

## Corporate information

### Headquarters

Clemex Technologies Inc.  
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J4G 1T5 Canada  
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info@clemex.com  
www.clemex.com

### Subsidiary

Clemex Corp  
17195 Silver Parkway, suite 409,  
Fenton, MI 48430-3426 USA

### Transfer Agent

CIBC Mellon Trust  
Montreal, QC

### Trading Symbol

Clemex Technologies Inc.  
is listed on The Canadian Venture  
Exchange (CDNX)  
under the symbol CXGA

### Authorized Number of Class A Shares

unlimited

### Issued Class A Shares

18,543,560

### Board of Directors

*Clément Forget*  
Chairman, President and CEO  
Clemex Technologies Inc.

*Normand Labonté*  
Vice-President, International Sales  
Clemex Technologies Inc.

*Sylvain Laroche*  
Vice-President, R&D  
Clemex Technologies Inc.

*Renaud Caron*  
Senior Vice-President  
Business Engineering  
CGI Group, Inc.

*Me Lisane Dostie*  
Director, Corporate Affairs  
and Secretary  
Labopharm Inc.

*Raffaele Gerbasi*  
Vice-President and General Manager of  
the Broadband Division  
Sunrise Telecom Inc.

*Dr. Jean-Marie Leclerc*  
VP, Medical Affairs  
Novartis Pharma Canada Inc.

### Officers

*Clément Forget*  
President, Chairman and CEO  
Clemex Technologies Inc.

*Normand Labonté*  
Vice-President, International Sales  
Clemex Technologies Inc.

*Sylvain Laroche*  
Vice-President, R&D  
Clemex Technologies Inc.

# CLEMEX

the image **analysis** people

Quarterly Report

**2003-2004**



## Message to Shareholders

This past quarter marked a period in which management made some challenging decisions that led to a reduction in net loss by more than half when compared with the first quarter of this year. Revenues for the quarter remained steady, reaching \$1.5 versus \$1.6 million posted during the same period of last year. Gross margin declined slightly from 56% to 50% caused by the combination of changes in foreign exchange rates and a greater concentration of hardware revenues as opposed to higher margin software sales.

Although total gross revenues remained relatively unchanged the organization demonstrated significant improvements in expanding its US presence. For the six month period ending October 31st of this year versus last, US sales improved by an impressive 55%. As for product sales generated from the Canadian and the newly added metallographic product line, the Company experienced a decrease that contributed to an overall slight decline in gross revenues for the quarter.

Adding a new dimension to our distribution strategy, we launched an aggressive push to recruit US-based dealers. The network will principally be used to promote Clemex's lower-end products such as the Clemex Captiva image capture solution. The implementation of this strategy will enable Clemex to expand its market presence beyond its core industrial market.

On the pharmaceutical front, key sales were made to marquee organizations including Baxter, Dey, Eli Lilly & Co, and Sanofi. We anticipate the continued development of this market, as our solutions become better known in the industry.

The coming months will be an exciting and challenging time for the Company. We are confident however, that with the dedication of our loyal team coupled with a superior product line, major strides in the development of our organization will take place.



Clément Forget  
President, CEO & Chairman



## Notes to Consolidated Financial Statements

For period of three months ended October 31st (unaudited)

### 1. Basis of presentation

These consolidated financial statements have been prepared in conformity with Canadian generally accepted principles. The same accounting policies as described in the latest annual report have been used. However, these consolidated financial statements do not include all disclosures required under generally accepted accounting principles and accordingly should be read in connection with the consolidated financial statements and the notes thereto included in the Corporation's latest Annual report.

### 2. Convertible debenture

Debenture, convertible into common shares at \$0.20 per share anytime at the holder's option and convertible at the company's option from August 2005 under certain conditions. Debenture, with a par value of \$500,000, bear interest at 9% per annum and mature in August 2008.

The fair value of the conversion option associated with convertible debenture is recorded as Other equity components in shareholders'equity. The accretion on debenture is charges to earnings rateably to maturity.

### 3. Stock option plan

#### *Diluted Earnings per Share*

As at October 31, 2003, 1,304,448 options granted to acquire common shares of the Corporation at prices ranging from \$0.10 to \$0.60 were outstanding. During the periode ending October 31, 2003, 50,000 options expired and 80,000 options were granted.

### 4. Comparative figures

Certain of the comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.

## Consolidated Balance Sheets

October 31, 2003 with comparative figures for April 30, 2003

	October 31 <sup>st</sup> 2003 (unaudited)	April 30 <sup>th</sup> 2003 (audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 396,529	\$ 29,718
Accounts receivable	1,142,621	1,261,455
Research & development tax credits receivable	336,328	230,000
Inventories	651,955	723,562
Prepaid expenses	32,745	44,726
	<b>2,560,178</b>	<b>2,289,461</b>
Capital assets	<b>707,756</b>	<b>818,744</b>
Deferred financing costs, net of accumulated amortization of \$ 7,434	<b>29,738</b>	<b>33,455</b>
	<b>\$ 3,297,672</b>	<b>\$ 3,141,660</b>

## Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness	\$ 451,937	\$ 755,650
Accounts payable and accrued liabilities	737,075	771,522
Customer deposits and deferred revenue	33,177	37,502
Current portion of long-term debt	286,592	246,305
	<b>1,508,782</b>	<b>1,810,979</b>
Long-term debt	<b>801,872</b>	<b>716,982</b>
Convertible Debenture (note 2)	<b>333,991</b>	<b>-</b>
Shareholders' equity:		
Other equity components (note 2)	166,009	-
Share capital	4,186,358	4,186,358
Deficit	(3,699,340)	(3,572,659)
	<b>653,027</b>	<b>613,699</b>
	<b>\$ 3,297,672</b>	<b>\$ 3,141,660</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations

For period of three months ended October 31st 2003 (unaudited)

	second quarter		six months	
	2003	2002	2003	2002
Sales	\$ 1,549,347	\$ 1,621,464	\$ 2,921,663	\$ 2,836,418
Cost of sales	772,322	715,440	1,434,125	1,345,817
Gross Profit	777,025	906,024	1,487,538	1,490,601
Expenses:				
Commercial	460,892	565,092	897,358	954,419
Administrative	139,613	186,303	282,389	376,343
Research and development, net of tax credits	97,388	70,874	200,391	200,926
Depreciation	48,557	44,380	100,412	75,567
Financial	64,109	35,372	133,669	100,155
	<b>810,559</b>	<b>902,021</b>	<b>1,614,219</b>	<b>1,707,410</b>
Net earnings (net loss)	(33,534)	4,003	(126,681)	(216,809)
Deficit, beginning of year	(3,665,806)	(2,591,454)	(3,572,659)	(2,370,642)
Deficit, end of year	<b>\$(3,699,340)</b>	<b>\$(2,587,451)</b>	<b>\$(3,699,340)</b>	<b>\$(2,587,451)</b>
Net earnings (loss) per share:				
Basic	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)
Diluted	0.00	0.00	(0.01)	(0.01)
Weighted average number of shares outstanding	18,543,560	18,543,560	18,543,560	18,543,560
Dilutive effect of stock options	-	(1)	-	(1)
Diluted weighted average number of shares	<b>18,543,560</b>	<b>18,543,560</b>	<b>18,543,560</b>	<b>18,543,560</b>

See accompanying notes to consolidated financial statements.

(1) Effect of stock options and convertible debenture was not included in the calculation; otherwise, the effect would have been anti-dilutive.

## Consolidated Cash Flow

For period of three months ended October 31st 2002 (unaudited)

	second quarter		six months	
	2003	2002	2003	2002
<b>Cash flow from operating activities:</b>				
Net earnings (net loss)	\$ ( 33 534)	\$ 4 003	\$ (126 681)	\$ ( 216 809)
Adjustments for:				
Depreciation	48 557	44 380	100 412	75 567
Amortization of deferred financing costs	1 859	-	3 718	-
Gain on disposal of capital assets	( 15 743)	3 328	( 21 180)	3 302
	1 139	51 711	( 43 731)	(137 940)
Net change in non-cash operating assets and liabilities	13 793	( 366 036)	57 322	(303 207)
	14 932	( 314 325)	13 591	(441 147)
<b>Cash flow from financing activities:</b>				
Net change in bank indebtedness	( 289 506)	803 130	( 303,713)	983,498
Issue of debentures	333 991	-	333,991	-
Other equity components	166,009	-	166,009	-
Issuance of long-term debt	260,609	351,683	260,609	380,133
Reimbursement of principal of long-term debt	(110,641)	(376,390)	(135,432)	(399,223)
	360,462	778,423	321,464	964,408
<b>Cash flow from Investing activities:</b>				
Purchase of capital assets	(34,887)	(429,151)	(39,228)	(491,362)
Proceeds from disposal of capital assets	39,751	7,800	70,984	9,120
	4,864	( 421,351)	31,756	(482,242)
Net decrease in cash and cash equivalents	380,258	42,747	366,811	41,019
Cash and cash equivalents, beginning of year	16,271	11,567	29,718	13,295
Cash and cash equivalents, end of year	\$ 396,529	\$ 54,314	\$ 396,529	\$ 54,314

See accompanying notes to consolidated financial statements.

## Management Discussion and Analysis

### Description of Business

Clemex Technologies, Inc. ("Clemex" or "Company") develops, manufactures and markets image analysis systems and software used by quality control and research microscopy laboratories. The Company is also involved in the distribution of equipment and consumables for the specimen preparation of solid metals and materials. It is the exclusive representative in Canada, the US, and Mexico for the ATM product line. Clemex's customer base spans over many countries in America, Europe and Asia and encompasses large manufacturing concerns in numerous industries including automotive, aerospace, raw materials manufacturing, pharmaceuticals, mining and other sectors.

The Company's notable highlights during the second quarter 2004 included:

- > Cut its loss by more than half when compared to the first quarter of this year
- > Launched an aggressive dealership program aimed at recruiting resellers in the US and outside of North America
- > Made key sales to numerous pharmaceutical companies including Baxter, Dey, Eli Lilly & Co, and Sanofi
- > Increased sales originating from the US market by 55% for the six month period ending October 31st, 2003 when compared with the same period of last year.

### Discussion of Operations and Financial Condition

During the past quarter, revenues remained steady at \$1.5 million versus \$1.6 million posted during the same period of last year. Gross margin declined by 6%, which was brought on by a combination of changes in foreign exchange rates and a greater concentration of hardware revenues as opposed to higher margin software sales.

Significant improvements were made in penetrating the US market. For the six month period ending October 31st of this year versus last, US sales improved by an impressive 55%. Product sales derived from the metallographic distribution side business however declined, which contributed to an overall slight drop in overall revenues.

### Subsequent Events

No significant events occurred after the period ended October 31st, 2003.

### Financings, Principal Purposes and Milestones

The Company completed a private placement that involved the issuance of a \$500,000 5-year, 9% interest per annum debenture convertible for Class A common shares at a purchase price of \$0.20 per share.

### Liquidity and Solvency

As at October 31st, 2003, the Company had a working capital position of \$1,051,396. With the Company's projected earnings, management expects to have sufficient working capital to meet its current and ongoing obligations as they come due. The current and quick ratio stood at 1.7 and 1.24 respectively.