,372	48,817	37,826
Cost of sales	7,654	7,101	22,566	19,716
	9,484	6,271	26,251	18,110
Expenses				
Consulting	2,281	1,591	5,642	5,033
Sales and marketing	2,342	2,133	5,830	5,633
Research and development	967	690	2,527	2,113
General and administrative	1,305	1,294	4,235	3,804
Amortization	434	401	1,285	990
Total expenses	7,329	6,109	19,519	17,573
Income before the undernoted	2,155	162	6,732	537
Foreign currency translation (loss) gain	114	458	(636)	407
Other income (expenses) (Note 7)	(86)	(249)	(204)	399
Income before income taxes	2,183	371	5,892	1,343
Income tax expense				
Current	958	9	2,248	38
Future	(332)	195	(470)	626
	626	204	1,778	664
Net income	\$ 1,557	\$ 167	\$ 4,114	\$ 679
Retained earnings, beginning of quarter (Note 3)	\$ 9,921	\$ 5,839	\$ 7,364	\$ 5,327
Net income	\$ 1,557	\$ 167	\$ 4,114	\$ 679
Retained earnings, end of quarter	\$ 11,478	\$ 6,006	\$ 11,478	\$ 6,006
Earnings per share				
Basic earnings per share	0.05	0.01	0.14	0.02
Diluted earnings per share	0.05	0.01	0.14	0.02
Weighted average number of shares outstanding				
Basic	29,845	29,270	30,133	28,510
Diluted	30,726	29,755	30,412	30,654

MATRIKON INC.

Consolidated Statements of Cash Flows

(Thousands of Canadian dollars)

	Quarter Ended		9 Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
OPERATING ACTIVITIES		(Restated)		(Restated)
Net income (loss)	\$ 1,557	\$ 167	\$ 4,114	\$ 679
Items not affecting cash:				
Future income taxes	(332)	195	(470)	626
Amortization	434	401	1,285	990
Stock based compensation	208	238	600	543
	\$ 1,867	\$ 1,001	\$ 5,529	\$ 2,838
Changes in non-cash working capital	(96)	(2,022)	(573)	(2,729)
Cash provided by (used in) operating activities	\$ 1,771	\$ (1,021)	\$ 4,956	\$ 109
INVESTING ACTIVITIES				
Purchase of intangible assets	-	-	-	(178)
Cash consideration for business acquisition	2	(6,463)	2	(6,463)
Purchase of capital assets	(416)	(492)	(966)	(1,065)
Cash provided (used in) investing activities	\$ (414)	\$ (6,955)	\$ (964)	\$ (7,706)
FINANCING ACTIVITIES				
Repayment of bank indebtedness	-	-	-	-
Proceeds of share issue, net of share issue costs	417	582	1,063	10,327
Cash provided by (used in) financing activities	\$ 417	\$ 582	\$ 1,063	\$ 10,327
Cash increase	\$ 1,774	\$ (7,394)	\$ 5,055	\$ 2,730
Cash and equivalents, beginning of quarter	9,592	10,419	6,311	295
Cash and equivalents, end of quarter	\$ 11,366	\$ 3,025	\$ 11,366	\$ 3,025
Supplementary cash flow disclosure:				
Income taxes paid (recovered)	103	114	989	204
Interest paid (recovered)	(91)	(16)	(121)	(16)

Notes to the Consolidated Financial Statements

Quarter ended May 31, 2005 and May 31, 2004

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 May 31, 2005 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 below and 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 effect of this policy adoption are detailed in the table below. When options are exercised, the proceeds received by the Corporation, together with the amount originally recorded as contributed surplus when the options are granted, are credited to share capital. The impact of this restatement on the consolidated financial statements is as follows:

	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 May 31, 2004:			
Other income (expenses)	\$ (61)	\$ (188)	\$ (249)
Net income	\$ 355	\$ (188)	\$ 167
Net earnings per common share:			
Basic	\$ 0.01	\$ (0.00)	\$ 0.01
Diluted	\$ 0.01	\$ (0.00)	\$ 0.01
Nine months ended May 31, 2004:			
Other income	\$ 847	\$ (448)	\$ 399
Net income	\$ 1,127	\$ (448)	\$ 679
Net earnings per common share:			
Basic	\$ 0.04	\$ (0.02)	\$ 0.02
Diluted	\$ 0.04	\$ (0.02)	\$ 0.02

Notes to the Consolidated Financial Statements

Quarter ended May 31, 2005 and May 31, 2004

Thousands of Canadian dollars except share and per share amounts

4. BUSINESS ACQUISITION

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

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

The following table summarizes the total purchase consideration and the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. The Company is in the process of finalizing its valuation of the net assets acquired, including goodwill and other intangible assets; thus, the allocation of the purchase price is subject to refinement.

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

Common shares issued by Matrikon upon acquisition of RIS (000's)	328
Market price of common shares, per share	\$ 4.18
Total share consideration	1,371
Acquisition costs	114
Total purchase consideration	1,485
Fair value of net assets acquired (see below)	(64)
Value ascribed to goodwill	1,421

Fair value of net assets acquired¹:

Cash	\$ 2
Other current assets	680
Intellectual Property – Resolution software	283
Customer contracts and/or relationships	63
Non-current assets	32
Current liabilities	(889)
Other non-current liabilities	(107)
Fair value of net assets acquired	\$ 64

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

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

¹ Market value was determined based on the current trading price at the time of the acquisition.

Notes to the Consolidated Financial Statements

Quarter ended May 31, 2005 and May 31, 2004

Thousands of Canadian dollars except share and per share amounts

5. SHARE CAPITAL

(a) Issued shares

	9 Months ended May 31, 2005		9 Months ended May 31, 2004	
	Number of Shares	\$ 000's	Number of Shares	\$ 000's (Restated)
Authorized in unlimited numbers				
Common shares				
Issued				
Balance, beginning of period	29,383,297	\$ 23,624	24,224,306	\$ 12,948
Issued for Resolution Integration Solutions (Note 4)	328,266	1,371		
Private placement, net of share issue costs	-	-	4,545,455	9,357
Warrants exercised	121,369	364	55,894	168
Stock options exercised	360,020	860	432,130	966
Employee stock ownership plan	67,624	145	45,416	-
Balance end of period	30,260,576	\$ 26,364	29,303,201	\$ 23,439

(b) Stock Options

The following stock options, with expiry dates up to April 2015, remain outstanding:

	Number of Shares	Weighted Average Exercise Price
Balance, August 31, 2004	1,957,360	\$ 2.12
Granted	281,000	3.54
Exercised	(360,020)	1.95
Cancelled	(49,956)	2.50
Expired	-	-
Balance, May 31, 2005	1,828,384	\$ 2.36

The following table summarizes information about share options outstanding May 31, 2005:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
4.00 – 4.50	70,000	5.91	\$4.15	-	-
2.88 - 3.60	526,000	5.71	\$3.16	210,500	\$3.00
2.00 - 2.49	533,720	2.41	2.04	533,720	2.04
1.70 - 1.99	624,814	2.96	1.86	574,814	1.86
1.36 – 1.69	73,850	3.34	1.55	73,850	1.55
	1,828,384	3.72	\$ 2.36	1,392,884	\$2.08

Notes to the Consolidated Financial Statements

Quarter ended May 31, 2005 and May 31, 2004

Thousands of Canadian dollars except share and per share amounts

5. 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:

	May 2005	May 2004
Risk free interest rate	3.51%	3.96%
Expected life	3 years	5 years
Expected volatility	60%	81%
Expected dividends	-	-

For the three months ended May 31, 2005 the Corporation recorded \$115 (\$188 – May 31, 2004) in compensation expense related to stock options. For the nine months ended May 31, 2005 the Corporation recorded \$438 (\$448- May 31, 2004) in compensation expense related to stock options.

(c) Employee Stock Ownership Program

The Corporation also has an employee share ownership program (ESOP), 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 May 31, 2005 \$102 (\$50 – May 31, 2004) of compensation expense has been recorded in other income with a corresponding credit to contributed surplus. For the nine months ended May 31, 2005 \$204 (\$95 – May 31, 2004) 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
February 2004	31,237	June 2005
May 2004	1,121	September 2005
August 2004	8,403	December 2005
November 2004	22,646	March 2006
February 2006	73,007	June 2006
May 2005	19,664	September 2006

During the three months ended May 31, 2005, the Corporation recognized a reduction in compensation expense of \$9 (nil for the three months ended May 31, 2004) with respect to forfeitures of common shares eligible to be issued under the employee share ownership program. For the nine months ended May 31, 2005, the Corporation recognized a reduction in compensation expense of \$42(nil for the nine months ended May 31, 2004) with respect to forfeitures

(d) Warrants

The Corporation has 95,464 (February 2005 – 100,919) common share warrants outstanding which are convertible into an equivalent number of common shares at \$3.00 which expire September 24, 2005.

Notes to the Consolidated Financial Statements*Quarter ended May 31, 2005 and May 31, 2004**Thousands of Canadian dollars except share and per share amounts***6. CONTRIBUTED SURPLUS**

	3 Months Ended May 31, 2005	9 Months Ended May 31, 2005
Contributed Surplus		
Opening balance	\$ 1,444	\$ 1,188
ESOP compensation expense	102	204
ESOP forfeiture adjustment	(9)	(42)
Stock options expense	115	438
Reclassification to share capital in respect of options exercised	(108)	(160)
Reclassification to share capital in respect of ESOP shares issued	(61)	(145)
Closing balance	\$ 1,483	\$ 1,483

7. OTHER INCOME (EXPENSES)

	3 Months Ended May 31, 2005	3 Months Ended May 31, 2004 (Restated)	9 Months Ended May 31, 2005	9 Months Ended May 31, 2004 (Restated)
Scientific Research and Development	\$ -	\$ -	\$ 166	\$ 698
Interest income	91	33	202	136
Gain on sale on capital assets	-	-	-	3
Sundry expense recoveries	31	(44)	28	105
Compensation expense (Note 5 (b)&(c))	(208)	(238)	(600)	(543)
	\$ (86)	\$ (249)	\$ (204)	\$ 399

Notes to the Consolidated Financial Statements

Quarter ended May 31, 2005 and May 31, 2004

Thousands of Canadian dollars except share and per share amounts

8. 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:

Q3 2005 3 Months Ending 31-May-05	Eastern Canada and United States	Western Canada	Australia	Europe	Products and support	Corporate	Total
Total revenue	\$ 2,458	\$ 5,715	\$ 2,861	\$ 1,445	\$ 4,659	\$ -	\$ 17,138
Cost of sales	1,459	3,036	1,686	701	772	-	7,654
Gross margin	999	2,679	1,175	744	3,887	-	9,484
Expenses	(724)	(1,483)	(531)	(462)	(2,354)	(1,775)	(7,329)
Other income (expenses) and foreign exchange translation	-	-	-	45	1	(18)	28
Income before income taxes	\$ 275	\$ 1,196	\$ 644	\$ 327	\$ 1,534	\$ (1,793)	\$ 2,183
Capital assets	\$ 290	\$ 1,403	\$ 608	\$ 153	\$ -	\$ -	\$ 2,454
Goodwill	\$ 320	\$ 3,422	\$ 640	\$ 1,098	\$ 2,100	\$ 4,508	\$ 12,088

Q3 2004 3 Months Ending 31-May-04	Eastern Canada and United States	Western Canada	Australia	Europe	Products and support	Corporate	Total
Total revenue	\$ 2,469	\$ 4,964	\$ 2,302	\$ 94	\$ 3,543	\$ -	\$ 13,372
Cost of sales	1,222	3,377	1,632	32	838	-	7,101
Gross margin	1,247	1,587	670	62	2,705	-	6,271
Expenses	(694)	(1,726)	(362)	(26)	(2,678)	(623)	(6,109)
Other income (expenses) and foreign exchange translation	3	-	-	35	-	171	209
Income before income taxes	\$ 556	\$ (139)	\$ 308	\$ 71	\$ 27	\$ (452)	\$ 371
Capital assets	\$ 244	\$ 1,478	\$ 516	\$ -	\$ -	\$ -	\$ 2,238
Goodwill	\$ 552	\$ 1,151	\$ 793	\$ -	\$ 2,946	\$ -	\$ 5,442

Notes to the Consolidated Financial Statements*Quarter ended May 31, 2005 and May 31, 2004**Thousands of Canadian dollars except share and per share amounts***8. SEGMENTED INFORMATION CONTINUED**

Q3 2005 9 Months Ending 31-May-05	Eastern Canada and United States	Western Canada	Australia	Europe	Products and support	Corporate	Total
Total revenue	\$ 6,458	\$ 16,159	\$ 8,055	\$ 4,892	\$ 13,253	\$ -	\$ 48,817
Cost of sales	3,362	9,215	5,430	2,106	2,453	-	22,566
Gross margin	3,096	6,944	2,625	2,786	10,800	-	26,251
Expenses	(1,917)	(3,955)	(1,171)	(1,324)	(6,204)	(4,948)	(19,519)
Other income (expenses) and foreign exchange translation	-	-	-	222	-	(1,062)	(840)
Income before income taxes	\$ 1,179	\$ 2,989	\$ 1,454	\$ 1,684	\$ 4,596	\$ (6,010)	\$ 5,892
Capital assets	\$ 290	\$ 1,403	\$ 608	\$ 153	\$ -	\$ -	\$ 2,454
Goodwill	\$ 320	\$ 3,422	\$ 640	\$ 1,098	\$ 2,100	\$ 4,508	\$ 12,088

Q3 2004 9 Months Ending 31-May-04	Eastern Canada and United States	Western Canada	Australia	Europe	Products and support	Corporate	Total
Total revenue	\$ 5,458	\$ 13,126	\$ 7,888	\$ 94	\$ 11,260	\$ -	\$ 37,826
Cost of sales	2,931	9,068	5,761	32	1,924	-	19,716
Gross margin	2,527	4,058	2,127	62	9,336	-	18,110
Expenses	(2,122)	(4,314)	(1,152)	(26)	(6,605)	(3,354)	(17,573)
Other income (expenses) and foreign exchange translation	6	-	-	35	-	765	806
Income before income taxes	\$ 411	\$ (256)	\$ 975	\$ 71	\$ 2,731	\$ (2,589)	\$ 1,343
Capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Goodwill	\$ 552	\$ 1,151	\$ 793	\$ -	\$ 2,946	\$ -	\$ 5,442

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

Notes to the Consolidated Financial Statements*Quarter ended May 31, 2005 and May 31, 2004**Thousands of Canadian dollars except share and per share amounts***9. COMMITMENTS****Forward Contracts**

The Corporation has 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
June 2005	1,000	1.23
June 2005	1,000	1.25
July 2005	1,000	1.23
July 2005	1,000	1.25
August 2005	1,500	1.25
September 2005	1,500	1.25
October 2005	1,500	1.25
November 2005	1,500	1.24
December 2005	1,500	1.24