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Matrikon reports profitable 3rd quarter and remains on target to achieve forecast for revenue and earnings growth

THIRD QUARTER 2004 SUMMARY

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| <ul style="list-style-type: none">• Revenue of \$13.37 million; \$37.83 million year-to-date• Net income of \$0.36 million; \$1.13 million year-to-date | <ul style="list-style-type: none">• Software and support revenue of \$2.71 million; \$9.57 million year-to-date• EPS \$0.01; \$0.04 year-to-date• On track to achieve revenue and net income growth of 0% to 10% |
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Edmonton, AB –July 6, 2004— Matrikon Inc. (TSX: MTK), a leading industrial IT solutions provider, today reported consolidated financial results for the third quarter of fiscal year 2004, which ended May 31, 2004.

Third quarter revenue increased 9% to \$13.37 million compared to the third quarter of 2003 (\$12.28 million) and 32% over the previous quarter (\$10.15 million). Year-to-date revenue was \$37.83 million compared to \$36.56 million in the comparable period of 2003. Net income for the third quarter was \$0.36 million, or \$0.01 per share, compared to net income of \$0.38 million, or \$0.02 per share in the comparable period of 2003. Year-to-date net income was \$1.13 million compared to \$1.78 million in the first nine months last year.

"We are very pleased with the improvement in our operating results for the third quarter," stated Nizar J. Somji, President and CEO of Matrikon. "We have implemented some positive changes to allow us to operate more efficiently and better track and assess projects in real-time. The sales pipeline continues to grow and we are excited about the opportunities generated through our first annual users conference."

Outlook

Based on third quarter results, coupled with the acquisition of PI Automation (now called Matrikon Europe) and record sales in June, management maintains previous estimates for revenue and income growth for the year in the range of 0% to 10%. This equates to fiscal year revenue in the range of \$48.88 to \$53.77 million and net income in the range of \$2.63 to \$2.89 million.

Highlights:

- On May 18, 2004, Matrikon completed the acquisition of PI Automation, a turnkey supplier of web-based plant performance solutions based in Scotland. This acquisition provides a European presence, which has been a key component of Matrikon's global growth strategy. The company had been a Matrikon partner for two years and as a result of the existing synergies between the companies, Matrikon Europe has already achieved traction and increased the level of business with a client that had been common to both companies pre-acquisition.
- Matrikon hosted its first annual Users Group event, MVP 2004, in early May. Clients and partners from across North America, Europe, Australia, Asia, the Middle East and South America were in attendance. MVP was successful in introducing existing clients to the full range of products and services Matrikon offers, identifying additional business opportunities that exist with these clients and in moving some opportunities to the corporate level.
- Employee utilization improved in the third quarter to 72% from 65% in the second quarter. It is expected to continue to improve in the fourth quarter.

Conference Call Tuesday, July 6 at 5:00 pm Eastern

Matrikon President and CEO Nizar J. Somji and CFO Shafin U. Kanji will hold a conference call to discuss third quarter results on Tuesday, July 6 at 5:00 pm Eastern (3:00 pm 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 Tuesday, July 13, 2004. To access the playback service, please dial 416-640-1917 in Toronto or 1-877-289-8525 elsewhere, reservation number 210055709#.

The conference call will also be web cast at
<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=843920>.

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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 May 31, 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 July 2, 2004 there were 29,311,341 common shares of the corporation issued and outstanding and 1,964,772 options outstanding.

At May 31, 2004, Matrikon had 486 employees, including 48 in administrative services, 72 in sales and marketing, 70 in product development and support, and 296 in services.

Items of note in the third quarter

Management is pleased with the positive impact that changes initiated during and subsequent to the second quarter have had in the third quarter, and is confident that they will continue to benefit the company. The company-wide focus is on closing business, improving utilization and efficiently managing projects. Based on the results of this focus, management feels confident that the issues that affected second quarter results have been addressed and will continue to monitor these issues.

As mentioned in the second quarter, management has noted that the sales cycle had lengthened, particularly on larger projects that the company has been focused on closing. We continue to experience this lengthened sales cycle, however feel that the timing of sales will not disrupt revenue to the extent experienced in the second quarter.

Towards the end of the third quarter, the sales organization was restructured into teams reflecting both an industry and geographical focus. Amin Rawji, formerly executive vice president of marketing and product development, has taken on the role of executive vice president of sales.

European acquisition immediately accretive

Late in the quarter, Matrikon completed the acquisition of PI Automation which was subsequently renamed Matrikon Europe Limited. Matrikon Europe's results are included in the third quarter since May 19, 2004. In that time period, Matrikon Europe contributed \$0.09 million to revenue. The acquisition provides Matrikon with a strategic presence in Europe and will lead to increased business with existing clients as well as an improved ability to develop new accounts in the region.

Sales and marketing investment to drive future growth

Matrikon has made a significant investment in sales and marketing initiatives in fiscal 2004, including increasing the sales & marketing workforce by 71% compared to the third quarter of 2003, and more than doubling investments in marketing activities in the same time frame. This investment has been a focused initiative to drive the strategic growth of Matrikon through increased product sales and a focus on higher value solutions.

Matrikon's Users Group results in new opportunities

Matrikon held its first Users Group conference – MVP 2004 – in early May. The conference was attended by clients and partners from around the world. Attendees were introduced to the full range of products and services that Matrikon offers and to how their peers are using Matrikon solutions to receive significant value from their operating assets. As a result, several significant opportunities were identified. These opportunities are expected to be realized over the next several quarters.

Based on the success of MVP, Matrikon will be hosting the first annual OPC Users Group conference in Texas this fall.

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.

Agreement reached with respect to lawsuit

As previously disclosed, 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 continue to work towards formalizing the settlement.

Ongoing product development

New releases of several products were introduced recently. Matrikon's Process Suite product technology has evolved and matured to the point where it is industry leading in a variety of product categories. Matrikon's current direction with product technology is towards high value solutions that use the entire Process Suite to solve complex technical and business issues for industrial clients.

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 May 31, 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 (in thousands of Canadian dollars)	31-May-04	Reclassified		2004 vs 2003	
		%	31-May-03	%	% Change
Total Revenue	\$13,372	100	\$12,284	100	9
Consulting fees	9,142	69	8,870	72	3
Equipment sales	1,518	11	812	7	87
Total services and related	10,660	80	9,682	79	10
Software license fees	1,604	12	1,819	15	(12)
Extended support	1,108	8	783	6	42
Total product and related	2,712	20	2,602	21	4

9 Months Ended (in thousands of Canadian dollars)	31-May-04	Reclassified		2004 vs 2003	
		%	31-May-03	%	% Change
Total Revenue	\$37,826	100	\$36,564	100	3
Consulting fees	23,873	63	25,426	69	(6)
Equipment sales	4,388	12	2,476	7	77
Total services and related	28,261	75	27,902	76	1
Software license fees	6,376	17	6,543	18	(3)
Extended support	3,189	8	2,119	6	50
Total product and related	9,565	25	8,662	24	10

Revenue in the third quarter of 2004 increased by 9% to \$13.37 million compared to \$12.28 million in the third quarter of 2003. Revenue increased 3% to \$37.83 million for the first nine months of 2004, compared to \$36.56 million in the comparable period last year. The weak second quarter will continue to impact year-to-date revenue growth into the fourth quarter, however management believes that revenue growth will improve significantly in the

fourth quarter of 2004 and first quarter of 2005 based on the strong sales pipeline and contracts closed to date in the fourth quarter.

Software license fees continued to be softer than anticipated at \$1.60 million in the third quarter of 2004 compared to \$1.82 million in the same period last year.

Extended support increased by 42% in the third quarter to \$1.11 million and by 50% in the year-to-date period to \$3.19 million. Extended support is expected to continue to grow based on software sales.

Equipment sales, which include third party software and hardware, increased by 87% over the third quarter of fiscal year 2003. Equipment sales are ancillary to consulting engagements and will continue to fluctuate each period. Equipment sales continue to be high in fiscal year 2004. In the third quarter, various projects in Australia accounted for \$0.52 million worth of equipment sales.

Year-to-date revenue from product licensing, support and related training was 27% of revenue; revenue from the implementation of Matrikon products was 15%, and consulting revenue (related to third party products or general consulting) was 58%. 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 modified the company's business segments to align with current business management practices. Matrikon evaluates each business unit's performance and reports segmented information according to this structure. In the third quarter a new segment – Europe – was added to reflect our new European business unit following the acquisition of PI Automation. This segment includes Matrikon Europe's results from May 19, 2004 to May 31, 2004.

<i>(in thousands of Canadian dollars)</i>	<i>Reclassified</i>		Change	% Change	2004 % of revenue
	31-May-04	31-May-03			
Eastern Canada	\$ 963	\$ 787	\$ 176	22	7
Western Canada	5,554	5,366	188	4	42
United States	1,506	1,096	410	37	11
Australia	2,284	1,743	541	31	17
Europe	98	-	98	-	1
Products & Support	2,967	3,292	(325)	(10)	22
TOTAL	\$ 13,372	\$ 12,284	\$ 1,088	9	100

<i>(in thousands of Canadian dollars)</i>	<i>Reclassified</i>		Change	% Change	2004 % of revenue
	31-May-04	31-May-03			
Eastern Canada	\$ 2,561	\$ 1,777	\$ 784	44	7
Western Canada	13,729	15,672	(1,943)	(12)	36
United States	3,513	3,366	147	4	9
Australia	7,468	5,090	2,378	47	20
Europe	98	-	98	-	-
Products & Support	10,457	10,659	(202)	(2)	28
TOTAL	\$ 37,826	\$ 36,564	\$ 1,262	3	100

Gross Margin

3 Months Ended	<i>Reclassified</i>			
<i>(in thousands of Canadian dollars)</i>	31-May-04	31-May-03	Change	% Change
Gross margin	\$ 6,271	\$ 6,471	\$ (200)	(3)
% of revenue	47	53	(6)	

9 Months Ended	<i>Reclassified</i>			
<i>(in thousands of Canadian dollars)</i>	31-May-04	31-May-03	Change	% Change
Gross margin	\$ 18,110	\$ 19,143	\$ (1,033)	(5)
% of revenue	48	52	(4)	

Gross margin was 47% of revenue, improved from the second quarter of 2004 (44%) and a decrease from 53% in the third quarter of fiscal 2003.

Gross margin was impacted by the softness in higher margin product sales and lower utilization particularly in Western Canada and Australia which have the highest concentration of services personnel. Utilization improved from 65% in the second quarter to 72% in the third quarter and is expected to continue to improve based on projects underway.

Gross margin is expected to continue to improve as initiatives to improve efficiency introduced in the second quarter continue to take effect. Management expects gross margin to return to the more typical range of 50 – 55% by the fourth quarter.

The following tables compare gross margin for each revenue stream and by business segment:

<i>Gross Margin %</i>	3 Months	9 Months
	31-May-04	31-May-04
Consulting	36	32
Equipment	30	30
Products	100	100
Support	83	86

<i>Gross Margin %</i>	3 Months		9 Months	
	31-May-04	31-May-03	31-May-04	31-May-03
Eastern Canada	41	46	30	51
Western Canada	33	47	31	44
United States	57	45	50	32
Australia	27	36	28	29
Europe	67	-	67	-
Products & Support	86	74	87	83

United States and Eastern Canada share resources and are viewed internally as a single operating unit. Thus it is possible for gross margin to fluctuate dramatically between the two segments, while the combined gross margin is relatively stable and improving. The combined Eastern Canada and US gross margin for the third quarter of 2004 was 51% versus 45% in the comparable period last year. Likewise, the combined year-to-date gross margin was 42% versus 38% in the comparable period of 2003.

Operating Expenses

3 Months Ended

<i>(in thousands of Canadian dollars)</i>	31-May-04	31-May-03	Change	% Change
Consulting G&A	\$ 1,591	\$ 2,007	\$ (416)	(21)
% of revenue	12	16	(4)	
Sales & marketing	\$ 2,133	\$ 889	\$ 1,244	140
% of revenue	16	7	9	
Research & development	\$ 690	\$ 804	\$ (114)	(14)
% of revenue	5	7	(2)	
General & administrative	\$ 1,294	\$ 1,332	\$ (38)	(3)
% of revenue	10	11	(1)	

9 Months Ended

<i>(in thousands of Canadian dollars)</i>	31-May-04	31-May-03	Change	% Change
Consulting G&A	\$ 5,033	\$ 5,228	\$ (195)	(4)
% of revenue	13	14	(1)	
Sales & marketing	\$ 5,633	\$ 3,127	\$ 2,506	80
% of revenue	15	9	6	
Research & development	\$ 2,113	\$ 2,134	\$ (21)	(1)
% of revenue	6	6	-	
General & administrative	\$ 3,804	\$ 3,840	\$ (36)	(1)
% of revenue	10	10	-	

Combined operating expenses increased by 14% to \$6.11 million (46% of revenue) for the third quarter of fiscal 2004 compared \$5.36 million (44% of revenue) for the third quarter of fiscal 2003. This increase is made up of a 140% increase in Sales and Marketing expenses, offset by the decrease in Consulting G&A, Research & Development and General & Administrative expenses, which in combination decreased compared to the fiscal 2003 three-month period by 14% and the nine-month period by 2%. To support Matrikon's strategic objectives of increased product sales and total solutions, the investment in sales and marketing has increased substantially in fiscal year 2004. Sales and marketing staff increased by 71% to 72 from 42 over the comparable quarter period. In addition, sales and marketing contains elevated travel costs due to the annual sales conference and expenses related to Matrikon's first annual users conference held in May.

Research and Development expenses decreased by 14% to \$0.69 million in the quarter compared to \$0.80 million in the comparable period. This decrease is a result of accruals for the Scientific Research and Experimental Development (SR&ED) credit applied against R&D expenses (\$0.13 million). SR&ED credit accruals were not applied against R&D expenses in the comparable period but were filed and recognized at the end of the fiscal year. Excluding the SR&ED credit, R&D expenses in the third quarter were \$0.82 million, representing 6% of third quarter revenue and 30% of software and related support revenue in the quarter.

Net Income

3 Months Ended

<i>(in thousands of Canadian dollars)</i>	31-May-04	31-May-03	Change	% Change
Net income	\$ 355	\$ 381	\$ (26)	(7)
% of revenue	3	3	(0)	
Earnings per share	0.01	0.02	(0.01)	(50)

9 Months Ended

<i>(in thousands of Canadian dollars)</i>	31-May-04	31-May-03	Change	% Change
Net income	\$ 1,127	\$ 1,780	\$ (653)	(37)
% of revenue	3	5	(2)	
Earnings per share	0.04	0.07	(0.03)	(43)

Net income decreased by 7% to \$0.36 million compared to net income of \$0.38 million in the third quarter of 2003. For the nine-month period, net income decreased by 37% to \$1.13 million or 3% of revenue. In the third quarter, Net income increased by \$0.59 million and income from operations increased by \$1.74 million over the second quarter of 2004.

Based on the strong sales pipeline and work closed towards the end of the third quarter but not yet recognized, management expects net income to be strong in the fourth quarter.

Net income in the third quarter of fiscal 2004 was increased by \$0.46 million (\$0.30 million net of tax) for non-cash foreign currency translation gains, compared to a non-cash foreign currency translation loss of \$0.62 million (\$0.37 million net of tax) in the comparable period.

Liquidity and Capital Resources

As at <i>(in thousands of Canadian dollars)</i>	31-May-04	29-Feb-04	31-Aug-03	Q3-Q2 Change	Q3-Q2 % Change
Cash and equivalents	\$ 3,025	\$ 10,419	\$ 295	\$ (7,394)	(71)
Trade receivables	15,439	11,459	13,083	3,980	35
Other receivables	2,238	2,826	814	(588)	(21)
Average collection period (trade receivables)	89 days	89 days	92 days	-	-
Contracts in progress	2,536	2,350	3,457	186	8
Current liabilities	8,424	7,430	8,512	994	13

At May 31, 2004, cash and equivalents were \$3.03 million compared to \$10.42 million at February 29, 2004. \$7.68 million was used to purchase PI Automation, now known as Matrikon Europe Limited. In addition, Matrikon spent \$0.49 million on internal capital assets, including upgrades to internal technology infrastructure, customization of sales management software and hardware purchases. Management believes that the financial resources of the company are sufficient to carry out growth strategies.

Accounts receivable were \$17.68 million at the end of the third quarter compared to \$14.29 at February 29, 2004 and \$13.90 million at August 31, 2003. The acquisition of Matrikon Europe added \$1.46 million to accounts receivable. Increased billings also contributed to the increase in accounts receivable as some of the project milestones missed in the second quarter were passed and billed in the third quarter. The average collection period for trade receivables was 89 days at the end of the third quarter compared to 89 days at the end of the second 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.

Capital assets net of accumulated amortization increased by 30% from August 31, 2003 to \$2.19 million. The main contributor to the increase was upgrades to Matrikon's internal technology infrastructure and customization of sales management software.

Current liabilities increased to \$8.42 million at the end of the third quarter from \$7.43 million at the end of the second quarter. This increase is due to accounts payable (\$0.70 million) and income taxes payable (\$0.50 million) by Matrikon Europe Limited, and future income tax liabilities (\$0.11 million) recognized upon the acquisition of PI Automation.

Cash used in operating activities was \$1.02 million in the third quarter compared to cash provided by operating activities of \$0.58 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 May 31, 2004 Matrikon had \$nil outstanding on the line of credit.

Normal Course Issuer Bid – expired

The normal course issuer bid announced on June 6, 2003 expired on June 8, 2004. No shares were repurchased under the bid.

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)

As at	May 31, 2004	August 31, 2003
	(Unaudited)	(Audited)
ASSETS		
Current		
Cash and equivalents	\$ 3,025	\$ 295
Accounts receivable	17,677	13,897
Contracts in progress	2,536	3,457
Future income taxes	235	235
Prepays	580	361
	24,053	18,245
Future income taxes	897	1,354
Capital assets	2,192	1,682
Intangible assets (Notes 1 and 2)	1,498	665
Goodwill (Note 1)	10,461	5,442
	\$ 39,101	\$ 27,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 4,774	\$ 4,994
Deferred revenue	2,416	3,038
Income taxes payable	554	82
Future income taxes	680	398
	8,424	8,512
Future income taxes	252	-
	8,676	8,512
Shareholders' equity		
Share capital (Note 3)	23,275	12,948
Contributed surplus (Note 3c)	124	29
Retained earnings	7,026	5,899
	30,425	18,876
	\$ 39,101	\$ 27,388

MATRIKON INC.

Consolidated Statements of Income and Retained Earnings

(Thousands of Canadian dollars except per share amounts)

	Quarter Ended		9 Months Ended	
	May 31, 2004	May 31, 2003	May 31, 2004	May 31, 2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
Consulting fees	\$ 9,142	\$ 8,870	\$ 23,873	\$ 25,426
Software license fees	1,604	1,819	6,376	6,543
Equipment sales	1,518	812	4,388	2,476
Extended support	1,108	783	3,189	2,119
	13,372	12,284	37,826	36,564
Cost of sales	7,101	5,813	19,716	17,421
	6,271	6,471	18,110	19,143
Expenses				
Consulting	1,591	2,007	5,033	5,228
Sales and marketing	2,133	889	5,633	3,127
Research and development (Note 4)	690	804	2,113	2,134
General and administrative	1,294	1,332	3,804	3,840
Amortization	401	325	990	1,040
Total expenses	6,109	5,357	17,573	15,369
Income before the undernoted	162	1,114	537	3,774
Foreign currency translation (loss) gain	458	(621)	407	(1,147)
Other income (expenses) (Notes 3c and 4)	(61)	66	847	379
Income before income taxes	559	559	1,791	3,006
Income tax expense				
Current	9	26	38	13
Future	195	152	626	1,213
	204	178	664	1,226
Net income	\$ 355	\$ 381	\$ 1,127	\$ 1,780
Retained earnings, beginning of quarter	\$ 6,671	\$ 4,673	\$ 5,899	\$ 3,274
Net income	355	381	1,127	1,780
Retained earnings, end of quarter	\$ 7,026	\$ 5,054	\$ 7,026	\$ 5,054
Earnings per share				
Basic earnings per share	0.01	0.02	0.04	0.07
Diluted earnings per share	0.01	0.02	0.04	0.07
Weighted average number of shares outstanding				
Basic	29,270	24,215	28,510	24,211
Diluted	29,755	24,258	30,654	24,259

MATRIKON INC.

Consolidated Statements of Cash Flows

(Thousands of Canadian dollars)

	Quarter Ended		9 Months Ended	
	May 31, 2004	May 31, 2003	May 31, 2004	May 31, 2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES				
Net income	\$ 355	\$ 381	\$ 1,127	\$ 1,780
Items not affecting cash:				
Future income taxes	195	152	626	1,213
Amortization	401	325	990	1,040
Stock based compensation (<i>Note 3c</i>)	50	11	95	11
	\$ 1,001	\$ 869	\$ 2,838	\$ 4,044
Changes in non-cash working capital	(2,022)	(294)	(2,729)	(1,463)
Cash provided by (used in) operating activities	\$ (1,021)	\$ 575	\$ 109	\$ 2,581
INVESTING ACTIVITIES				
Disposal (purchase) of intangible assets	-	22	(178)	-
Cash consideration for business acquisition (<i>Note 1</i>)	(6,463)	-	(6,463)	(124)
Purchase of capital assets	(492)	-	(1,065)	(308)
Cash provided (used in) investing activities	\$ (6,955)	\$ 22	\$ (7,706)	\$ (432)
FINANCING ACTIVITIES				
Repayment of bank indebtedness	-	(517)	-	(2,273)
Proceeds of share issue, net of share issue costs	582	2	10,327	(1)
Cash provided by (used in) financing activities	\$ 582	\$ (515)	\$ 10,327	\$ (2,274)
Cash increase (decrease)	\$ (7,394)	\$ 82	\$ 2,730	\$ (125)
Cash and equivalents, beginning of period	10,419	78	295	285
Cash and equivalents, end of period	\$ 3,025	\$ 160	\$ 3,025	\$ 160
Supplementary cash flow disclosure:				
Income taxes paid (recovered)	114	(7)	204	609
Interest paid (recovered)	(16)	27	(16)	107

MATRIKON INC.

Notes to the Consolidated Financial Statements

Quarter ended May 31, 2004 and May 31, 2003

Thousands of Canadian dollars except share and per share amounts

The unaudited interim consolidated financial statements for the quarter ended May 31, 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. Business Acquisition

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

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

Cash consideration	\$ 7,366
Acquisition costs	314
Total purchase consideration	7,680
Fair value of net assets acquired (see below)	2,661
Value ascribed to goodwill	5,019

Fair value of net assets acquired:

Cash	\$ 1,217
Other current assets	1,421
Capital assets	83
Intangible assets	1,007
Current liabilities	(702)
Future income tax liabilities - current	(113)
Future income tax liabilities - long-term	(252)
Fair value of net assets acquired	\$ 2,661

The Corporation estimates the value of amortizable intangible assets consisting of key contracts and agreements to be \$1,007 with useful lives of one to three years. The Corporation is in the process of obtaining valuations of certain assets and as a result the fair value allocation of the purchase price is subject to possible adjustment.

MATRIKON INC.

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2. Purchase of Intangible Assets

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

3. Share Capital

(a) Issued shares

	9 Months ended May 31, 2004		9 Months ended May 31, 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	432,130	802	1,500	2
Warrants exercised	55,894	168	-	-
Employee purchase plan	45,416	-	20,991	(3)
Balance, end of period	29,303,201	\$ 23,275	24,224,306	\$ 12,947

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

MATRIKON INC.

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3. 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		9 Months ended	
	May 31, 2004	May 31, 2003	May 31, 2004	May 31, 2003
Compensation costs	\$ 188	\$ 168	\$ 448	\$ 381
Net earnings:				
As reported	\$ 355	\$ 381	\$ 1,127	\$ 1,781
Pro forma	\$ 167	\$ 213	\$ 679	\$ 1,400
Basic earnings per share:				
As reported	\$ 0.01	\$ 0.02	\$ 0.04	\$ 0.07
Pro forma	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06
Diluted earnings per share:				
As reported	\$ 0.01	\$ 0.02	\$ 0.04	\$ 0.07
Pro forma	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.06

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	3.96%	5.00%
Expected life	5 years	5 years
Expected volatility	81%	61%
Expected dividends	-	-

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

	Number of Shares	Weighted Average Exercise Price
Balance, August 31, 2003	2,127,682	\$ 1.90
Granted	383,500	2.90
Exercised	(432,130)	1.86
Expired	-	-
Cancelled	(81,184)	2.23
Balance, May 31, 2004	1,997,868	\$ 2.09

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3. Share Capital (continued)

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

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
2.89 - 3.60	291,000	6.04	\$3.08	62,500	\$2.89
2.00 - 2.49	729,637	3.46	2.05	630,637	2.02
1.70 - 1.99	833,981	3.88	1.86	652,981	1.87
1.36 - 1.69	143,250	4.21	1.56	142,250	1.56
	1,997,868	4.06	\$ 2.09	1,488,368	\$1.95

(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 nine months ended May 31, 2004 \$95 (\$50 for the 3 months ended 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
April 2003	41,494	August 2004
May 2003	6,321	September 2004
August 2003	2,366	December 2004
November 2003	19,614	March 2005
February 2004	40,595	June 2005
May 2004	4,819	September 2005

4. 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 third quarter is a reduction of research and development expenses of \$125, and for the nine months ending May 31, 2004 \$375.

In addition, other income for the nine months ended May 31, 2004 includes \$590 of SR&ED tax credits receivable for prior periods (NIL for the 3 months ended May 31, 2004).

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Notes to the Consolidated Financial Statements

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5. 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:

Q3 2004 3 Months Ending May 31, 2004	Eastern Canada	Western Canada	United States	Australia	Europe	Products and support	Total
<i>Total revenue</i>	\$ 963	\$ 5,554	\$ 1,506	\$ 2,284	\$ 98	\$ 2,967	\$ 13,372
<i>Cost of sales</i>	570	3,743	651	1,675	32	430	7,101
<i>Gross margin</i>	393	1,811	855	609	66	2,537	6,271
<i>Expenses</i>	355	2,183	463	799	26	2,283	6,109
Other income (expenses) and foreign exchange translation	(36)	357	3	92	(19)	-	397
<i>Income before income taxes</i>	\$ 2	\$ (15)	\$ 395	\$ (98)	\$ 21	\$ 254	\$ 559
<i>Capital assets</i>	\$ 208	\$ 1,256	\$ 138	\$ 509	\$ 81	\$ -	\$ 2,192
<i>Goodwill</i>	\$ -	\$ 3,695	\$ -	\$ 1,747	\$ 5,019	\$ -	\$ 10,461

Q3 2003 3 Months Ending May 31, 2003	Eastern Canada	Western Canada	United States	Australia	Europe	Products and support	Total
<i>Total revenue</i>	\$ 787	\$ 5,366	\$ 1,096	\$ 1,743	\$ -	\$ 3,292	\$ 12,284
<i>Cost of sales</i>	427	2,832	604	1,107	-	843	5,813
<i>Gross margin</i>	360	2,534	492	636	-	2,449	6,471
<i>Expenses</i>	115	2,335	451	553	-	1,903	5,357
Other income (expenses) and foreign exchange translation	342	(1,016)	-	94	-	25	(555)
<i>Income before income taxes</i>	\$ 587	\$ (817)	\$ 41	\$ 177	\$ -	\$ 571	\$ 559
<i>Capital assets</i>	\$ 115	\$ 900	\$ 226	\$ 363	\$ -	\$ -	\$ 1,604
<i>Goodwill</i>	\$ -	\$ 3,695	\$ -	\$ 1,747	\$ -	\$ -	\$ 5,442

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

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5. Segmented Information (continued)

Q3 2004 9 Months Ending May 31, 2004	Eastern Canada	Western Canada	United States	Australia	Europe	Products and support	Total
<i>Total revenue</i>	\$ 2,561	\$ 13,729	\$ 3,513	\$ 7,468	\$ 98	\$ 10,457	\$ 37,826
<i>Cost of sales</i>	1,797	9,413	1,746	5,349	32	1,379	19,716
<i>Gross margin</i>	764	4,316	1,767	2,119	66	9,078	18,110
<i>Expenses</i>	794	6,385	1,266	2,339	26	6,763	17,573
<i>Other income (expenses) and foreign exchange translation</i>	168	1,174	6	(75)	(19)	-	1,254
<i>Income before income taxes</i>	\$ 138	\$ (895)	\$ 507	\$ (295)	\$ 21	\$ 2,315	\$ 1,791
<i>Capital assets</i>	\$ 208	\$ 1,256	\$ 138	\$ 509	\$ 81	\$ -	\$ 2,192
<i>Goodwill</i>	\$ -	\$ 3,695	\$ -	\$ 1,747	\$ 5,019	\$ -	\$ 10,461

Q3 2003 9 Months Ending May 31, 2003	Eastern Canada	Western Canada	United States	Australia	Europe	Products and support	Total
<i>Total revenue</i>	\$ 1,777	\$ 15,672	\$ 3,366	\$ 5,090	\$ -	\$ 10,659	\$ 36,564
<i>Cost of sales</i>	865	8,822	2,301	3,592	-	1,841	17,421
<i>Gross margin</i>	912	6,850	1,065	1,498	-	8,818	19,143
<i>Expenses</i>	425	6,828	1,614	1,559	-	4,943	15,369
<i>Other income (expenses) and foreign exchange translation</i>	582	(1,298)	9	(86)	-	25	(768)
<i>Income before income taxes</i>	\$ 1,069	\$ (1,276)	\$ (540)	\$ (147)	\$ -	\$ 3,900	\$ 3,006
<i>Capital assets</i>	\$ 115	\$ 900	\$ 226	\$ 363	\$ -	\$ -	\$ 1,604
<i>Goodwill</i>	\$ -	\$ 3,695	\$ -	\$ 1,747	\$ -	\$ -	\$ 5,442

MATRIKON INC.

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6. 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.