MANAGEMENT'S DISCUSSION AND ANALYSIS

October 20, 2005

The following discussion of Matrikon's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended August 31, 2005, which have been prepared according to Canadian Generally Accepted Accounting Principles (GAAP).

The Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on October 20, 2005.

All dollar amounts included in the MD&A are Canadian dollars unless otherwise specified.

ADDITIONAL INFORMATION

Additional information on Matrikon, including our annual information form, information circular and quarterly reports are available on SEDAR at www.sedar.com and in the investor relations section of our website at www.matrikon.com/investors.

2004 & 2003 RESTATED FIGURES

Starting in fiscal year 2005, Matrikon was required to retroactively reflect the Canadian Institute of Chartered Accountants (CICA) recommendations for stock based compensation, which requires expensing the fair value of stock options on the income statement. The fiscal year 2004 and 2003 numbers have been restated to reflect this change.

NON-GAAP MEASURES

In this annual report, we refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by GAAP. These non-GAAP measures may not be comparable to similar measures presented by other companies. Matrikon refers to and uses the terms "gross margin", "utilization", "average daily rate", and "adjusted net income" throughout this analysis.

Gross margin is our total revenue minus the cost of sales, divided by the total revenue and is expressed as a percentage.

Utilization or utilization rate measures the billable time for each employee against the total available time, excluding statutory holidays and standard vacation days and is expressed as a percentage.

Average daily rate is consulting revenue divided by billable people multiplied by utilization rate divided by days available in the period.

Adjusted net income is defined and reconciled to GAAP on page 42.

FORWARD-LOOKING STATEMENTS

In order to provide our investors with an understanding of our current results and future prospects, this annual report, including the MD&A, contains statements that are forward looking. These forward-looking statements represent Matrikon's intentions, plans, expectations and beliefs and are based on our experience and our assessment of historical and future trends and the application of key assumptions relating to future events and circumstances.

Forward-looking statements involve risks and uncertainties related to our business and the general economic environment, many beyond our control. These risks, uncertainties and other factors could cause our actual results to be materially different. The principal risks that could affect our results are discussed beginning on page 46 of this MD&A.

COMPANY OVERVIEW

Founded in 1988, Matrikon is a growing international provider of integrated industrial intelligence solutions that enable our industrial customers to improve operating efficiency. 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, power, forestry pulp and paper, refining and petrochemicals and mining and mineral processing.

Matrikon is listed on the Toronto Stock Exchange under the trading symbol "MTK". As at October 14, 2005 there were 30,600,636 common shares of the corporation issued and outstanding and 1,636,676 options outstanding.

At August 31, 2005, Matrikon had 517 employees, including 65 in administrative services, 70 in sales and marketing, 87 in product development and support and 295 in professional services (integration and consulting).

Matrikon's core capability is integrating information from various operations and business level systems with external market data to provide the right information to the right people at the right time, thereby enabling the best possible business decisions based on accurate, real-time information.

Revenue is derived from four different sources: Consulting fees (consisting of system integration related to third party products or Matrikon's proprietary products), Equipment sales (the reselling of third party

MANAGEMENT'S DISCUSSION AND ANALYSIS

software or hardware in the course of consulting engagements), Software license fees and the related Extended support.

Our integration and consulting services deliver value by ensuring that the operating infrastructure is in place to achieve optimal performance, providing applications to meet specific needs through customized solutions, and integrating third party software and hardware. Our service expertise covers all aspects of plant information technology from plant design to asset management and audits of advanced control technologies.

Our products are arranged into three different suites:

ProcessSuite
Solutions in the ProcessSuite include alarm management, equipment monitoring, condition-based maintenance, advanced control technologies, downtime reporting, optimization and data visualization. ProcessSuite solutions are designed for process industry environments where goods are produced continuously (oil and gas, refining and petrochemical, power, pulp and paper) and for batch industry environments where a large quantity of product is made and then individually packaged for consumer consumption (pharmaceuticals, food and beverage).

MatrikonOPC
We are one of the world's largest suppliers of real-time industrial connectivity. MatrikonOPC includes a collection of over 500 drivers and related tools with a global install base of 100,000. Connectivity is vital to our other product suites as it enables communication between the myriad plant data systems available on the market today.

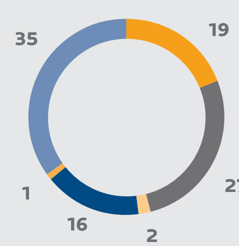
MxSuite™
MxSuite solutions are designed for the discrete manufacturing environment where goods are made one at a time, usually on an assembly line (automotive, equipment and component manufacturing). Solutions in the MxSuite include planning and scheduling, assembly line sequencing, plant floor monitoring and data visualization.

Matrikon Integrated Industrial Intelligence – MI3
The acquisition of Resolution technology and products in April 2005 complements Matrikon's vision for an integrated operation level infrastructure similar to the ERP (enterprise resource planning) platform at the business level. While manufacturing moves toward an environment of complex collaboration, the need for integrated information and a single version of the truth grows exponentially. Based on the Resolution technology acquired, along with our existing ProcessSuite and MatrikonOPC products, we are developing Matrikon Integrated Industrial Intelligence (MI3). MI3 will resolve critical industrial issues such as aggregating data from disparate sources and extracting information and data from standalone applications and spreadsheets. MI3 will support plant level applications focused on improved efficiency and performance and business level applications for managing, reporting and analysis to provide consistent, comprehensive and auditable information across the organization. Management expects the initial MI3 development to be completed by the end of fiscal year 2006.

To support our global customer base, Matrikon has 17 offices around the world, with six in Canada (including our world headquarters in Edmonton), five in Australia, three in the United States, two in Europe (following the acquisition of Matrikon Deutschland on September 1, 2005) and one in the Middle East.

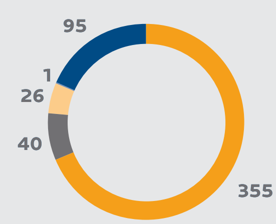
We operate internationally, with a substantial portion of our business conducted in foreign currencies.

% REVENUE BY CURRENCY



19 AUS Dollar
27 CAN Dollar
2 Euro
16 GBP
1 Other
35 US Dollar

HEADCOUNT BY LOCATION



355 Canada
40 US
26 Europe
1 Middle East
95 Australia

VISION & STRATEGY

Matrikon's long-term strategy is to become the market leader in integrated industrial intelligence solutions that solve the three primary issues faced by industrial facilities: performance, reliability and compliance – each of which has a direct impact on our customers' profitability.

We believe that our innovative products and depth of expertise are well-suited to accomplishing this strategy. The size and scope of customer projects that use both Matrikon's proprietary products and our professional services continue to grow. In 2005, the average value of projects over $100,000 was $422,000, a

10% increase over the 2004 average of $384,000. The number of projects over $100,000 also increased to 112 from 85 in 2004.

In addition, management believes that the company has made significant progress in the transition from a systems integrator to a solutions provider as evidenced by the commercial success and continued development of our proprietary products emphasizing solutions for the total enterprise.

Many of the solutions we are developing based on our proprietary products, including our well optimization solution for the oil and gas industry, have been in early stages of development and rollout throughout much of 2005, thus the majority of the revenue generated for these solutions is consulting revenue. As the solutions mature and are rolled out globally, consulting revenue should be reduced and replaced by high margin product revenue.

In 2005, 22 clients signed corporate or multi-site license agreements for specific Matrikon products or for entire product suites, compared to thirteen in 2004 and eight in 2003.

In 2006, Matrikon will focus on four strategic areas:

- Developing the MI3 platform and continuing to integrate our ProcessSuite and MatrikonOPC products into the platform
- Further developing our industry vertical solutions and introducing solutions for new industries
- Increasing our average daily rate through the delivery of high value solutions and consulting engagements
- Increasing operating efficiency and effectiveness to drive net margin

Scorecard: stated targets to actual results

	Target	Actual	Note
Revenue growth	14 - 23%	25%	Original target 14-23% growth from 2004 Annual Report Revised to 19-23% in Q305 announcement Organic growth of 11%
Net income growth	49 - 87%	157%	Original target 49-87% growth from 2004 Annual Report Revised to 87-124% in Q305 announcement Organic growth of 100%
Revenue from software licenses and related	28 - 32%	28%	2004 Annual Report
Average project value growth	10%	10%	2004 Annual Report
Revenue from integration of MTK products	28 - 32%	28%	2004 Annual Report
Gross margin	50 - 55%	54%	2004 Annual Report

KEY PERFORMANCE DRIVERS & CAPABILITY TO DELIVER RESULTS

Several key performance drivers affect our ability to deliver value to our clients and therefore achieve our strategic vision and build long term value for our shareholders. These critical factors include our ability to attract and retain a highly skilled workforce, our ability to develop innovative products and continually increase their market share, our ability to operate efficiently and sustain growth, and our ability to generate the financial resources required to achieve our objectives.

AN EXCEPTIONAL TEAM

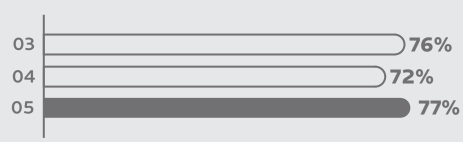
Our people are our finest asset. They fuel our success by developing innovative technology, delivering value to our clients through integration and consulting services, supporting our customer base and developing long-term relationships with our clients.

Matrikon recognizes that our ability to attract and retain quality people is fundamental to our success. Therefore, we emphasize the development of a sustainable corporate culture that values performance, leadership and innovation and provides exceptional opportunities for growth and career development.

Employee base growth and utilization, along with employee survey results, are the primary performance measures used with respect to our workforce.

Our team increased by 11% to 517 staff at August 31, 2005 from 465 on the same date in 2004. Utilization rate improved to 77% in fiscal year 2005 from 72% in 2004.

UTILIZATION (%)



Matrikon was recently named one of the Top 100 Employers in Canada by MacLean's magazine and was also profiled as one of 40 Cool Companies in a book that profiles innovation leaders in Alberta in 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We expanded our senior management team to ensure that we have the right people in place to achieve our future growth objectives.

In July, Amin Rawji, former executive vice president, was promoted to president. Effective December 9, 2005 (subject to board approval), Amin will take on the role of chief executive officer as Nizar J. Somji becomes non-executive chair of the board (subject to shareholder re-appointment and board approval). Amin joined Matrikon in 1995 as manager of the Industrial Connectivity Division. Over the next three years, Amin transformed the division from a six person $350,000 group into a 20 person, $3 million group, making it one of the company's most profitable divisions. His career at Matrikon has included senior appointments in product development, the services division and sales and marketing. Amin also played key roles in the acquisitions of PIA, Hunter Control and Matrikon Deutschland and the assets of Resolution Integration Solutions.

In October 2005, the following promotions were made:

- Mike Brown – Vice President of Technology
- Jeff Gould – Vice President of Sales and Vice President of Products
- Randy Kondor – Vice President of Marketing
- Warren Mitchell – Vice President of Advanced Applications
- Dave Shook – Chief Technical Officer

A critical factor for continued growth is our ability to develop future leaders to enable international expansion while ensuring that our culture and values are maintained and reducing employee turnover. To this end, Matrikon introduced and developed two new employee programs in 2005 to develop tomorrow's leaders.

The focus of the first is the development of a formal technical career advancement plan to provide greater career opportunities and job satisfaction for those employees who prefer to fulfill technical roles. The second aspect is the formalization of our employee development strategy covering training in three critical areas: project management, technology and leadership.

In addition, we identified several key strategies to improve employee retention and have been implementing these programs throughout 2005.

INNOVATIVE TECHNOLOGY

Our successful transition to a solutions company requires that we continue to develop innovative technology. Our commitment to innovation is achieved through continual research and development, award-winning collaboration with leading educational centers and collaboration with our clients to ensure that our products meet their current and future needs.

A primary method for efficiently developing new technology is through consulting engagements. When technology is developed during a project, we maintain, in most cases, intellectual property rights and are usually encouraged to commercialize the technology to ensure future development and support. Each product that we sell today was created as a result of a need that a client expressed or that we recognized through the course of consulting engagements.

Matrikon's product development is enhanced by our partnership with educational institutions. Through Matrikon sponsored research chairs, we collaborate with industrial clients and graduate students to commercialize leading edge technology. Matrikon has established three Industrial Research Chairs:

- The NSERC/Matrikon/ASRA Industrial Research Chair in Computer Process Control at the University of Alberta – currently in the process of extension
- The NSERC/ICORE Syncrude/Matrikon Industrial Research Chair in Intelligent Sensing Systems at the University of Alberta
- The BHP Billiton/Matrikon Australian Research Center for Complex Dynamic Systems and Control at the University of Newcastle

To further ensure that our product development addresses the technology priorities of our clients, Matrikon has a product advisory board for each product suite. Each advisory board is comprised of clients who have embraced our technology. The advisory board meets bi-annually to review product direction and discuss priority features and functionality. The advisory boards serve to keep our product development cycle in touch with the evolving needs of our clients. By giving our clients a voice in our technology direction, we develop an even stronger partnership with them while ensuring that our technology is heading in the right direction.

The primary measure of our success in technological innovation is the number of new product introductions and upgrades to existing products over the course of the year. In 2005, Matrikon released new versions of all products in the ProcessSuite family with a focus on improving product integration to enable the effective development and delivery of industry solutions. We also applied for two patents in 2005, one for our tree mapping technology that visually displays vast volumes of data in a way that users can quickly pick out important information, and the second for an algorithm to detect and quantify the effect of static friction in control valves.

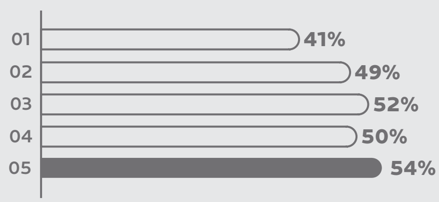
Our priority for product development in 2006 is to develop MI3 and integrated it with our existing products and industry solutions.

IMPROVING OPERATING EFFICIENCY

In order to enhance shareholder value, we must operate efficiently and thus we continually seek out ways to improve our efficiency.

The two measures used to determine operating efficiency are gross margin and utilization rate. In 2005, our gross margin improved to 54% from 50% in 2004 and was at the high end of our target range of 50% to 55%.

GROSS MARGIN (%)



Recent changes and improvements to the project management process are helping to ensure that projects remain on time and on budget while improving profit margins and average daily rate. The improvements include:

- Formal project management training that prepares managers to sit for the Project Management Professional designation exam. To date, 24 project managers have completed the first half of the course, and a further 22 started the course in June
- The establishment of the project management office (PMO) to develop project management best practices
- Regular ‘check-ups’ to ensure that projects are on track. All projects are audited by the PMO at several intervals throughout the project
- Regular training on Matrikon technology for services staff to ensure that installations and implementations can be completed efficiently
- Regular monitoring of project financial metrics, including budgeted time and expenses vs. actual incurred to date and the current project profit margin
- Better integration of project information so that key indicators can be continually monitored

As Matrikon has grown, so has the need for a more robust and scalable corporate infrastructure to support efficient and effective operations. As such, we have outgrown our internally developed corporate information portal (myMatrikon). We are currently implementing Microsoft SharePoint to take over the document management that existed in myMatrikon and investigating enterprise resource planning solutions.

We are in the process of reviewing our internal controls to ensure compliance with proposed securities regulations. This exercise will help to identify inherent system limitations and as a result, processes will be redesigned where necessary to promote organizational efficiency and effectiveness.

SUSTAINED GROWTH

Since 2001, Matrikon has enjoyed a compound annual growth rate of 25% for revenue and 53% for net income and was recently named one of Canada’s 50 fastest growing technology companies by Deloitte.

Our ability to continue to grow at this rate is predicated upon several factors, the most significant current factor being the sales and marketing to support this growth target.

Over the past three years, we have made a considerable investment in sales and marketing infrastructure to drive Matrikon’s transition to a solution integrator and to expand the use and adoption of our proprietary products. This investment has been and is continuing to drive our growth and ability to capitalize on the significant potential that exists for our solutions. In 2005, we focused on developing solutions and marketing around our five core industries: oil & gas, refining & petrochemical, mining & mineral processing, pulp & paper, and power & utilities. We hired or identified internal industry experts to help drive our initiatives in each of these areas.

Sales and marketing strategies employed focus on further developing customer relationships. This is accomplished through a variety of initiatives, including delivering information in the way clients prefer, positioning Matrikon as a leader in various market segments, and enhancing the “Matrikon experience” for customers through programs such as Matrikon Valued Partners (MVP) users conference.

A significant focus is placed on the Matrikon user community through the industry and product advisory boards and the MVP users conference. Given the diversity of Matrikon’s products and our professional engineering expertise, many clients are familiar with only one part of our business. The MVP program is an opportunity to further broaden our exposure with existing clients. Our second annual MVP users conference was held in May 2005 and achieved a 40% increase in client attendance. As a result of MVP, many new opportunities were identified and some existing opportunities were moved forward.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The strategic account management focus of the sales organization has resulted in an increase in the number of large scale projects (over $100,000) to 112 in 2005 from 85 in 2004, while the average value of these large projects increased to $422,000 from $384,000. In addition, the number of new corporate license agreements increased from 13 in fiscal year 2004 to 22 in 2005.

Matrikon's overall growth strategy focuses on four fundamental aspects of growth: geographic, vertical industry, technical innovation, and services expertise. These are discussed on page 50.

In addition to organic growth, Matrikon uses acquisitions and alliances to supplement growth strategies.

Over the past four years, Matrikon has completed six acquisitions:

- Reverse takeover of TigrSoft (April 2001)
- Acquisition of Hunter Control (September 2002)
- Acquisition of the assets of Comcept (November 2003)
- Acquisition of PI Automation (May 2004)
- Acquisition of the assets of Resolution Integration Solutions (April 2005)
- Acquisition of Matrikon Deutschland (September 2005)

Matrikon is continually looking at potential acquisitions that could serve to fast track our growth and market share objectives or provide added strength to our total solution capability. In addition to requiring synergies in at least one of our four strategic growth areas, potential acquisitions must have an attractive price tag.

FINANCIAL RESOURCES

Matrikon's philosophy with respect to managing finances has always been to remain profitable and free of long-term debt. Our growth to date has been primarily funded by internal cash flow, supplemented by a line of credit and private equity placements.

Large engagements are typically fixed price, which presents greater risk to Matrikon, but also the opportunity for greater profit margins. Major project bids go through an internal approval process to ensure that risks can be minimized and profit margins maintained. Our project management improvement efforts have resulted in improved reporting of project performance measures. Projects continue to be monitored very closely, with project management office audits at set intervals throughout the life of a project.

Our financial condition is stable, with cash flow positive operations, no debt and an unused line of credit. We believe our financial position is adequate to carry out current growth strategies and do not anticipate the need to seek additional equity financing in 2006.

COMPETITIVE MARKET & EXTERNAL ENVIRONMENT

Matrikon is engaged in multiple business segments in various markets around the world. Competition varies for each business segment, product segment and geographic region.

Overall, we are not aware of any direct competitor due to the diversity of our products and services and the complexity of our solutions. Our primary competitive advantage is the inter-relationship of the professional services and products that we offer to deliver total enterprise solutions.

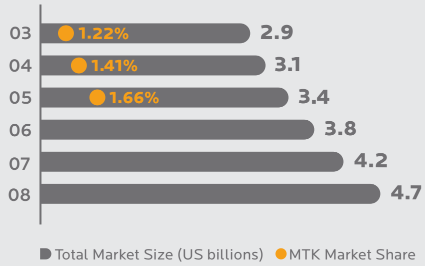
Broadly, Matrikon's competition consists of small system integrators or product companies that compete in one or two aspects of our business, a few mid-size companies (500+ employees, revenue in excess of US$100 million) with competing products in one or two areas and major global process control companies (10,000+ employees, revenue in excess of US $1 billion).

In December 2004, Matrikon was named to the Control magazine list of Top 50 control technology suppliers in North America for the third year. Matrikon has moved steadily up each year since debuting on the list in 2003 at #50 and currently holds the #39 spot.

An important differentiator between Matrikon and other companies on the Control Top 50 list is that the majority are process automation hardware manufacturers (37 of the 50). Only four companies are pure software and services companies (AspenTech, OSIsoft, Matrikon and Iconics) and nine offer both hardware and software/services (ABB, Emerson, Siemens, Invensys, Honeywell, Mettler Toledo, GE, Metso and Yokogawa).

In July 2005, Matrikon was also named one of the 30 "Hottest" companies supplying technology to the manufacturing industries by Start magazine – the fifth time in seven years that Matrikon has received this honor.

MATRIKON SOLUTIONS WORLDWIDE MARKET SIZE



Source: ARC Advisory Board

The chart above represents the total market for Matrikon software and services worldwide, including Collaborative Production Management for Process Manufacturing, Enterprise Asset Management, Real-Time Process Optimization and Condition Monitoring. The fastest growing segments are Real-Time Process Optimization (57% through 2008) and Collaborative Production Management (44% through 2008). (Source: compiled by Matrikon based on several ARC Advisory Group reports)

Based on fiscal year 2005 revenue, Matrikon's current market share is 1.66%, indicating significant upside potential.

According to ARC Advisory Group, strong commodity markets will result in reasonable revenue growth for industrial products and services sold to the process industries globally.

The industrial facilities that we serve are faced with the continual challenge of balancing the often conflicting demands of customers, legislators and shareholders while remaining competitive. Globalization has opened a world of opportunity for industry, but has also brought increased competition and new challenges.

The rules governing organizations have never been more intense: environmental, safety, disclosure and transparency coupled with industry specific guidelines and regulations.

Plant assets and the associated infrastructure are aging, but with pressure to keep costs in check, new equipment purchases are often delayed. At the same time, the engineering and operations expertise is rapidly being lost through layoffs, outsourcing and retirements. According to Control magazine, only 17% of today's process control workforce is under 41 years of age.

Matrikon's technology and solutions help our industrial clients to respond to these issues and turn challenges into opportunities to improve performance, productivity and efficiency.

ITEMS OF NOTE IN 2005

We continue to make progress in the transition to a solutions company and are increasingly engaging in strategic consulting and solution-based projects. Our focus on improving operational efficiencies and business processes to drive profitability over the past year and a half have been validated by our results over the course of the year, including improvements in key performance indicators such as utilization, gross margin and average daily rate. Our revenue grew each quarter throughout fiscal year 2005 and ended with a record $19.00 million in the fourth quarter. Throughout 2005, we were also able to leverage our existing infrastructure and decrease overhead expenses as a percentage of revenue from 43% in 2004 to 40% in 2005.

Matrikon was cash flow positive throughout the year, with an average of $1.60 million in cash from operations per quarter throughout the year. Management expects cash from operations to be in the range of $6.00 to $8.00 million in fiscal year 2006, further strengthening our cash position and enabling us to capitalize on strategic growth opportunities.

ACQUISITIONS

In April 2005, we acquired the assets of Resolution Integration Solutions, Inc., (Resolution) a plant management information system technology company based in Ohio. By combining the Resolution technology with our ProcessSuite and MatrikonOPC technology, Matrikon is building a platform to deliver integrated industrial intelligence and a single version of auditable master data. This enables industrial facilities to assimilate data that typically resides in isolated silos throughout the enterprise.

In May 2004, we acquired PI Automation Limited, a system integrator and Matrikon distributor based in Scotland, now known as Matrikon Europe.

The financial impact of these acquisitions on fiscal year 2005 results are laid out in the following and should be considered when reviewing comparable results for fiscal year 2004, when Resolution was not included and the results of Matrikon Europe were included from May 18 to August 31 only.

The assets of Resolution that were acquired in April 2005 were integrated into the subsidiary Matrikon International Inc. and have not been tracked separately following the acquisition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

12 Months Ended August 31, 2005	Matrikon Inc. excluding acquisitions		Effect of Europe Acquisition		Effect of Resolution Acquisition		Consolidated Results	
(CAN $000s)		% of Revenue		% of Revenue		% of Revenue		% of Revenue
Income Statement								
Consulting	$39,953	65%	$5,897	89%	$ 140	144%	$45,990	68%
Equipment	5,496	9%	255	4%	-	-	5,751	8%
Software license fees	9,592	16%	811	12%	51	53%	10,454	16%
Extended support	4,904	8%	714	11%	-	-	5,618	8%
Intercompany	1,132	2%	(1,038)	(16%)	(94)	(97%)	-	-
Total Revenue	**61,077**		**6,639**		**97**		**67,813**	
Cost of sales	28,089	46%	2,737	41%	268	276%	31,094	46%
Gross profit	32,988	54%	3,902	59%	(171)	(176%)	36,719	54%
Consulting G&A	7,210	12%	675	10%	145	149%	8,030	12%
Sales & marketing	7,546	12%	475	7%	77	79%	8,098	12%
R&D	3,388	6%	-	-	-	-	3,388	5%
G&A	5,247	9%	607	9%	-	-	5,854	9%
Amortization	1,700	3%	26	-	-	-	1,726	3%
Total Expenses	**25,091**	**42%**	**1,783**	**27%**	**222**	**229%**	**27,096**	**40%**
Income before income taxes	5,856	10%	2,380	36%	(393)	(405%)	7,843	12%
Net income	**4,065**	**7%**	**1,560**	**23%**	**(393)**	**(405%)**	**5,232**	**8%**

As at August 31, 2005 *(CAN $000s)*	Matrikon Inc. excluding acquisitions	Effect of Europe Acquisition	Consolidated Results
Balance Sheet			
Cash & equivalents	6,652	3,894	10,546
Accounts receivable	19,373	1,409	20,782
Contracts in progress	3,346	211	3,557
Future income taxes	639	-	639
Prepaid expenses	1,027	49	1,076
Total current assets	**31,037**	**5,563**	**36,600**
Non current assets	16,443	2,464	18,907
Total assets	**47,480**	**8,027**	**55,507**
Current liabilities	11,918	1,849	13,767
Non current liabilities	518	-	518
Total liabilities	**12,436**	**1,849**	**14,285**
Total shareholders' equity	**36,738**	**4,484**	**41,222**

CANADIAN DOLLAR APPRECIATION

We operate internationally, with 73% of our business conducted in foreign currencies, predominantly US and Australian dollars and British pounds. Accordingly, our results are affected by the year-over-year exchange rate fluctuations of these currencies relative to the Canadian dollar. Foreign currency fluctuations continued to impact our results in 2005 as the Canadian dollar strengthened against all other currencies from which we derive revenue. As a result, we recorded a foreign currency translation loss of $1.48 million in 2005 (after tax impact of $0.03 per share) compared to a loss of $0.18 million (after tax impact of $0.01) in 2004.

The realized portion of foreign currency translation was a loss of $0.89 million in 2005 compared to a realized foreign currency translation loss of $0.67 million in 2004. Assets and liabilities stated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of each period, which also impacts our foreign currency translation gains or losses.

	% Revenue by Currency			Exchange Rate		
	2005	2004	Change	31-Aug-05	1-Sep-04	Change
Australian dollar	19%	21%	(2%)	1.1226	1.0821	0.0405
British pound	16%	7%	9%	0.4700	0.4228	0.0472
Canadian dollar	27%	26%	1%	-	-	-
Euro	2%	-	2%	0.6869	0.6258	0.0611
Other currencies	1%	1%	-			
US dollar	35%	45%	(10%)	0.8395	0.7620	0.0775

The majority of our expenses (70%) are in Canadian dollars, while the majority of our revenue (73%) is in foreign currencies. As a result, we are required to convert currencies to Canadian cash to cover expenses. We enter forward contracts based on our projected cash conversion requirements to mitigate our exposure to currency fluctuations, particularly between the US and Canadian dollar.

Our continued global expansion functions as an offset to currency fluctuations by diversifying the currencies used and lessening our dependence on any one currency, however, in 2005 the Canadian dollar gained strength against all other currencies in which we conduct business.

RESULTS OF OPERATIONS

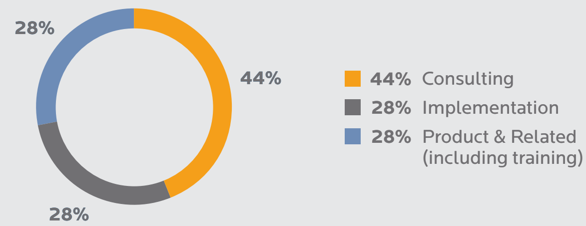
SELECTED ANNUAL INFORMATION

12 Months Ended August 31 (CAN $000s)	2005	%	Restated 2004	%	Restated 2003	%	05 vs 04 % Change
Total Revenue	**$67,813**	**100**	**$54,396**	**100**	**$48,880**	**100**	**25**
Consulting fees	45,990	68	34,556	64	33,353	68	33
Equipment sales	5,751	8	5,508	10	3,816	8	4
Total services and related	**51,741**	**76**	**40,064**	**74**	**37,169**	**76**	**29**
Software license fees	10,454	16	9,804	18	8,753	18	7
Extended support	5,618	8	4,528	8	2,958	6	24
Total product and related	**16,072**	**24**	**14,332**	**26**	**11,711**	**24**	**12**
Net income	5,232	8%	2,037	4%	2,053	4%	157
Earnings per share - basic	0.175		0.071		0.085		157
Earnings per share - diluted	0.171		0.069		0.084		143
Total assets	**55,507**		**43,044**		**27,388**		**29**
Total long term liabilities	518		422		-		-
Weighted average shares outstanding	29,842		28,729		24,221		

The strong growth in consulting fees in fiscal year 2005 is a result of our focus on delivering value added solutions to our industrial clients. We introduced several industry focused solutions based on our proprietary technology in 2005. The revenue mix for these solutions is consulting and implementation heavy on the front end and is expected to shift to predominantly license revenue as the solutions progress beyond early development and pilot stages. As a result, software license revenue growth was not as strong as anticipated in 2005.

In 2005, we earned $1.62 in implementation revenue (consulting and integration related to our products) for every $1.00 in software license revenue. This is an improvement over 2004, when we earned $1.46 in implementation revenue for every $1.00 in software revenue. Our objective for fiscal year 2006 is to achieve a ratio of $1.80:$1.00.

REVENUE BY TYPE



Extended support revenue continued to grow in 2005 and has demonstrated steady growth over the past three years as a result of growing software license revenue.

Revenue by type (shown in the previous chart) excludes equipment sales as they are ancillary to consulting engagements and fluctuate period by period.

SEGMENT REVENUES

Matrikon has five strategic business segments: Eastern Canada/United States, Western Canada, Australia, Europe and Products. The Corporate segment captures corporate expenses. Matrikon evaluates each segment's performance and reports segmented information according to this structure.

12 MONTHS ENDED 31-Aug-05 (CAN$000s)	Eastern Canada & United States	Western Canada	Australia	Europe	Products	Corporate	Total
Revenue	8,167	21,773	12,279	6,639	18,955	-	67,813
% of revenue	12%	32%	18%	10%	28%		100%
Gross margin	47%	43%	32%	59%	83%	-	54%
Expenses	(2,754)	(5,424)	(1,733)	(1,783)	(8,713)	(6,689)	(27,096)
Income before income taxes	1,048	3,971	2,240	2,380	6,935	(8,731)	7,843
Revenue change % 2005 - 2004	8%	11%	21%	313%	24%	-	
Employees	59	180	95	26	110	47	517
Utilization	69%	73%	89%	88%	-	-	77%
Average daily rate	985	824	558	1,477	-	-	845

MANAGEMENT’S DISCUSSION AND ANALYSIS

12 MONTHS ENDED 31-Aug-04 Restated (CAN$000s)	Eastern Canada & United States	Western Canada	Australia	Europe	Products	Corporate	Total
Revenue	7,591	19,677	10,176	1,609	15,343	-	54,396
% of revenue	14%	36%	19%	3%	28%	-	100%
Gross margin	41%	37%	31%	45%	85%	-	50%
Expenses	(2,831)	(5,537)	(1,504)	(214)	(8,500)	(4,939)	(23,525)
Income before income taxes	269	1,133	1,550	410	5,385	(5,100)	3,647
Employees	49	205	84	18	73	36	465
Utilization	74%	72%	72%	n/a	-	-	72%
Average daily rate	1,063	633	601	1,873	-	-	706

Eastern Canada/USA: The results of the acquisition of Resolution assets are included in the Eastern Canada and US segment from the date of acquisition (April 26, 2005). Excluding Resolution, this segment had a gross margin of 49% in fiscal year 2005. Excluding Resolution and the completion of the terms related to the OSIsoft lawsuit settled in 2004, income before income taxes was 19% of revenue. The impact of Resolution from the date of acquisition was a net operating loss of $0.35 million. We expect Resolution to continue to impact the results of this segment for the next several quarters as the integration is completed and Resolution staff are utilized on new Resolution-based projects or redeployed on other consulting engagements.

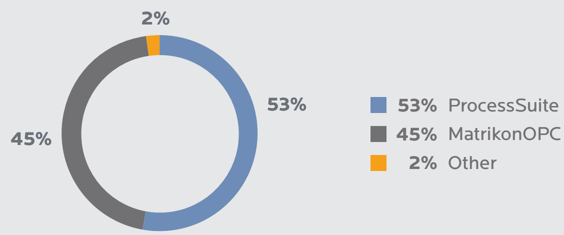
Western Canada: Following our emphasis on strategic consulting engagements that deliver high value to our industrial clients, the Western Canada segment has improved its average daily rate by 30% over 2004 and increased gross margin to 43% from 37% in 2004. Income before income taxes improved as a percentage of revenue to 18% in 2005 from 6% in 2004 as a result of this focus on strategic consulting coupled with improvements to project management practices.

Australia: The Australian segment has gained traction with software license sales, which increased to $2.30 million in 2005 from $0.38 million in 2004. This has had a positive impact on gross margin, which was offset by an increase in lower margin equipment sales ($3.74 million in 2005 versus $3.00 million in 2004) and cost overruns on older projects. In addition, Australia continues to make progress in securing longer term, higher margin consulting projects and is focused on improving project management practices to improve gross and net margin.

Europe: Europe continues to achieve strong gross margin and the highest average daily rate of the segments. This segment focuses almost exclusively on delivering high value solutions based on Matrikon’s proprietary products, particularly in the oil and gas industry. 2004 figures shown for Europe are from the date of the acquisition of PI Automation on May 18, 2004 and therefore are not useful for comparison to 2005 results.

Products: The product segment includes product development, training, sales and marketing and support. Product sales were below expectations for the year, however management expects an accelerated growth rate as solutions based on Matrikon products move from early development (primarily consulting revenue) to full scale rollout (primarily product revenue). Fiscal year 2005 product revenue by suite was as follows:

PRODUCT REVENUE BY SUITE



Corporate: The corporate segment includes all shared corporate services (including finance, 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 in 2005 include:

- Foreign currency translation loss of $1.48 million (compared to a loss of $0.18 million in 2004)
- Amortization of $1.73 million (compared to amortization of $1.50 million in 2004)
- Other expenses of $0.31 million (compared to other income of $0.14 million in 2004)
- Overhead expenses of acquired businesses, which were not present in the comparable period, contributed an additional $2.00 million
- Increased administrative headcount to 47 people from 36 people at the end of fiscal year 2004.

GROSS MARGIN

12 Months Ended August 31 (CAN $000s)	2005	2004	Reclassified 2003	05 - 04 Change	05 - 04 % Change
Gross profit	$36,719	$27,211	$25,179	$9,508	35%
Gross margin	54%	50%	52%	4%	-

Gross margin remained strong throughout fiscal year 2005 and ended at the high end of our target range of 50% to 55%. This improvement over gross margin in 2004 is a result of our focus on improving project management efficiency and effectiveness and the resulting increase in average daily rate (increase of 20% over 2004) and utilization (average 77% in 2005 versus 72% in 2004) as well as a reduction in lower margin equipment sales as a percentage of total revenue. Management expects the quarterly range for 2006 to be 54% to 56% as we continue to focus on solutions that deliver significant value to our industrial clients, both those based on our own technology and consulting related to third party technology.

The following table compares gross margin by revenue line:

12 Months Ended August 31	2005	2004	2003
Consulting revenue	44%	35%	44%
Software revenue	100%	100%	100%
Equipment revenue	14%	28%	10%
Support revenue	89%	87%	82%

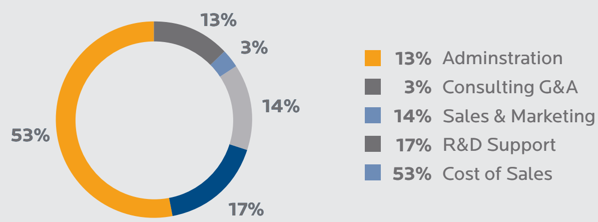
OPERATING EXPENSES

12 MONTHS ENDED August 31 (CAN$000s)	2005	2005 Excluding Acquisitions	2004	2004 Excluding Acquisitions	Restated 2003	05 - 04 % Change
Consulting G&A	8,030	7,210	6,448	6,296	7,537	25%
% of revenue	12%	12%	12%	13%	15%	
Sales & marketing	8,098	7,546	7,428	7,390	4,800	9%
% of revenue	12%	12%	14%	16%	10%	
Research & development	3,388	3,388	2,991	2,991	2,465	13%
% of revenue	5%	6%	5%	6%	5%	
General & administrative	5,854	5,247	5,160	5,097	4,442	13%
% of revenue	9%	9%	9%	11%	9%	

Combined operating expenses (excluding amortization) were $25.37 million (37% of revenue) for fiscal year 2005 compared to $22.03 million (40% of revenue) in fiscal year 2004. Excluding acquisitions completed late in 2004 and in 2005, operating expenses were $23.39 million (39% of revenue) in 2005 compared to $21.77 million in 2004 (41% of revenue). Operating expenses remain in line with management's expectations.

Consulting general and administrative (consulting G&A) expense represents the non-billable portion of project expenses, including all related infrastructure costs. Fiscal year consulting G&A expense increased by $1.58 million over 2004 as a result of increases in travel expenses, employee relocation expenses and salaries and bonuses.

EMPLOYEES BY DEPARTMENT



Sales and marketing expenses were $8.10 million (12% of revenue) in 2005 compared to $7.43 million (14% of revenue) in 2004. This increase is consistent with management's expectations and reflects continued investment to assist us in achieving our objectives of accelerating customer adoption rates and growing revenue from Matrikon's proprietary solutions.

Research and development expenses remained constant at 5% of revenue compared to fiscal year 2004 and totaled 32% of software revenue in fiscal year 2005. Matrikon controls R&D expenses through an efficient development process and partnership with leading research institutions. In fiscal year 2006, product development will focus on MI3 and vertical industry solutions based on ProcessSuite.

The following table illustrates the impact of Scientific Research & Experimental Development (SR&ED) credits on R&D expenses:

12 Months Ended August 31 (CAN $000s)	2005	% of Revenue	2004	% of Revenue
Research & development excluding SR&ED credit	$3,988	6%	$3,591	7%
SR&ED credit	(600)		(600)	
Research & development (under Canadian GAAP)	3,388	5%	2,991	5%

We estimate the portion of research and development expenses that will qualify for the SR&ED tax credit based on previous experience and accrue on a quarterly basis. Actual differences for prior periods are recorded as other income or other expenses in the period when they are realized. Other income for 2005 includes an additional $0.17 million for the difference between the SR&ED credits accrued for in 2004 and the actual SR&ED credits received.

NET INCOME

12 Months Ended August 31 (CAN $000s)	2005	Restated 2004	Restated 2003	05 - 04 Change	05 - 04 % Change
Net income	$5,232	$2,037	$2,053	$3,195	157%
Net margin	8%	4%	4%	4%	-

Net margin grew to 8% in 2005 compared to 4% in 2004. The improvements in net margin are a result of increased leverage on overhead expenses and improvements to our operating efficiency offset by an increase in foreign currency translation losses. Management expects net margin to be in the range of 9% to 11% in fiscal year 2006.

The effective tax rate was reduced to 33.3% in 2005 from 44.1% in 2004 as a result of increasing revenue from European operations, which have a lower tax rate, and the recent reduction in the Alberta income tax rate to 33.62%. Management expects the effective tax rate to be approximately 35-36% going forward.

Adjusted Net Income

As a private company prior to the reverse takeover of TigrSoft in April 2001, Matrikon paid shareholder bonuses annually. This practice is common to private companies; however it makes it difficult to compare results with other publicly traded companies and does not provide for meaningful trend analysis. Therefore, management uses adjusted net income for the years prior to becoming a public company as a truer comparison of results to current presentation. Adjusted net income is net income plus shareholder bonuses net of related income taxes. Adjusted net income is not a measure of performance under GAAP, does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies. The following table reconciles net income to adjusted net income.

12 Months Ended August 31 (CAN $000s)	2001	Reclassified 2002	Restated 2003	Restated 2004	2005
GAAP Net income	$952	$1,550	$2,053	$2,037	$5,232
Shareholder bonus	700	-	-	-	-
Income tax effect of above	280	-	-	-	-
Adjusted net income	1,372	1,550	2,053	2,037	5,232

LIQUIDITY & CAPITAL RESOURCES

At August 31, 2005 accounts receivable were $20.78 million compared to $19.20 million at August 31, 2004 and $18.63 million at May 31, 2005. The increase in accounts receivable from the end of the third quarter to the end of the fourth quarter (12%) is in line with revenue growth over the same period (11%). The average collection period in the fourth quarter was 81 days down from 95 days at August 31, 2004 and 84 days at May 31, 2005. Matrikon's client base consists primarily of Fortune 500 companies with strong credit ratings; therefore bad debt expense has been minimal.

At (CAN $000s)	Aug 31 2005	May 31 2005	Aug 31 2004	Q4 - Q3 Change	Q4 -Q3 % Change
Cash & equivalents	$10,546	$11,366	$6,311	$(820)	(5%)
Trade receivables	16,334	14,616	16,771	1,718	12%
Other receivables	4,448	4,011	2,432	437	11%
Average collection period	81 days	84 days	95 days	(3 days)	
Contracts in progress	3,557	3,596	1,830	(39)	(1%)
Current liabilities	13,767	11,527	10,446	2,240	19%

Current liabilities increased from $11.53 million at the end of the third quarter to $13.77 million at the end of the fourth quarter. The major contributors to this change were an increase in income taxes payable of $0.59 million, an increase in future taxes of $0.39 million and an increase in accounts payable of $1.46 million as a result of increases in consulting engagements that include third party equipment at year end.

Cash provided by operating activities was $6.36 million in fiscal year 2005 compared to $3.47 million in 2004. We expect cash from operations to be in the range of $6.00 - $8.00 million for fiscal year 2006.

Matrikon has a $7.00 million operating line of credit at a variable interest rate of the bank's prime plus 25 basis points. We have not drawn on this line of credit in the past two years.

We had cash and equivalents of $10.55 million at the end of the year compared to $11.37 million at the end of the third quarter and $6.31 million at the end of 2004. This amount excludes cash earmarked for the acquisition of Matrikon Deutschland of $2.30 million. The impact of translating cash balances to Canadian dollars at August 31, 2005 compared to May 31, 2005 was a reduction to cash and equivalents of $0.78 million.

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:

At August 31, 2005 (CAN $000s)	Total	Payment Due Less than 1 year	2-3 years	4-5 years	After 5 years
Operating lease obligations	$5,893	$1,836	$2,094	$1,013	$950
Foreign exchange forward contracts	6,000	6,000	-	-	-

OFF BALANCE SHEET ARRANGEMENTS

Matrikon is a lessee under several operating type leases for office space, office equipment and motor vehicles and is also a party to research funding arrangements with educational institutions in Canada and Australia. The future cash flow impacts of these agreements are disclosed in Note 13 to the financial statements. Matrikon is not party to any other undisclosed off Balance Sheet arrangements.

QUARTERLY RESULTS SUMMARY & FOURTH QUARTER HIGHLIGHTS

The following table presents a summary of our unaudited consolidated operating results for the past eight quarters:

	Restated							
12 Months Ended August 31 (CAN $000s)	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Revenue	$14,302	$10,152	$13,372	$16,570	$14,956	$16,723	$17,138	$18,996
Gross profit	7,324	4,515	6,271	9,101	8,124	8,643	9,484	10,468
Gross margin	51%	44%	47%	55%	54%	52%	55%	55%
Net income (loss)	867	(355)	167	1,358	204	2,353	1,557	1,118
Net margin	6%	(3%)	1%	8%	1%	14%	9%	6%
Shares outstanding (000s)	27,274	28,877	29,270	29,321	29,465	29,633	29,845	30,412
Earnings per share - basic	0.03	(0.01)	0.01	0.04	0.01	0.08	0.05	0.04
Earnings per share - diluted	0.03	(0.01)	0.01	0.04	0.01	0.08	0.05	0.03
Headcount	476	485	486	465	488	491	511	517

Management noted a change in our historic seasonal trends during 2005. As expected, the seasonality we observed in the past was reduced as a result of two aspects of our strategic focus:

- our transition to a solutions provider, where projects span multiple years, has helped to smooth out the lumpiness of consulting revenue (historically concentrated in the first and fourth quarters)
- increasing revenue from software license fees and related support has helped to smooth out quarters which have been historically weak as the year end of the budget cycle for most of our clients falls in the second quarter, which has 10% less working days than other quarters

In addition, the growth of our Australian operations functions as a further offset to historic seasonality, as their winter months (typically more busy, with less holiday time booked) coincide with the summer months in North America.

Highlights of our 2005 fourth quarter include:

- Record revenue for a quarter period ($19.00 million) was achieved in the fourth quarter of 2005.
- Record product sales and strong revenue from higher margin consulting services were offset by a signigicant increase in equipment sales. Gross margin in the fourth quarter was as follows:
- consulting - 44%
- support – 89%
- Equipment – 23%
- Gross margin was slightly over 55% for the second consecutive quarter.
- Earnings were negatively affected by the continued appreciation of the Canadian dollar against other currencies in which we do business. The impact in the fourth quarter of 2004 was a foreign currency translation loss of $0.83 million, or an after tax impact of $0.02 per share.
- Overhead expenses remain in line with management's expectations and were down as a percentage of revenue. (40%) over the third quarter of 2005 (43%)
- Cash and equivalents were reduced by $2.30 for funds earmarked for the acquisition of Matrikon Deutschland completed subsequent to the quarter. The impact of translating cash balances to Canadian dollars at August 31, 2005 compared to May 31, 2005 further reduced cash and equivalents by $0.78 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUTLOOK & FISCAL YEAR 2006 TARGETS

We remain committed to sustainable, long-term growth and the generation of shareholder value. Management believes that we are well-positioned to continue to grow and to capitalize on our market potential.

Based on the present economic environment, current contracts underway and assuming our ability to win new business continues at its current pace, management expects the company to achieve the following in fiscal year 2006:

- Revenue growth of 10% to 15% ($75 to $77 million)
- Net income growth of 33% to 62% ($7 to 8.5 million)
- $1.80 in implementation revenue for every $1.00 in software license fees
- Gross margin of 54% to 56%
- Net income margin of 9% to 11%
- Average daily rate growth of 10% to 12%
- Utilization rate of 79%

KEY EARNINGS SENSITIVITIES

As a growing global company, a significant factor that affects our earnings is foreign currency fluctuation. We conduct business in U.S. dollars, Canadian dollars, Australian dollars, British Pounds, Euros and to a lesser extent, various other currencies. The following table shows the impact of foreign currency movements on our earnings forecast.

	Exchange rate assumption used in fiscal 2006 targets (to Canadian dollar)	After tax impact of a one cent or pence appreciation of the currency
US Dollar	1.18	$122,000
British Pound	2.10	$199,000
Australian Dollar	0.90	$23,000
Euro	1.60	$17,000

The after tax impact of currency appreciation shown in the table above applies only to projects where no action has been taken to manage foreign currency risk, such as entering into forward contracts.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of Matrikon's financial condition and the results of operations is based on our consolidated financial statements, which have been prepared in accordance with Canadian GAAP. Our preparation of the consolidated financial statements requires management to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities
- the disclosure of contingent assets and liabilities at the date of the financial statements
- the reported amounts of revenues and expenses during the reporting period presented

These estimates and judgments are evaluated on an on-going basis and are considered to be reasonable based upon our historical experience and assumptions. Actual results could differ from those estimates made by management.

Matrikon's critical accounting estimates are those it believes are the most important in determining our financial position and results or those which require significant judgment by management. The corresponding accounting policies are summarized in the notes to our consolidated financial statements.

REVENUE RECOGNITION & CONTRACTS IN PROGRESS VALUATION

Matrikon's revenue is earned from four primary sources:

- Software license fees received from the sale of proprietary software and drivers
- Consulting fees related to developing solutions for our clients or installation services related to both Matrikon and third-party software
- Equipment sales of third party products (hardware or software) that are ancillary to consulting engagements
- Extended support contract fees relating to post implementation support services.

Matrikon adheres to the Canadian Institute of Chartered Accountants' Emerging Issues Committee Abstract 142 (EIC-142) and Statement of Position (SOP) 97-2, Software Revenue Recognition as released by the American Institute of Certified Public Accountants (AICPA).

Under the terms of EIC-142 and SOP 97-2, management recognizes implementation and consulting revenues and the implementation and consulting portions of multi element arrangements on the percentage-of-completion basis.

The percentage completion of each project is estimated by management based on an analysis of:

- actual versus budgeted hours
- actual versus budgeted third party costs incurred
- changes to the original scope of work
- the achievement of milestones

The estimate is determined by the project manager, reviewed by the accounting department and senior services management, and is also used to ensure contracts in progress are recorded at the lower of cost and normal profit earned and their estimated realizable value. Any projected losses on incomplete projects are accrued in the period when they become apparent. These estimates have a material impact on Matrikon's reported revenues, cost of sales or contracts in progress. A change in estimate could cause a material change to those account balances.

SCIENTIFIC RESEARCH & EXPERIMENTAL DEVELOPMENT TAX CREDITS

Matrikon records tax credits offered for Scientific Research & Experimental Development (SR&ED) activities using the cost reduction method. Under this method, the tax savings are recorded as a reduction to R&D expenses. Management must estimate the costs incurred that will qualify for the tax credits based upon previous experience with filing claims for the tax credits and the review of accounting data. Changes to the estimated quantity of tax credits receivable from prior periods are recorded as Other income or Other expenses. A change in the estimated amount of qualifying expenditures for SR&ED tax credits may have a material impact on research and development expenses for the period or Other income if the change in estimate occurs in a reporting period subsequent to when the expenditure was incurred.

INTANGIBLE ASSETS & GOODWILL

Matrikon accounts for intangible assets and goodwill in accordance with CICA Handbook Sections 1581, Business Combinations and 3062, Goodwill and Other Intangible Assets. Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to Matrikon's reporting segments that are expected to benefit from the synergies of the business combination. At the date of the business combination, management must estimate the value of acquired intangible assets that do not have a well-defined market value, such as:

- the value of customer lists and relationships
- previously unrecorded intellectual property rights (e.g. internally developed software)
- non-competition agreements

Valuing these assets involves estimates of the future net benefit to Matrikon and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Although intangible assets are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period when the event causing the decline in value occurred, which would increase Amortization expense and decrease the Intangible assets balance. At this time, Matrikon does not believe any of its intangible assets have a book value in excess of its fair market value.

Matrikon tests its Goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. This process includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods.

INCOME TAX PROVISIONS

Matrikon uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of the assets and liabilities. These differences are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Through our acquisitions, the Corporation has obtained tax operating losses. In addition, the corporation has certain tax assets that may be used to reduce taxable income. Management's assessment as to the value of these tax operating losses is based on its best estimate of taxable income in future years. Judgments in the timing and potential use of such assets are made on the best information available and are reassessed periodically. In light of historical operating results, the Corporation has recorded a future tax asset.

CHANGES IN ACCOUNTING POLICIES

STOCK BASED COMPENSATION

On September 1, 2002 Matrikon adopted the new recommendations of the CICA with respect to accounting for stock based compensation and other stock based payments. The new recommendations were applied prospectively to all stock based payments to non-employees and to employee awards that are direct awards of stock, call for settlement in cash and other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after September 1, 2002.

Compensation expense for these stock based payments, including Matrikon's Employee Stock Ownership Program, is calculated using the fair value based method. Under the fair value based method, compen-

MANAGEMENT'S DISCUSSION AND ANALYSIS

sation cost attributable to employees that are direct awards of stock, or stock appreciation rights that call for settlement by the issuance of equity instruments, is measured at fair value at the grant date and recognized over the vesting period. For awards that vest at the end of the period, compensation cost is recognized on a straight-line basis.

On September 1, 2004, Matrikon began recognizing compensation cost for all other stock based employee compensation awards, which are accounted for using the intrinsic value based method. Accordingly, when Matrikon awards stock options to employees, the compensation costs are recognized on the income statement. The options are valued at the grant date using the Black-Scholes pricing model based on the terms of the stock options and various economic assumptions and the expense is recognized over the vesting period of the options. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Matrikon's stock option program was discontinued in July 2005 and, assuming regulatory and shareholder consent is received, will be replaced with the proposed restricted share unit/deferred share unit plan outlined in the information circular accompanying this annual report.

RISKS RELATED TO OUR BUSINESS

The following internal and external risks may affect Matrikon's operations. Management continually monitors and evaluates these risk factors and takes action to minimize them, however as many are outside of our control, it is impossible to completely mitigate these risks.

MARKET DEMAND FOR PRODUCTS AND SERVICES

There is no guarantee that our products will remain competitive, nor that they will respond to market demands, developments or new industry standards. If we are unable to identify a shift in market demand quickly enough, we may not be able to develop products to meet those new demands, or bring them to market in a timely manner.

This risk is mitigated through our ongoing commitment to research and development and to constantly improving the products based on industry feedback. Matrikon has established a product advisory board where clients from a variety of industries meet with the company to discuss industry needs in the context of Matrikon's existing products and the clients' future needs.

In addition, Matrikon's service units continually provide insight into the business problems and trends occurring in a variety of industries. To date, Matrikon's products and enhancements have been developed through this insight and a continual feedback loop between industry, our engineers, consultants and product development teams.

STATE OF THE ECONOMY

Operating results may vary significantly based on the impact of changes in global economic conditions on customers.

While client needs change based on the economic climate, Matrikon's products and services are currently able to meet those needs.

In a robust economic environment, Matrikon's clients demand increased throughput and focus on optimization technology and expanding operations. During a recession, the focus shifts to improving efficiencies, reducing costs, and optimizing maintenance and operations. Matrikon's diversification in terms of geography, industrial sectors, and its lack of dependence on any one customer also help to mitigate this risk.

ABILITY TO EXECUTE PROJECTS AND DELIVER SOLUTIONS

A substantial portion of Matrikon's revenue is derived from service engagements, a number of which are undertaken on a fixed price basis. When making proposals for fixed priced engagements, we rely on estimates of costs and timing for completing the project. Profitability on these fixed price engagements may be impacted if initial estimates do not accurately reflect the cost of completing the engagement, by any unexpected costs or unanticipated delays or if the scope of the project is expanded without additional client funding. In addition, revenue related to fixed price projects is recognized based on the estimated percentage of work complete in relation to the total project. Any adjustments to these estimates may adversely affect quarterly results

To reduce this risk, Matrikon has established a Project Management Office (PMO) which applies project management best practices to all projects. The PMO regularly audits projects to ensure that they remain on track and as a mechanism to detect deviations from budget. Through this process, each project is reviewed with the project team, which typically includes client representatives.

In addition, as we continue to increase the proportion of engagements which are based on installing, implementing and customizing our own products and technology, this risk is further reduced through well-defined processes and methodologies.

EXCHANGE RATES

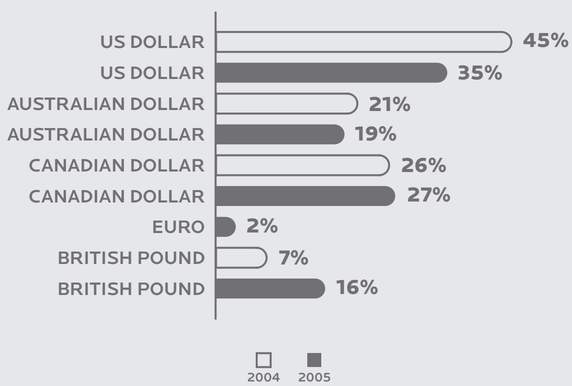
Matrikon operates internationally; accordingly, all contracts outside of Canada are in various local currencies, the largest of which is the United States Dollar.

As the US dollar has declined relative to the Canadian dollar over the past few years, Matrikon reviewed its forward contracts policy and adjusted its pricing. Matrikon believes that its practices for mitigating the impact of currency fluctuations are sufficient, although the company recognizes that this risk cannot be fully mitigated when exchange rates fluctuate very rapidly.

Matrikon enters forward contracts to partially manage exposure to currency fluctuations between the United States (US) and Canadian dollars. Forward contracts are entered based on projected cash conversion requirements. Approximately 35% of the company's revenues are received in US dollars while 70% of the expenses are in Canadian dollars.

As Matrikon expands internationally, the growing diversity of the revenue currencies offsets currency fluctuations. Revenue denominated in foreign currencies other than US dollars or Canadian dollars increased from 29% in 2004 to 38% in fiscal year 2005. The addition of Matrikon Deutschland on September 1, 2005 will further diversify the currency of revenues in fiscal year 2006.

% REVENUE BY CURRENCY



ABILITY TO RETAIN AND ATTRACT QUALIFIED EMPLOYEES AND CONTAIN PAYROLL EXPENSES

Executive management, senior technical personnel and other key personnel are essential to the business. The loss of the services of any of these persons could have a material adverse effect on the business. As a growing company, our ability to develop, market and support our products and deliver services could be harmed if Matrikon is not able to recruit and retain qualified personnel. In addition, payroll is a significant component of costs for our consulting and implementation groups.

To mitigate these risks, Matrikon offers competitive compensation packages, unique and challenging career opportunities and maintains close ties with academic institutions that train specialists in the fields in which it operates. Our corporate culture supports diversity, creativity, and equality and values integrity and innovation. In addition to providing a challenging and rewarding work environment, Matrikon's social activities and corporate culture foster creativity and teamwork. Matrikon was again named one of the Top 100 Employers in Canada in 2005 and a Cool Company to work for in 2004.

There has been minimal turnover (other than internal promotions) at the senior or first tier management level since the inception of the company.

AVAILABILITY OF CREDIT LINE AND FUTURE FINANCING

The company may require additional funds through public or private financing, strategic relationships or other arrangements to meet future growth objectives. There can be no assurance that it will be able to obtain additional funding on favorable terms, if at all. If Matrikon cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance products and services, expand the business, acquire complementary businesses or technologies, respond to competitive pressures or unanticipated requirements, or take advantage of future opportunities, which could have a material adverse effect on our business.

Matrikon is cash flow positive and currently has cash and equivalents of $10.55 million which, coupled with our existing line of credit of $7.00 million, we believe is sufficient to meet our growth objectives and will enable the company to take advantage of opportunities for strategic acquisitions.

RESEARCH AND DEVELOPMENT

If Matrikon does not respond effectively and on a timely basis to rapid technological change, its products and services may become obsolete and customer loss could result.

The markets for Matrikon's products are characterized by:

- rapid and significant technological change;
- frequent new product introductions and enhancements;
- changing customer demands; and
- evolving industry standards.

MANAGEMENT'S DISCUSSION AND ANALYSIS

To mitigate this risk, Matrikon is committed to research and development to ensure our continued technological leadership position. In addition to internal research and development, Matrikon sponsors two Industrial Research Chairs at the University of Alberta and an Australian Research Council Center of Excellence at the University of Newcastle.

Other strategies for minimizing this risk include Matrikon's industry and product advisory boards, which serve to alert the company to changes in our clients' technological direction, and membership and active involvement with industry standards organizations, which helps to ensure that our products comply with industry standards and to identify emerging trends.

LENGTHY SALES CYCLE

The lengthy sales cycle required to close larger projects makes it difficult to predict quarterly revenue levels and operating results. The sales process for larger projects and solutions can be lengthy and can exceed one year. Moreover, to the extent that Matrikon succeeds in shifting customer purchases toward corporate license agreements and larger solutions, the sales cycle may lengthen, which could increase the likelihood of delays and cause the effect of a delay to become more pronounced. As Matrikon transitions to a solutions company, the dynamics of the sales cycle and our close rates are evolving. This makes predicting sales timings and probability based on past results difficult. Delays in sales could cause shortfalls in our revenues and operating results for any particular period.

Matrikon has focused on building the sales and marketing infrastructure to support our transition to a solutions company, including holding sales success workshops, hiring senior sales personnel and hiring industry experts to address our solution positioning in each core vertical industry. In addition, we recently named a dedicated sales vice president.

Biweekly sales meetings also serve as a platform for sharing experiences amongst sales staff and providing an opportunity to learn from each individual's successes and failures.

In addition, account planning has become a critical success element for larger solutions and account plans are reviewed regularly with senior sales personnel.

The sales pipeline is continually monitored to ensure that relative weightings are accurate.

LEGAL CLAIMS

Intellectual property claims and other claims against the company could be time consuming and costly to defend. If we are unsuccessful, our ability to use intellectual property in the future could be limited or we may have to pay damages.

Matrikon has established policies that require all staff to comply with intellectual property laws. License agreements are obtained and staff is periodically reminded of their duty to observe these licenses.

Our license agreements with clients typically contain provisions designed to limit exposure to potential liability claims. In our agreements for the provision of services, we also try to negotiate limitations on liability. Despite this, it is possible that such provisions may not be effective as a result of existing or future laws or unfavorable judicial decisions. We have not received to date any product liability claims nor claims regarding services. A successful liability claim could result in significant monetary liability and could seriously disrupt our business.

We seek to minimize the risk of liability claims through a thorough quality assurance process, continual development of our products, and staff training. Further, we continually monitor changes to laws and the results of court cases, and strive to keep our agreements up to date to mitigate any claims.

FAILURE TO INTEGRATE OPERATIONS

If Matrikon fails to integrate the operations of the companies it acquires, it may not realize the anticipated benefits and operating costs could increase. Matrikon continues to pursue strategic acquisitions that will provide complementary geographic and/or vertical industry exposure. The identification and pursuit of these acquisition opportunities and the integration of acquired personnel, technologies and businesses require a significant amount of management time and skill. There can be no assurance that:

- suitable acquisition candidates can be identified
- any acquisition will be consummated on acceptable terms
- Matrikon will be able to successfully integrate any acquired business into its operations.

Acquisitions also expose Matrikon to potential risks, including diversion of management's attention, failure to retain key acquired personnel, assumption of legal or other liabilities and contingencies, and the amortization of acquired intangible assets. Moreover, customer dissatisfaction with, or problems caused by, the performance of any acquired products or technologies could hurt Matrikon's reputation.

These risks are mitigated through a thorough due diligence process, which includes measuring a potential acquisition against Matrikon's growth strategy, inter-

viewing key personnel and reviewing the cultural fit, reviewing financial, legal, and market issues related to the potential acquisition, talking to a sample of clients from the customer base and, in some cases, conducting character investigations for the company principals.

FAILURE TO ADDRESS CHALLENGES OF INTERNATIONAL OPERATIONS

Business may suffer if there is a failure to address the challenges associated with international operations. Approximately 73% of total revenues were from customers outside of Canada in fiscal year 2005. It is expected that revenues from customers outside Canada will continue to account for a significant portion of total revenues for the foreseeable future. Operations outside Canada are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers
- political and economic instability
- difficulties in staffing and managing foreign subsidiary operations
- difficulties and delays in translating products and product documentation into foreign languages
- difficulties and delays in negotiating software licenses compliant with Canadian accounting revenue recognition requirements
- potentially adverse tax consequences

To mitigate these risks, Matrikon fully researches the business and economic environment of a country before beginning business in the country. In countries with which Matrikon is unfamiliar, an agent familiar with the region will act on our behalf through the tender and negotiation process.

In addition, Matrikon's culturally diverse employee base has enabled us to offer training to clients in numerous languages.

DISCLOSURE CONTROLS

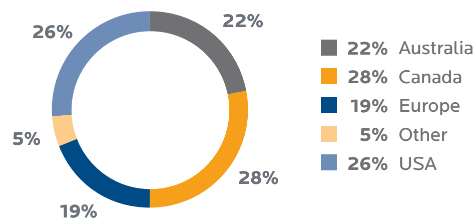
The CEO and CFO are responsible for establishing and maintaining the disclosure controls and procedures of Matrikon, and have so certified, as required by Multilateral Instrument 52-109. These officers have evaluated the effectiveness of Matrikon's disclosure controls and procedures and have concluded that the disclosure controls and procedures at Matrikon provide management a reasonable level of assurance that information required to be disclosed by Matrikon on a continuous basis and in annual and interim filings or other reports is recorded, processed, summarized, and reported or disclosed on a timely basis as required.

GROWTH STRATEGY

Matrikon's long-term growth strategy is comprised of four fundamentals: geographic expansion, technological advancement and innovation, vertical industry expansion and complementary professional services. These growth strategies are achieved through both organic growth and strategic acquisitions. The following table outlines the progress made on the objectives we set in each of these areas for 2005.

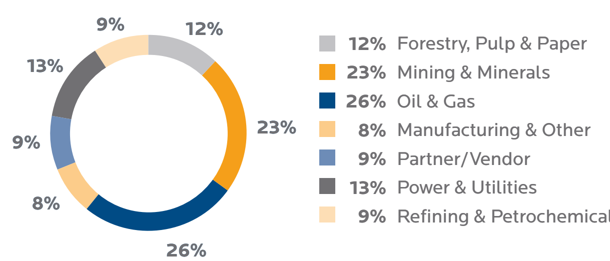
Growth Strategy	2005 Objectives	2005 Results
Geographic Expansion	• Further expand in Europe • Continue development of distributor relationships • Increase international business (outside North America)	• Increased business in Europe from 10% of revenue in 2004 to 19% in 2005 • Acquired German distributor subsequent to year end • New distributor relationships in South America and South Africa in development • International business revenue (outside North America) grew from 37% in 2004 to 46% in 2005

REVENUE BY REGION



Growth Strategy	2005 Objectives	2005 Results
Technical Innovation	• Ongoing product development	• Developed and released new versions of all ProcessSuite products • Applied for 2 patents in 2005 • Acquired Resolution assets; currently working to integrated our combined technology into the MI3 platform
Vertical Market Expansion	• Focus on key industries: oil & gas, power & utilities, refining & petrochemical, mining, and pulp & paper	• Hired industry expert for pulp and paper and identified internal experts for other core industries • Developed solutions and positioning to lead vertical industry strategy for each core market

REVENUE BY INDUSTRY



Growth Strategy	2005 Objectives	2005 Results
People Expertise	• Develop project management best practices	• First services conference held in 2005 • Expanded enterprise asset management capability with 21 Maximo 5 Certified consultants (17 in 2004) • Project management office established to develop best practices and perform project audits • Project management training program initiated