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November 5, 2008

The following discussion of Matrikon's financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes for the year ended August 31, 2008. We have prepared these financial statements according to Canadian Generally Accepted Accounting Principles (GAAP).

Matrikon's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on November 5, 2008.

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

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.

We believe that these non-GAAP measures are useful in assisting investors in understanding components of our financial results. The non-GAAP terms that we refer to in this analysis are defined below.

Gross margin is our total revenue minus the cost of sales, divided by the total revenue, and is expressed as a percentage. This measure is used to indicate the relative efficiency with which we earn revenue. Gross margin is a percentage based on two GAAP measures and as such has no quantitative reconciliation.

Net margin is our total net income (loss) divided by total revenue and is expressed as a percentage. This measure is used to indicate the relative efficiency with which we earn net income. Net margin is a percentage based on two GAAP measures and as such has no quantitative reconciliation.

Utilization or utilization rate measures the billable time for each employee against the total available time, based on a standard 260 work days per year and is expressed as a percentage. Utilization is used to demonstrate capacity to increase output in our Solutions business without adding resources. Utilization is a measure of working capacity and not a financial measure and therefore has no reconciliation to GAAP.

Average daily rate is consulting revenue divided by billable people multiplied by utilization rate divided by working days available in the period described. This measure is used by management to monitor overall project profitability and as an indication of progress in the transition of our business to higher margin engagements based on Matrikon technology. Average daily rate is based on non-financial measures and has no reconciliation to GAAP.

Additional Information

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

Comparative Figures

We have reclassified certain figures for FY-07 to reflect the financial presentation we adopted this year.

Forward-Looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our communications often include written or oral forward-looking statements. This annual report, including the MD&A, and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements are made pursuant to the "safe harbor" provisions of applicable Canadian securities legislation. These 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. These statements may include, but are not limited to, comments about: our objectives and priorities for 2009 and beyond, our strategies, expectations for our financial condition, the outlook for our operations, and external factors that may impact results, including global economies and industry trends.

Forward-looking statements require assumptions and involve risks and uncertainties related to our business and the general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from the targets, expectations, estimates or intentions expressed in the forward-looking statements. We caution readers of this Annual Report not to place undue reliance on our forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to:

- general economic conditions in the countries in which we operate;
- currency fluctuations;
- market demand for our products and services;
- our ability to execute projects and deliver solutions;
- our ability to execute our strategic plans and to complete and integrate acquisitions;
- the degree of competition in the geographic and business areas in which we operate;
- our ability to attract and retain qualified employees and contain payroll costs;
- our ability to contain expenses;
- technological changes and research and development;
- the length of the sales cycle required to close larger solution contracts;
- availability of financial resources to carry out our strategy;
- our ability to protect our intellectual and intangible properties;
- legal claims;
- critical accounting estimates;
- the possible effects on our business of war or terrorist activities;
- disease or illness that affects local, national or international economies;
- and disruptions to public infrastructure, such as transportation, communications, power or water supply.

We caution that this list is not exhaustive of all possible factors.

Other factors could adversely affect our results. For more information, please see the discussion on the principal risks that could affect our results, beginning on page 52 of this management's discussion and analysis.

The assumptions behind our belief that we will grow in 2009 include: global economic and political stability at current levels, that the opportunities in our pipeline will materialize as contracts, that our clients will continue to invest in initiatives that support efficiency and reduce costs, and that we will continue to be able to inspire, motivate and maintain our employee base at a sufficient level to deliver on our objectives.

When relying on forward-looking statements to make decisions with respect to Matrikon, investors should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the company or on its behalf.

FOCUS ON VISION & STRATEGY

Our aspiration is to be THE best. Not just a good company, but a great company:

- To work for
- To do business with
- To invest in

Vision: ***Empowering our customers to achieve Operational Excellence***

Our vision is to be the recognized market leader in operations performance management, which enables process industry clients to achieve Operational Excellence. We will achieve this by delivering technology and solutions that enable our customers to anticipate – to take advantage of opportunities, reduce risk and resolve issues before they become problems.

At the beginning of fiscal year 2008, we defined a new strategy to bring focus to our organization through a fundamental change in how we are organized. In last year's annual report, we detailed that strategy, which separated our business into Products and Solutions. Key elements of the strategy were:

- **Focus:** we defined expectations and set clear accountability across the organization.
- **Reorganize:** we became more client-focused, with our key clients managed by our key executives and no pure managers in our Solutions organization.
- **Building for the Future**: we developed a product roadmap to revamp all products over the next two years, making them simpler to use and understand. We also began the development of revolutionary, next-generation technology that we expect to multiply the value all of our products and industry applications deliver to our customers.
- **Customers & Employees**: we committed to retaining both, to developing both and to growing with both.

The initiatives that we employed to turn our company around proved successful, and we broke many records throughout the fiscal year. Not only did we return to profitability, we exceeded expectations with quarter after quarter of record results and a record net margin of 11% for the full year.

One year later, we remain committed to our strategy. We have further focused and refined some strategies based on a continuous evaluation of our progress throughout fiscal 2008.

We expect to continue to ensure that our global operations remain effective and our growth sustainable. Our strategies for achieving our vision for 2009 and beyond follow.

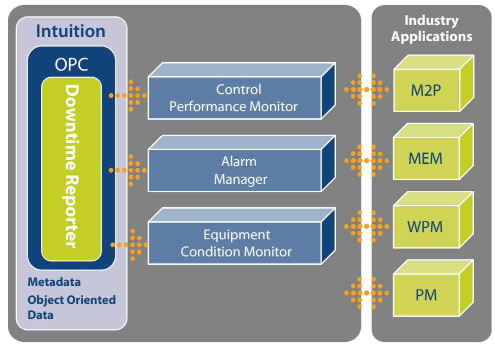
Note: This section is forward-looking by nature. It is qualified entirely by the Forward-Looking Statements disclaimer at the beginning of this MD&A. It is also qualified by the principal risks that could affect our business, pages 52 - 56.

Strategy	Intent
Solutions	
Continue to build on the Solution Partner model	Continue to strengthen client relationships, which we believe increases our ability to penetrate our existing client base with our full solution offering and contributes to our success with sales of high-value industry applications
Establish regional Centers of Excellence based on existing business, client base and expertise	Reduce the dilution of expertise across the company and increase the value delivered to our clients
Continue to grow sales of existing industry applications and develop new ones	Establish leadership position in key industries Shift revenue model from $1 in product for every $3 in services to $3 in product for every $1 in services Expand the client base for Mobile Equipment Monitor, Well Performance Monitor and M2P.

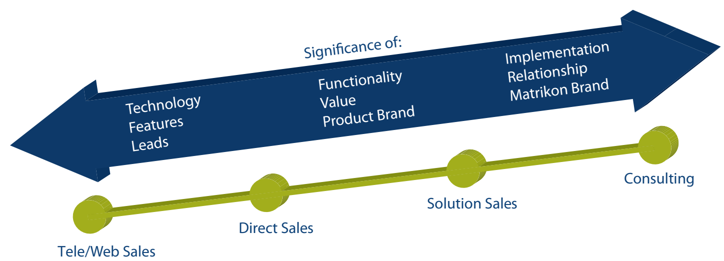
Strategic Progress Update

We've made significant progress on the Products|Solutions strategy introduced at the beginning of fiscal year 2008. You will find our scorecard for the objectives that we set at the beginning of the year on pages 16 - 17 of this annual report.

Strategy	Intent
Focus on delivering Programmes that empower strategic operational excellence initiatives	Provide clear entry point and upgrade/expansion path, enabling our clients to attain and sustain a step change in their operations

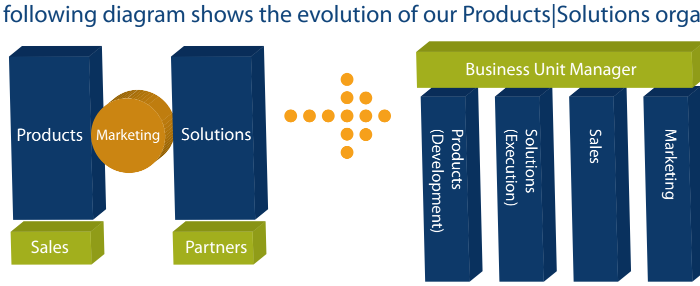


Products	
Continue to simplify our product	Easier to sell, downloadable product with a clear migration path Grow Products revenue to 40% of total revenue mix
Continue to improve R&D productivity	Reduce lines of code and thus maintenance costs associated with technology Reduce cycle time for product enhancements and innovation
Quarterly sellable product enhancements	More frequent client contact, enhanced value to customer
Match sales model to product life cycle	Improve brand clarity, increase market penetration, improve sales efficiency



Continue to grow Reseller Partner program	Leverage distribution channels to increase product sales and expand market share

Business & People	
People development: o Introduce programs to develop managers & leaders o Introduce performance program to reinforce culture and values o Formalize career planning processes o Return to Matrikon Heart o Develop employee brand	Develop future leaders to enable growth Improve employee satisfaction & engagement Improve employee retention by 20% Reinforce corporate values
Increase coordination between Products, Solutions, Sales & Marketing	Greater efficiency, better alignment to customer needs, improved value delivery, sustainable technical leadership The following diagram shows the evolution of our Products|Solutions organization:



FY-08: separation between Products & Solutions and how each is sold

FY-09: small, accountable and responsible teams for each product and application

FOCUS ON

MATRIKON: A COMPANY OVERVIEW

Founded in 1988, Matrikon is an international provider of industrial intelligence technology and solutions that empower our clients to achieve operational excellence, the systematic management of safety, health, environment, reliability and efficiency to achieve world class performance.

We provide plant level IT consulting services and software solutions to industrial clients across a number of industries, including oil & gas, petrochemicals & refining, power & utilities, and mining & minerals.

We have worldwide operations to support our global customer base, including:

- Canada (Vancouver, Calgary, Edmonton, Toronto)
- United States (Houston, Cleveland, Chicago)
- Middle East (Bahrain)
- Australia (Newcastle, Brisbane, Gladstone, Perth, Townsville)
- New Zealand (Hamilton)
- Singapore (Singapore)
- Europe (Aberdeen, Scotland; Matlock, England; and Köln, Germany)

Our business model is a combination of software development, sales and consulting services with four revenue streams:

Our Products Business	
Software License	Support
Matrikon Suite and MatrikonOPC software fees through direct sales & distribution channels	Maintenance and support on our proprietary software

Our Solutions Business	
Consulting	Equipment
Implementation of Matrikon Suite technology, industry solution development and deployment and, less frequently, integration of third-party software and equipment	Equipment sales are ancillary to some consulting engagements where clients request Matrikon to source equipment and third-party software

Products

We have several suites of products today:

MatrikonOPC

MatrikonOPC is the glue of Matrikon's products and professional services, enabling communication between hardware, software and devices on the plant floor and control systems in building automation. These products are based on OPC, the industry standard for plant floor communication.

MatrikonOPC is the world's largest OPC developer with a collection of over 500 interfaces. Boasting more than 30,000 users and over 100,000 installations around the world, MatrikonOPC provides connectivity to every major control system and application on the market.

Matrikon Suite

Matrikon Suite consists of complementary technologies that solve some of the biggest challenges that industrial enterprises face: production management, asset effectiveness and operations optimization.

Matrikon Suite bridges the gap between plant instrumentation and business systems to capture, analyze and present the intelligence contained in existing plant data. Role-based presentation of integrated operational data allows plant personnel to make informed, effective decisions in real time.

Asset Effectiveness

The Asset Effectiveness product set maximizes the return on capital employed (ROCE) by addressing the security, reliability and performance of all production assets.

- Equipment Condition Monitor™
- Process Performance Monitor™
- Downtime Reporter™
- Network Security Manager™

Production Management

The cornerstone of the Production Management theme is Production Intelligence™, which provides clients with confident knowledge of the location of their product, anywhere in the supply chain, at any time. Empowered with this knowledge, our clients are able to ensure regulatory compliance, increase yield, track down and reduce material losses, improve production efficiency and reduce costs.

- Production Intelligence™

Operations Optimization

The Operations Optimization product set addresses the everyday activities of execution: compliance, operator effectiveness and process control performance optimization.

- Alarm Manager™
- Operations Logbook™
- Control Performance Monitor™
- Operational Insight™

Introducing Intuition

Matrikon Suite products and our industry applications will be empowered by Intuition , a revolutionary programme based on open standards that incorporates workflows, universal connectivity, plant models and the power of the internet into every Matrikon product.

Intuition is essential to the digital revolution precisely because there is so much data.

Intuition takes Matrikon's core competencies (data acquisition, storage, analysis and presentation) to the next level: knowing what action to take and taking it.

Intuition was released for internal project use in June. We expect Downtime Reporter, the first Matrikon Suite product empowered by Intuition, to be released by the end of the calendar year. (The forward-looking statements contained in this paragraph are qualified by the disclaimer at the beginning of this MD&A.)

Introducing Matrikon Suite Essentials

As we continue to simplify and reduce the footprint of our products, we expect to introduce products under the Matrikon Suite Essentials brand.

These products are simple, downloadable products with basic functionality but very specific value that we expect to expose new customers to Matrikon technology. We also believe Matrikon Suite Essentials will generate leads for Matrikon Suite products and the direct sales team.

The first Matrikon Suite Essentials product is expected to be introduced in the first half of FY-09. (The forward-looking statements contained in this sub-heading are qualified by the disclaimer at the beginning of this MD&A.)

Industry Applications

We develop high-value industry-specific applications based on Matrikon Suite technology and the technical expertise and industry knowledge of our Solutions staff. To date, we have developed the following applications:

Well Performance Monitor (Oil & Gas)

Well Performance Monitor (WPM) is our online oil field monitoring application.

WPM allows engineers to focus on problem wells through its hierarchical and prioritized field views. Engineers can quickly drill down to well-specific graphs and trends to aid in well diagnostics.

WPM has been sold to three clients and rolled out to 350 wells in the Middle East.

Production Management (Oil Sands & Refining)

Production Management for Refining is most the mature of our industry applications, with numerous clients around the world, including some long-term (10-plus years) clients.

Production Management for Oil Sands is well positioned as the future Production Excellence standard in oil sands as more facilities come on line. Production Management has been deployed for four Alberta oil sands producers.

Mobile Equipment Monitor (Mining)

Mobile Equipment Monitor (MEM) enables mine operations to remotely monitor the performance of their large, mobile equipment in real time. Based on this performance data, MEM tracks KPIs, predicts developing problems and provides alarms so that appropriate action can be taken.

MEM contributes to a considerable reduction in operating and maintenance costs and an increase in equipment availability.

MEM has been sold to one operating company and an equipment manufacturer.

M2P (Mining)

M2P integrates the planning, scheduling, tracking and management of material movements though the mining supply chain. M2P interfaces with other mine systems, including planning, fleet management, laboratory systems and plant historians to deliver information in real time. M2P provides decision support for improved equipment scheduling and quality control decisions.

The first implementation of M2P is currently underway.

Consulting

Our consulting capability and industry knowledge uniquely position us to be a single source for total solutions to our clients. With a growing shortage of skilled workers, our clients are increasingly looking to service providers who are capable of delivering complete solutions.

Our consulting practice focuses on:

- helping our clients establish the appropriate operating infrastructure to support optimal performance and to get the most out of our technology
- developing custom solutions to meet specific client needs
- deploying and developing industry applications
- integrating Matrikon Suite products

Over 70% of our consulting revenue is generated in projects that involve Matrikon products.

FOCUS ON PERFORMANCE

What drives performance at Matrikon? It starts with our people, more than 500 talented and highly skilled individuals worldwide, but that's just one facet. It takes a lot to make the list of the top 50 control technology suppliers in the world, and here some of the factors:

- Attract and retain a highly skilled workforce
- Develop innovative products and continually increase their market share
- Successfully execute larger projects and win repeat business with long-term partners
- Operate efficiently
- Generate the financial resources required to achieve our objectives.

Key Performance Drivers

Note: This section is forward-looking by nature. It is qualified entirely by the Forward-Looking Statements disclaimer at the beginning of this MD&A. It is also qualified by the principal risks that could affect our business, pages 52 - 56.

An Exceptional Team

Our people fuel our success by developing innovative technology, delivering value to our clients through integration and consulting services, supporting our client base and developing long-term relationships with our clients. We know that our ability to attract and retain quality people is fundamental to our success.

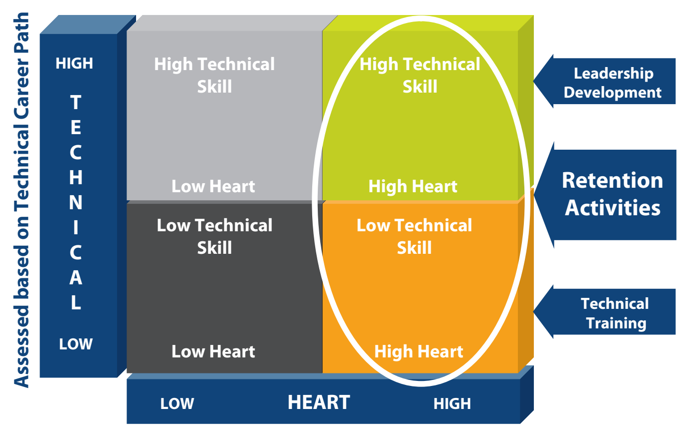
Like many other companies with similar global presence and end-client markets, we have been challenged by the significant pressure a booming economy places on salaries and employee retention. Improving retention, rebuilding our culture and engaging employees in our strategy were company-wide priorities in 2008.

We achieved a 6% improvement in employee retention over 2007. Our goal for 2009 is a further 20% improvement in retention. Our team decreased by 2% to 521 staff at August 31, 2008 from 530 on the same date in 2007 and increased by 4% since the end of the second quarter, when we had 501 employees.

Our human capital strategy spotlights the opportunities for personal growth and career development that a growing company like Matrikon offers. Our recruitment brand, "Opportunities beyond Expectations," applies equally inside the company.

The strategies we employed throughout FY-08 and our strategies for FY-09 focus on developing the potential of our people as well as ensuring that our culture is intentionally managed and that our corporate values are central to the recruitment and performance review process. To this end, we recently introduced the following initiatives:

- an enhanced, automated performance management system that reinforces culture and corporate values while developing the key attributes that lead to success at Matrikon. This system also includes goal-setting and career-planning modules for continued development throughout the year, formalizing coaching and goal-setting processes. This web-based performance management system facilitates the identification of key contributors.
- a custom-developed leadership training program based on gaps in leadership depth identified as part of a company-wide leadership assessment. The program, "Empowering Matrikon Leaders", was delivered to a pilot group in September 2008 and will be rolled out worldwide throughout FY-09.
- the return of the Matrikon Heart philosophy, which, along with corporate values, are incorporated into all HR processes to ensure that the right people are hired and developed and to reduce the number of people leaving in their first year of employment.



Assessed based on Performance Review

- a managers toolkit to improve management skills for front-line (and often first-time) managers, who have the biggest impact on an employee's development and engagement (to be released in FY-09).
- CEO Summit, a biennial program last held in 2006 that aims to identify and develop high-potential leaders. Twenty employees attended CEO Summit in 2008.

- a joint venture with an India-based company to assist with variability in consulting capacity requirements. These highly skilled individuals are trained by Matrikon and held to the same standard as all Matrikon employees.
- an Employee Share Purchase Plan was launched on September 1, 2008. Matrikon matches the shares employees purchase on a one-for-one basis, up to a maximum of $200 per month.
- an Employee Family Assistance Plan (North America), a comprehensive suite of life event services for employees and their families, including counseling, legal & financial advisory, stress management and substance abuse treatment.

These new programs build on several key strategies for improving employee retention and engagement that were identified and implemented over the past few years:

- an internal career posting board to provide greater visibility to open positions and advancement opportunities to all staff; 15 positions were filled by internal candidates in FY-08.
- Career Compass, a one-day workshop that provides employees with tools to help them design and manage their careers.
- grants of restricted share units to key contributors.
- group profit sharing programs to improve engagement and support our philosophy of a performance-driven culture; the program was initially rolled out as part of the Solutions Partner program and has been extended to a broader employee base.

Innovative Technology

The success of our Products business requires that we continue to develop innovative technology. Our commitment to innovation is achieved through continual research and development, award-winning collaboration with educational centers and collaboration with our clients to ensure that our products meet their current and future needs.

Our 2008 product development strategy included objectives of:

- **Increasing investment in R&D, with a focus on improved efficiency and effectiveness within the group**

  Our R&D investment in 2008 increased by 1% (2% excluding SR&ED tax credits) while headcount remained the same. In spite of this minimal increase in investment, our development teams achieved more with less as we adopted a lean approach to R&D. In addition to upgrades to all existing products, our development team introduced Intuition within eight months, a significant development achievement.

- **Simplifying existing products to fit our criteria for "off-the-shelf" products (requiring minimal training and customization)**

  Off-the-shelf product sales and sales through third-party distribution channels under our Reseller Partner program are key indicators of the success of our Products business model. Off-the-shelf sales increased by 10%, and Control Performance Monitor was simplified, graduating from an integrated product to off-the-shelf. Sales through third-party distribution channels more than doubled in FY-08, greatly extending our product sales capacity and our reach into new markets.

  As we continue to focus on increasing simplicity and reducing the footprint of our products, we will be releasing Matrikon Suite Essentials, a series of simple, downloadable products with basic functionality. Matrikon Suite Essentials products will have a low price point and serve as an entry point for new clients.

- **The creation of a product development roadmap for next-generation innovation and development**

  A product development roadmap was defined, with a resulting leap forward in our technology strategy. Intuition and Matrikon Suite Essentials are both products of this technology strategy.

Our priorities for 2009 include:

- Upgrading products more frequently, with at least one sellable product release each quarter
- Continuing to simplify and reduce the footprint of our technology and introduce Matrikon Suite Essentials
- Continuing and further defining our Leaning, Rationalizing, Positioning (LRP) strategy:
  - **Leaning**: the adoption of lean principles and practices to streamline the development process, resulting in less development waste and more frequent upgrades and product introductions.
  - **Rationalizing**: using Intuition as a vehicle to rationalize our product offering and technology infrastructure, resulting in reduced lines of code, reduced maintenance cost, improved customer appeal and more capacity to deliver additional innovation and products.
  - **Positioning**: clarifying the position of each of our products (refer to the *product stage* in the sales model discussion, page 36).

Our internal product development is augmented 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 two Industrial Research Chairs:

- The NSERC-Matrikon-Suncor Industrial Research Chair in Computer Process Control at the University of Alberta.
- The BHP Billiton-Matrikon Australian Research Council Center of Excellence for Complex Dynamic Systems and Control at the University of Newcastle.

Each of these research chairs is a unique partnership between industry and academic research, with Matrikon acting as a bridge between the two to ensure that the resulting technology can be rapidly commercialized.

Sales and Marketing

Our sales and marketing investment decreased by 38% in FY-08 as we rationalized our business, refocused our strategy and began to reposition our products. Throughout the last half of the year, we once again began to invest in sales and marketing to drive growth, with sales and marketing expenditures increasing by 22% compared to the first half of the year. In FY-08, sales people throughout the organization were focused solely on sales of off-the-shelf product. Support renewals were moved to the support group to free up sales bandwidth.

In addition to internal sales and marketing capacity, we continued to expand our Reseller Partner Program in 2008, with three new partners joining the Program. These partners have made a commitment to selling and integrating Matrikon technology, and many have taken on a sales quota. Sales generated via partners increased by 146% compared to FY-07, and we expect to see continued growth in sales from Reseller Partners.

Priorities for sales and marketing in FY-09 include:

- Hiring product managers in our Products business to coordinate the development, sales and marketing and execution for each major product, creating a single point of accountability.
- Developing the positioning and messaging for the Intuition programme.
- Increasing customer touch through quarterly product upgrades.
- Hosting regional marketing and customer events. These regional events will replace our global users conference.
- Building the brands for different classes of Matrikon product.

Sales Model vs. Product Stage

	Tele/Web Sales	Direct Sales	Solution Sales	Consulting
Key Characteristics	• Well defined need • Downloadable product (small footprint) • Marketing drives leads • Low price point (credit card sale)	• Well defined customer need • Requires domain knowledge to integrate • Medium price point (budgeted purchase)	• Identified customer objective • New market • Requires significant domain expertise – high services involvement • High price point (strategic enterprise initiative, corporate standards)	• MTK office specific expertise (must refer non-core business to other offices) • Sales model aligns with the product being sold
Products	**OPC, Matrikon Suite Essentials** Calculation Platforms, SOE Archive, Draw, Trend, Simple Logbook	**Matrikon Suite** Operator Logbook, Alarm Manager, Control Performance Monitor, Process Performance Monitor, Network Security Manager, Equipment Condition Monitor, Down Time Reporter	**Industry Solutions** Mobile Equipment Monitor, Matrikon Mine to Port, Well Performance Monitor	All products and services
Sell to	Operator/User	Plant Manager	VP / Chief Information Officer	Aligns to product being sold
Sales Method	Customer Pull / Marketing / Inside Sales	Outside Sales / Reseller Partners	Solution Partners	Solution Partners

Project Execution Excellence

In order to enhance shareholder value, we must execute efficiently and thus we continually seek out ways to improve our project execution.

The Solutions Partner model clearly establishes client responsibility. Partners are engaged with the client to ensure complete, mutual understanding and alignment of project objectives, resulting in projects executed with excellence.

We use two measures to determine the effectiveness of our project delivery: gross margin and average daily rate. In 2008, gross margin on consulting revenue declined to 38% from 40% in the prior year. Continued economic strength in Alberta, Australia and the UK resulted in salary increases of approximately 18% in spite of a 7% reduction in direct labour staff.

Average daily rate grew by 11%, led by significant improvement to the daily rate in Australia.

We have established project management best practices to ensure that projects remain on time and on budget while improving profit margins and average daily rate. Some of the specific initiatives we have undertaken to improve project execution include:

- Our new Solutions Partner model, with its focus on increased customer engagement, elevates project management from a back-end function and ensures key issues are understood and remedied early.
- Over the past few years, we have invested in formal project management training that prepares students to sit for the Project Management Professional designation exam.
- We provide regular training on Matrikon technology for services staff to ensure that installations and implementations can be completed efficiently.
- We regularly monitor project financial metrics, including budgeted time and expenses against actual incurred-to-date and projected profit margins.

In the latter part of FY-08, each office selected the core capabilities that it would develop and grow. These core capabilities were based on each office's existing client base and skill set as well as opportunities in the pipeline. As a result of this, we intend to develop regional Centers of Excellence, with a concentration of expertise on specific capabilities. By engaging only in work related to their expertise, we believe the value we deliver to our clients will increase and that this focus will contribute to project execution excellence.

In FY-08, consulting revenue decreased by 3% and the number of consultants decreased by 8%. Low utilization in North America indicates that this region has additional capacity. As we continue to sell and implement our industry applications, we expect utilization to improve.

Operating Efficiency

In addition to the specific objectives we have undertaken to improve R&D productivity and project execution excellence (discussed above). Indicating improvements to operating efficiency, we earned more revenue (9% more) with fewer people (10% less based on average headcount) in FY-08. We also increased revenue per person by 21% to $155 thousand.

We are continuing to implement a common business system to support the integration of our business processes. Our original timeline has been delayed by approximately one year.

We have selected an enterprise resource planning (ERP) system that complements our business model and processes and expect to have implementation completed in 2008. The goals of the ERP project are to:

- Increase efficiency through improved business visibility,
- Enable a more agile response to business changes,
- Improve financial and business reporting,
- Better integrate business processes (including sales, legal, accounting, human resources and project management),
- Improve monitoring of project financial metrics.

Financial Resources

Our philosophy with respect to managing finances has always been to build Matrikon to last: always remain profitable and free of long-term debt through systematic growth. Our growth to date has been primarily funded by internal cash flow, supplemented by an unused line of credit and private equity placements.

Our financial condition is stable, with cash flow positive operations, no debt and an unused line of credit. We believe that we have the capital resources and liquidity necessary to meet our commitments, support our operations and finance our current growth strategies.

In fiscal year 2008, we generated $14.15 million in cash from operations and paid out $11.01 million in dividends. In fiscal year 2009, we have paid out $3.09 million in dividends to date.

FOCUS ON

INNOVATION

Innovation defines the spirit of Matrikon and is the force that powers everything we do. It's embedded in each of our products that find new solutions to some of the critical issues our clients face everyday, and it's found in each of our employees.

We're always looking for new and better ways to help our clients succeed. That's why we developed Intuition, a technology programme that will form the foundation of all our future product releases and launch us into a new era.

With our deep pools of industry-specific expertise, we listen to our clients, discover their most pressing problems, and then we create targeted solutions. In the past year alone, we developed and released Mobile Equipment Monitor, Well Performance Monitor and M2P, three solutions that directly address specific, critical issues in the mining and oil & gas industries.

Innovation is what built Matrikon, and it's what will drive us in the future.

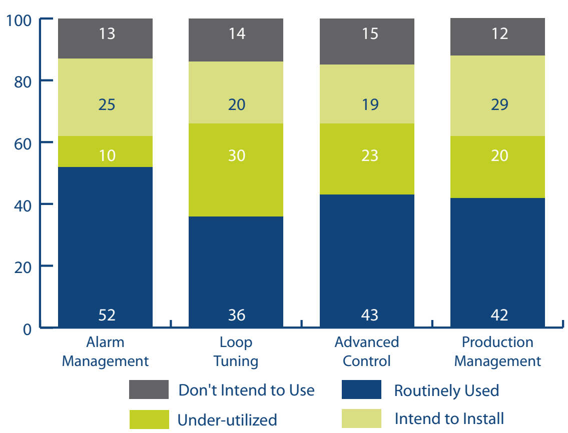
External Environment & Competitive Position

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

Broadly, Matrikon's competition consists of small product companies with competing point solutions; a few mid-size companies with similar products, solutions and consulting capability; and the industrial automation divisions of several global process control companies (Honeywell, Invensys, Emerson).

As some technologies move beyond the "early adopter" stage, the market becomes increasingly attractive and new competitors try to break in. At the same time as more competitors are entering the market, many smaller technology companies are being bought out by larger vendors. The following graph shows industry adoption levels for some of our product offerings.

Use of Process Control Technology



source: Control Global (www.controlglobal.com)

With our industry applications and the soon-to-be released Intuition, we have significantly surpassed our competitors' existing technology.

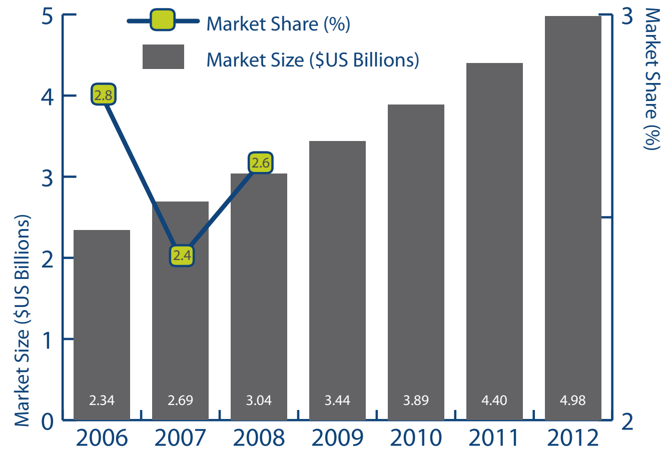
Competitive Position

In January 2008, Matrikon placed #37 on the Control magazine list of Top 50 control technology suppliers in North America and #48 on its global list. We have been included in the Top 50 list for the past six years. An important difference between Matrikon and other companies on the Control Top 50 list is that the majority are process automation hardware manufacturers (46 of the 50). Only four companies are pure software/services companies.

As we develop and execute on our Matrikon Suite and industry application strategy, our competition is reduced to a handful of companies who have the depth of technology, industry expertise and consulting capability to offer similar solutions.

The following chart represents the total market for Matrikon software and services worldwide based on ARC Advisory Group studies for the Collaborative Production Management (May-08), Plant Asset Management (Oct-07), and Real-Time Process Optimization (Jul-06) sectors that our solutions address.

Global Market for Matrikon Solutions



Source: ARC

Based on fiscal year 2008 revenue, Matrikon's current market share is 2.62%. (This graph is forward-looking information based on third party data. We make no assumptions about our future market share.)

Competitive Advantage

Note: This section is forward-looking by nature. It is qualified entirely by the Forward-Looking Statements disclaimer at the beginning of this MD&A. It is also qualified by the principal risks that could affect our business, pages 52 - 56.

Matrikon's competitive advantage is in our ability to provide solutions that improve productivity, plant availability and profitability, drive return on assets, and improve plant safety and compliance.

These directly respond to the client's most pressing issues: aging workforce and infrastructure, regulatory compliance, global competition, and increasingly complex production processes.

Our primary competitive advantages are:

Products:

- Intuition raises the bar with sophisticated technology, based on open standards
- Broad range of vendor-neutral, innovative technology that covers the spectrum of operational areas
- Ability to connect to and communicate with a multitude of hardware and software systems
- Data cleaning expertise to address issues that arise when data is missing or incorrect and to reduce false positives
- Web-based visualization to integrate information and drive real-time visibility

Solutions:

- Significant industry knowledge and technical expertise have been parlayed to high-value industry applications addressing specific, high-priority operational issues
- Well Performance Monitor and Mobile Equipment Monitor both achieved success in FY-08, and the opportunities for FY-09 appear solid
- M2P is now gaining similar traction

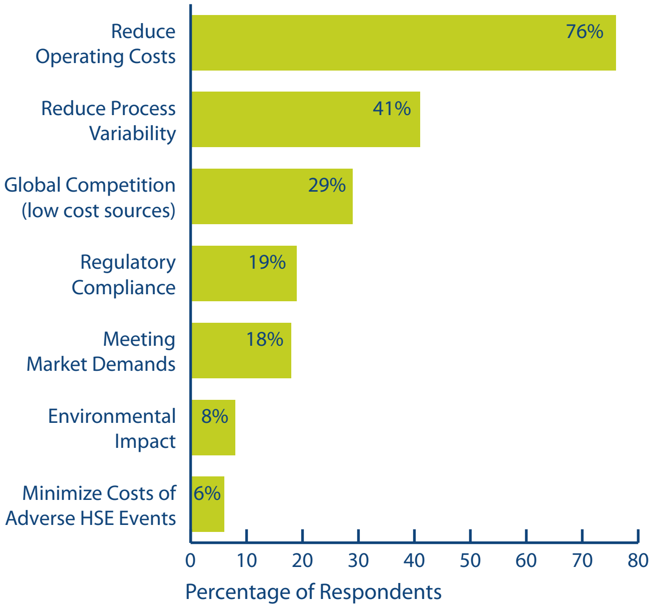
Combined:

- No other company our size provides the combination of technology plus the technical knowledge to integrate technology into business processes for sustained benefit
- We offer a total solution from a single vendor

External Environment

Our client base is characterized by industrial process companies with asset-intensive, global operations. Faced by rising costs and limited people resources, these companies need to reduce operating costs to remain competitive.

Top Market Pressures Faced by the Process Industries



Source: Aberdeen Group, from "Operational Excellence in the Process Industries" September 2008

Additional market dynamics create a strong demand environment for our solutions:

- Drive to improve real-time plant performance visibility for greater plant operations/business objective alignment
- Increasing focus on reducing process variability and improving product quality
- IT investments shifting from business-level ERP to the real money maker, the plant floor
- Increasing strategic focus on plant IT decisions, with increased executive involvement
- Standardization & integration
- Fewer people resources, knowledge leaving the company
- Compliance support

Gartner, a leading IT research and consulting firm, identified the six critical imperatives that drive IT investment as:

1. Attract and retain customers
2. Build an innovative and agile organization
3. Improve critical business processes and workflows
4. Improve workforce effectiveness
5. Manage risk, compliance and enterprise governance
6. Maximize performance, profitability and competiveness *(from "Six Business Imperatives Will Shape IT Investments," Gartner, October 30, 2007)*

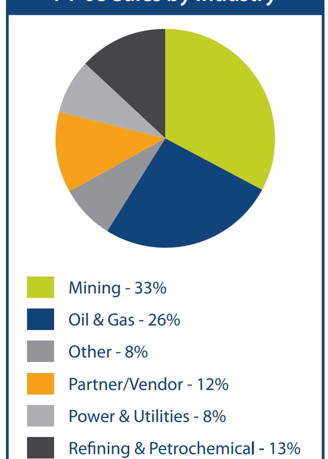
With respect to Matrikon's core vertical industries, the mining sector continued to experience the greatest growth in FY-08, increasing to 33% of sales from 21% in FY-07. This growth is directly related to the success of Mobile Equipment Monitor.

With soaring oil prices throughout FY-08, oil and gas companies focused on exploration activities rather than maximizing efficiency and productivity which contributed to a decline in sales from this sector. With oil prices recently plummeting, we expect this trend to reverse.

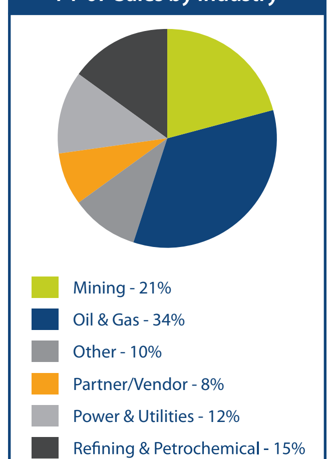
We continue to see significant regional opportunities, specifically tied to industries and Matrikon's industry applications:

- Canada: oil sands – opportunity for both Production Management and Mobile Equipment Monitor
- USA: oil & gas and mining, particularly around the Gulf Coast – opportunity for Well Performance Monitor and Mobile Equipment Monitor
- Australia: mining – opportunity for M2P and Mobile Equipment Monitor
- North Sea & Middle East: oil & gas - opportunity for Well Performance Monitor and similar industry applications under development
- Europe: petrochemical refining and pharmaceuticals – opportunity for Matrikon Suite and MatrikonOPC products

FY-08 Sales by Industry



FY-07 Sales by Industry



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FOCUS ON RESULTS

Our Products|Solutions strategy was designed to:

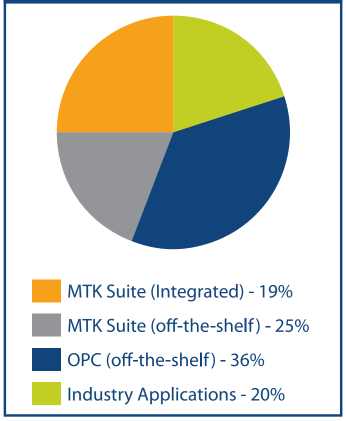
- Increase sales of off-the-shelf products
- Increase market penetration by employing multiple sales and distribution channels
- Improve execution in our Solutions business
- Create a sustainable revenue model based on strong relationships with strategic clients

Over the course of FY-08, we made significant progress on this strategy. Revenue from off-the-shelf products (defined as Operational Insight, Alarm Manager and OPC) increased by 10% and sales through our distribution channels increased by 146% compared to FY-07. For the first time, we achieved a long-term target of one third of our annual revenue coming from software licenses and support. We also grew our install base, with product sales to over 710 clients in 2008, including 449 new clients.

12 Months Ended	**31-Aug-08**		**31-Aug-07**		**31-Aug-06**		**2008 vs. 2007**
(CAD $000s)		% revenue		% revenue		% revenue	
Total Revenue	**$80,031**	**100%**	**$73,498**	**100%**	**$73,821**	**100%**	**9%**
Consulting fees	46,497	59%	48,146	66%	48,770	66%	(3%)
Margin on consulting fees	*38%*		*40%*		*41%*		
Equipment sales	5,947	7%	4,599	6%	5,802	8%	29%
Margin on equipment sales	*29%*		*29%*		*27%*		
Total Solutions revenue	**52,444**	**66%**	**52,745**	**72%**	**54,572**	**74%**	**(1%)**
Software license fees	17,879	22%	13,369	18%	13,247	18%	34%
Margin on software license fees	*95%*		*97%*		*98%*		
Support	8,923	11%	7,384	10%	6,002	8%	21%
Margin on support	*94%*		*90%*		*88%*		
Total Products revenue	**26,802**	**33%**	**20,753**	**28%**	**19,249**	**26%**	**29%**
Interest income	785	1%	-	0%	-	0%	
Consulting headcount (average)	*268*		*290*		*312*		*(8%)*
Gross margin	*56%*		*55%*		*55%*		
Utilization	*71%*		*72%*		*72%*		
Total Expenses	**33,227**	**42%**	**40,240**	**55%**	**32,474**	**44%**	**(17%)**
Consulting G&A	6,094	8%	8,107	11%	6,749	9%	(25%)
Sales & marketing	5,855	7%	9,416	13%	9,270	13%	(38%)
Research & development	6,701	8%	6,660	9%	5,292	7%	1%
General & administrative	12,297	15%	13,120	18%	8,781	12%	(6%)
Operations headcount (average)	*249*		*284*		*244*		*(12%)*
Stock-based compensation	1,004	1%	1,409	2%	839	1%	(29%)
Amortization	1,276	2%	1,528	2%	1,543	2%	(16%)
Foreign exchange translation gain (loss)	310	1%	(508)	(1%)	(886)	(1%)	(161%)
Net income (loss)	**9,098**	**11%**	**(220)**	**0%**	**5,132**	**7%**	**nmf**
Earnings (loss) per share - basic	0.30		(0.01)		0.17		nmf
Earnings (loss) per share - diluted	0.29		(0.01)		0.16		nmf
Weighted average shares outstanding (000s)	30,511		30,364		31,020		0%
Total Assets	67,768		64,663		64,474		5%
Total Long Term Liabilities (Future income taxes)	316		569		311		(44%)
Deferred revenue	8,909		9,578		7,565		(7%)
Contracts in progress	6,246		6,015		5,308		4%
Cash flow from operations	14,153		3,432		7,771		312%

Products revenue grew by 29% to $26.80 million in FY-08 compared to $20.75 million in FY-07. Both software license fees, with 34% growth, and support, with 21% growth, contributed to this increase.

Product Revenue by Type

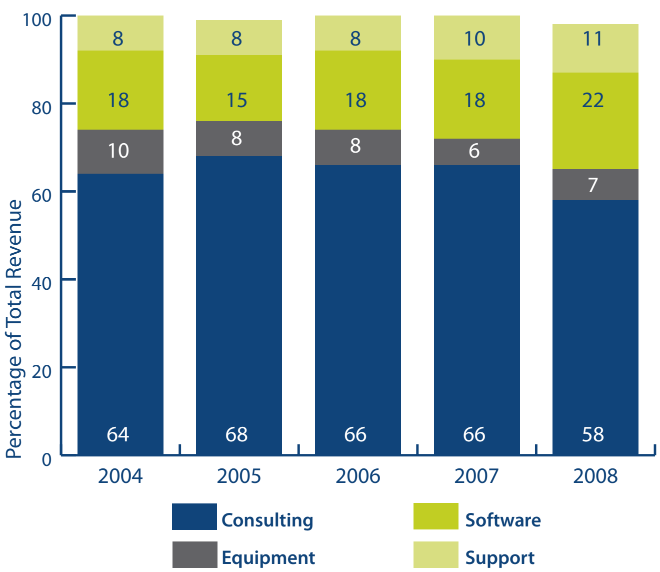


We achieved more with less in our Solutions business. Our consulting revenue declined 3% to $46.50 million, while the average number of consultants that we had on staff declined 8%.

Our industry applications combine the technology developed by our Products business with the industry expertise of our consultants to deliver high-value solutions to specific industry problems. They continued to gain traction, contributing $3.28 million in software license revenue in FY-08. In addition to the success achieved with MEM and WPM, we sold our first M2P solution in Q4-08, and implementation is currently underway.

The majority of our Solutions business is now focused on Matrikon technology. Over 70% of our fiscal year services sales were made to clients to whom we sold our products as well.

Revenue Profile



Gross Margin

Gross margin for FY-08 was 56%, compared to 55% in FY-07. Gross margin in FY-08 was positively impacted by record software and support revenue, which had margins of 95% and 94% respectively. This improvement was offset by reduced consulting revenue gross margin of 38% compared to 40% in FY-07. Gross margin on consulting revenue was negatively impacted by an increase in salaries and commissions over FY-07, partially offset by an 11% increase in average daily rate.

Gross Margin by Revenue Type

Year Ended August 31	2008	2007	2006
Consulting revenue	38%	40%	41%
Software revenue	95%	97%	98%
Equipment revenue	29%	29%	27%
Support revenue	94%	90%	88%

Overhead Expenses

Combined FY-08 overhead expenses were $33.23 million (42% of revenue) compared to $40.24 million (55% of revenue) in FY-07. Overhead expenses in FY-07 included one-time severance charges of approximately $1.70 million. Excluding these one time charges, total overhead expenses decreased by 14% compared to FY-07 and overhead staff decreased by 12%.

This reduction in expenses is consistent with our expectation that our Products|Solutions strategy would result in leaner offices, increased use of external sales and distribution channels and increased productivity in R&D. (The forward-looking statements contained in this paragraph are qualified by the disclaimer at the beginning of this MD&A.)

With overhead expenses contained and profitability restored, we began to increase our investment in sales and marketing in the last half of the year to support top-line growth. Sales and marketing investments in the second half of FY-08 increased by 22% compared to the first half of FY-08 while staff increased by 14% over the same period.

General and administrative expense remained fairly constant throughout the year but was increased in the fourth quarter due to increases in professional and consulting fees and startup costs related to Matrikon-SoftDEL India Private Limited.

Net Income

We achieved record net income of $9.10 million and net margin of 11% for FY-08 compared to a loss of $0.22 million in FY-07.

In FY-08, we began to report other comprehensive income. Other comprehensive income accounts for foreign currency translation gains or losses relating to self-sustaining foreign subsidiaries and resulted in an unrealized foreign currency translation gain of $0.13 million for the year as the Australian dollar gained strength against the Canadian dollar. Under prior period financial statement presentation, this amount would have been included as a foreign currency translation gain on the income statement.

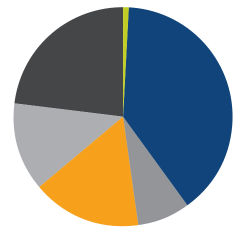
The following factors positively impacted net income in the year:

- High-margin Products revenue (software licenses and support) grew by 29% over FY-07.
- Overhead expenses were reduced by 17% compared FY-07.
- Stock-based compensation was reduced by 29% compared to FY-07 as discontinued stock-based compensation programs (employee stock ownership plan) wound down and forfeitures offset other stock-based compensation expenses.
- Foreign currency translation resulting in a gain of $0.31 million in FY-08 compared to a loss of $0.51 million in FY-07 as the Canadian dollar weakened relative to other currencies in which we do business.

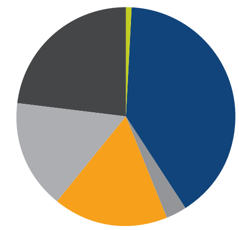
The graphs (right) and table (below) show the percentage of revenue by the various currencies in which we do business, and the period-end and average exchange rates for those currencies.

	Period End Exchange Rate for $1.00 CAN			
	31-Aug-08	2008 Average	31-Aug-07	2007 Average
Australian Dollar	0.9138	0.9152	0.8674	0.8977
British Pound	1.9390	2.0035	2.1366	2.1950
Canadian Dollar	-	-	-	-
Euro	1.5625	1.5098	1.4478	1.4807
United States Dollar	1.0645	1.0067	1.0609	1.1213

FY-08 Billings by Currency



FY-07 Billings by Currency



Segment Results

We report four strategic business segments based on how we monitor and assess performance internally: North America; Asia-Pacific; Europe, Middle East & Africa (EMEA) and Products. A fifth segment, Corporate, captures corporate expenses.

We adjusted our segments at the outset of fiscal year 2008 to reflect current evaluation practices. The previously separate Canada and United States segments have been combined into the North America segment.

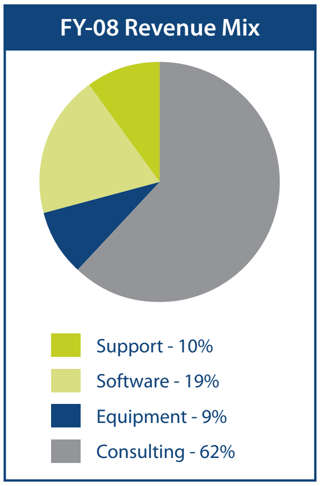
12 Months Ended 31-Aug-08 CAN$ (000s)	North America	Asia-Pacific	EMEA	Products	Corporate	Total
Revenue	29,336	19,469	16,699	14,527	-	80,031
% of revenue	37%	24%	21%	18%	-	100%
Gross profit	13,971	9,522	9,466	12,210	-	45,169
Gross margin	48%	49%	57%	84%	-	56%
Expenses	(6,033)	(5,959)	(3,969)	(6,909)	(10,357)	(33,227)
Other income (loss) & foreign exchange gain (loss)	41	187	341	-	977	1,546
Income (loss) before taxes	7,979	3,750	5,838	5,301	(9,380)	13,488
Revenue change % (FY-08 vs FY-07)	6%	19%	13%	(0%)	-	9%
Income (loss) before taxes change %	104%	116%	15%	140%	(28%)	nmf
Employees at 31-Aug-08	139	130	72	113	67	521
FY08 Average employees	144	120	72	116	66	518
Utilization	59%	73%	98%	-	-	71%

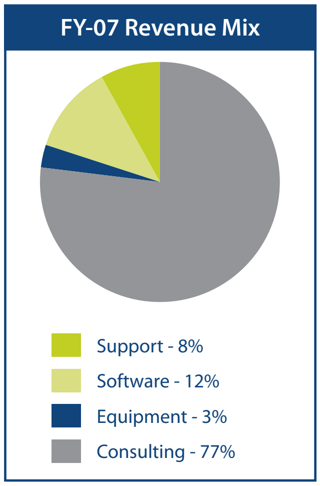
12 Months Ended 31-Aug-07 CAN$ (000s)	North America	Asia-Pacific	EMEA	Products	Corporate	Total
Revenue	27,784	16,331	14,834	14,549	-	73,498
% of revenue	38%	22%	20%	20%	-	100%
Gross profit	12,983	6,814	8,789	11,610	-	40,196
Gross margin	47%	42%	59%	80%	-	55%
Expenses	(9,067)	(5,155)	(3,978)	(9,401)	(12,639)	(40,240)
Other income (loss) & foreign exchange gain (loss)	(8)	81	281	-	(325)	29
Income (loss) before taxes	3,908	1,740	5,092	2,209	(12,964)	(15)
Employees at 31-Aug-07	172	115	72	123	48	530
FY07 Average employees	201	119	63	140	51	574
Utilization	62%	76%	99%	-	-	72%

North America

Revenue in the North America segment increased by 6% compared to FY-07 as a result of increases in software license (64%), support (32%) and equipment (207%). These increases were offset by a 16% reduction in consulting due to decreased staff (28% reduction in average staff) over the prior year.

North America





The North American segment took the longest to transition to the Solutions Partner model as it previously relied on sales people to close deals. In addition, consulting revenue in the early part of the year was impacted as consultants were engaged in solution development (R&D) for MEM and a significant portion of consulting work in the Middle East, previously executed by North America was transferred to EMEA. These two factors led to low utilization throughout the year (59%).

MEM has been rolled out to two production sites since Q3-08 and several additional mine-site implementations are planned for 2009. Early industry solution implementations are achieving software to services ratios of 2.5+:1. We believe that as we continue to roll out these solutions, the ratio will be 3+:1. (The forward-looking statements contained in this paragraph are qualified by the disclaimer at the beginning of this MD&A.)

In addition to interest from mine operating companies, we have established relationships with mine equipment manufacturers to embed MEM into their equipment.

The implementation of industry solutions improved North America's revenue mix to approximately 29% Products to 71% Solutions.

Expenses were reduced by 33% due to decreased staff. Revenue per employee in North America increased significantly, to $204 thousand from $138 thousand in FY-07.

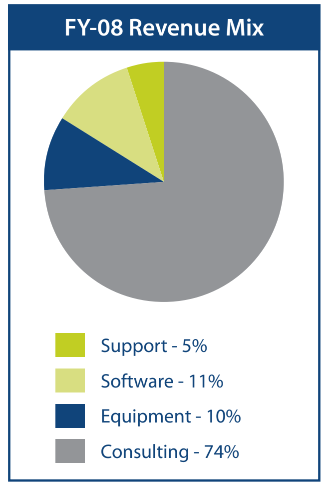
Opportunities for the North America segment and our industry applications remain strong, particularly in the oil sands of northern Alberta, the oil industry around the Gulf of Mexico and in mining operations across the continent.

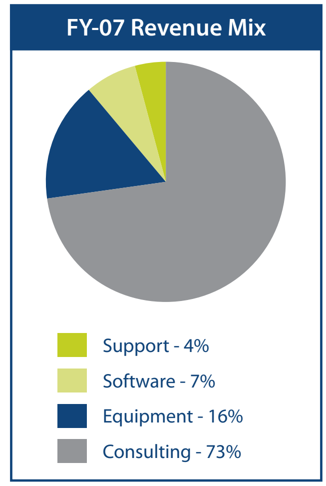
Asia-Pacific

Revenue in Asia-Pacific grew 19% over FY-07. Consulting revenue was up by 27%, software licenses by 97% and support by 66%, while equipment revenue decreased 21%. These increases in higher-margin revenue sources contributed to a significant improvement in gross margin, at 49% compared to 42% in FY-07. FY-08 average daily rate improved by 31% compared to FY-07 as daily rates on new projects were adjusted to reflect resource market conditions, coupled with improved efficiencies on fixed-price projects.

Expenses in Asia-Pacific increased 16% as a result of market pressure on salaries, increases in office rent and the increased strength of the Australian dollar (expenses increased 12% in natural currency).

Asia-Pacific





Asia-Pacific leads the development, sales and execution of M2P. The first sale of M2P was made in Q4-08, with implementation underway.

One element of Asia-Pacific's strategy to expand into Asia and increase sales of Matrikon products in FY-08 was the use of distribution partners. Five new Reseller Partners were added to the region in FY-08.

With the Perth office focused on product distribution and the Reseller Partners in Asia, Asia-Pacific increased license sales to 11% of revenue from 7% in FY-07. Asia-Pacific continues to focus on growing sales of Matrikon product. M2P and the release of Australia-developed Downtime Reporter in early FY-09 should help to significantly increase product revenue in the region.

EMEA

As illustrated in the table below, EMEA's results for FY-08 were significantly impacted by the weaker British Pound & US dollar (common currency for Middle East).

FY-08 vs. FY-07	Natural Currency	Canadian Currency (as Reported)
Increase in revenue	49%	13%
Gross margin (FY-08)	61%	57%
Increase in expenses	8%	0%
Increase in income before taxes	92%	15%

EMEA revenue increased by 13% compared to FY-07, largely as a result of a 36% software license increase and a 79% support increase. Gross margin for EMEA was 57% in FY-08, compared to 59% in FY-07. Expenses as a percentage of revenue decreased by 3 points (natural currency 7 point decrease).

EMEA, and particularly UK operations, lead the development, sales and execution of WPM and has begun to develop similar targeted industry solutions. WPM has been deployed to one

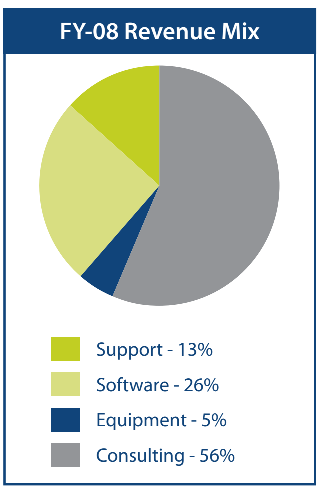
Middle East oil company. The full field rollout to 350 wells was completed over a two month period. Test environment deployments were completed for two other companies and we have now begun field deployments following the completion of their pilot projects. Like MEM, WPM is achieving software to services ratios of 2.5+:1. We believe that as we continue to roll out these solutions, the ratio will be 3+:1. (The forward-looking statements contained in this paragraph are qualified by the disclaimer at the beginning of this MD&A.)

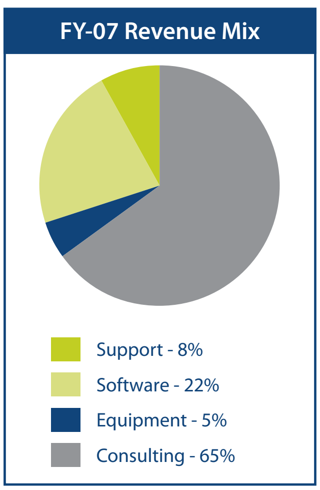
Our German operations, primarily focused on product sales, have been successful with selling corporate licenses of off-the-shelf product across Europe. Overall revenue grew by 60% over FY-07 with a 74% increase in software licenses and over 300% growth in support revenue. As a product office, Germany's revenue mix is 66% Products and 33% consulting.

Middle East operations have gained significant traction in 2008, both with WPM and other Matrikon solutions. Total revenue grew by 156% compared to FY-07. Software licenses increased by 98%, support increased by 27% and consulting revenue increased by 258%.

The implementation of industry solutions and growth in the product-oriented German office improved EMEA's revenue mix to 39% Products to 61% Solutions.

EMEA





EMEA is reliant on a major customer who represents approximately 30% of total revenue. Revenue from this customer has been steady over the past five years and is expected to continue. (The forward-looking statements contained in this paragraph are qualified by the disclaimer at the beginning of this MD&A.)

Opportunities for WPM and other Matrikon solutions in oil and gas in the Middle East and North Sea as well as in refining, petrochemical and pharmaceuticals in continental Europe remain strong.

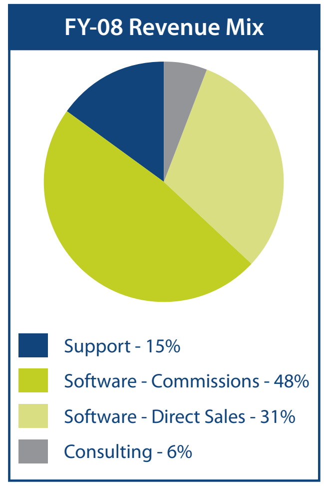
Products

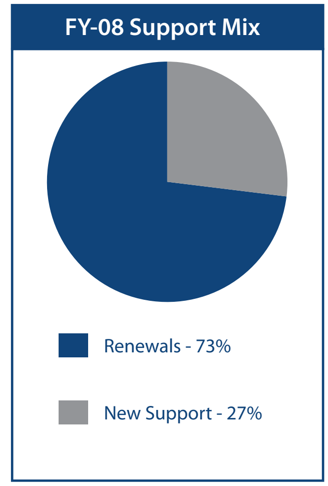
Products segment revenue was flat compared to FY-07 in spite of record software license and support revenue throughout the year. This is because a larger portion of software and support were sold by the North America, Asia-Pacific and EMEA segments rather than directly by the Products segment. These other segments retain 50% of the revenue for the software and support they sell. Intercompany product commission increased by 31% compared to FY-07.

When we embarked on the Products|Solutions strategy at the beginning of FY-08, the focus of account managers shifted to sales of off-the-shelf product only, thus, much of the product sales pipeline needed to be rebuilt at the beginning of the year.

Compared to FY-07, expenses in the Product segment decreased by 27%. Matrikon's annual user conference was not held this year and thus travel, entertainment and other expenses were reduced. A 17% reduction in average headcount for the year also contributed to the reduced expenses.

Products





While much of the license revenue sold by the Solutions groups related to industry applications, the Products segment's focus has been to increase the sales of off-the-shelf product (OPC software, Alarm Manager and Operational Insight).

We continued to improve our market penetration of our products in FY-08, with revenue from off-the-shelf product increasing by 10% over FY-07, software client volume increasing by 42% and sales through Reseller Partners increasing by 146%.

On the development side, the Products group adopted a lean development focus in FY-08 and developed Intuition, a next-generation technology programme. Intuition was developed in record time and is expected for release early in FY-09. (The forward-looking statements contained in this paragraph are qualified by the disclaimer at the beginning of this MD&A.)

Corporate

The Corporate segment includes all shared corporate services (including executive management, finance, information technology and human resources) that cannot be directly allocated to other segments. In addition, the Corporate segment includes stock-based compensation, other income or expenses, foreign exchange translation gains and losses and corporate amortization.

Expenses in the Corporate segment fluctuate period by period based on corporate activity and foreign exchange rate fluctuations. Corporate expenses decreased by 18% compared to FY-07 as a result of our focus on cost-containment, reductions to stock-based compensation and a favorable shift in foreign exchange in the latter half of the year, which resulted in a translation gain of $0.31 million, compared to a loss of $0.51 million in FY-07.

Liquidity & Capital Resources

Note: This section is forward-looking by nature. It is qualified entirely by the Forward-Looking Statements disclaimer at the beginning of this MD&A. It is also qualified by the principal risks that could affect our business, pages 52 - 56.

(CAN $000s)	31-Aug-08	31-Aug-07	31-Aug-06	FY08 vs FY07 % Change
Cash & cash equivalents	15,721	12,923	18,316	22%
Accounts receivable	22,782	19,991	20,640	14%
Trade receivables	17,407	17,192	18,509	1%
Average collection period (trade receivables)	77 days	86 days	82 days	(9 days)
Contracts in progress	6,246	6,015	5,308	4%
Deferred revenue	8,909	9,578	7,565	(7%)
Current liabilities	22,269	18,387	16,204	21%
Cash flow from operations	14,153	3,432	7,771	312%

The rolling 12-month average collection period (on trade receivables) was 77 days, an improvement of 9 days since the end of fiscal year 2007. This improvement is the result of an increased focus on collections in FY-08.

Our client base consists primarily of Global 500 companies with strong credit ratings; therefore bad debt has historically been minimal. Bad debt expense was 0.4% of revenue in FY-08 compared to 1.9% in FY-07.

Current liabilities increased to $22.27 million at the end of fiscal year 2008, compared to $18.39 million at the end of fiscal year 2007. This increase is a result of increases in accounts payable ($2.62 million) related to greater project use of third-party equipment, increases in professional fees and growth in commissions and bonuses payable for FY-08. An increase in income taxes payable and future taxes ($1.92 million) related to strong net income throughout the year also contributed to the increase in current liabilities, partially offset by a decrease in deferred revenue ($0.67 million). Deferred revenue at the end of the year includes $4.92 million in deferred support revenue (FY-07 – $4.24 million) and $3.99 million in unearned software license, services and equipment revenue (FY-07 - $5.34 million).

Cash generated by operating activities was $14.15 million in FY-08, compared to $3.43 million in FY-07. This increase is a result of significant improvements to net income, the resulting increase of $4.78 million to future taxes and a $1.69 million swing in foreign exchange gains/losses.

In Q2-08, we began paying a quarterly dividend of $0.03 per common share to our shareholders. We also paid a special dividend of $0.30 per common share in July. Subsequent to the end of the fiscal year, our board of directors declared a special dividend of $0.07 per common share in addition to the regular dividend for the fourth quarter of $0.03 per common share. Both dividends were paid on October 31, 2008.

Our effective income tax rate was 32.5% for FY-08, at the top end of our expected range of 27% to 32%. Effective tax rate increased in the fourth quarter to 39.0% because we applied our 2007 losses to prior year taxes rather than carrying them forward to future years.

Management believes that we have the capital resources and liquidity necessary to meet our commitments, support our operations and finance our current growth strategies.

Financial Instruments

Forward Contracts: We periodically enter into forward contracts to partially manage our exposure to currency fluctuations between United States (US) and Canadian dollars. Forward contracts are entered into based on our projected requirements for converting US cash to Canadian dollars. We do not recognize these contracts in our consolidated financial statements when we enter them, nor do we account for them as hedges. Instead, they are marked to the market exchange rate at the date of the balance sheet. Changes to the market value are recorded into income or expense. The fair value of these contracts is included in accounts receivable for a gain or accounts payable for a loss.

At August 31, 2008, the fair value of forward contracts was an unrealized loss of $0.07 million compared to $Nil at August 31, 2007.

At August 31, 2008, we were committed to sell $1.00 million in US dollars each month at a rate of $1.02-$1.03 through to October 2008. Subsequent to the year, we committed to sell additional US dollars as follows:

- November: $1.00 million at an average exchange rate of $1.09
- December: $1.25 million at an average exchange rate of $1.09
- January: $1.25 million at an average exchange rate of $1.11

Foreign Currency Translation

In the third quarter of fiscal year 2008, we determined that Matrikon Asia-Pacific PTY Limited (MAPL) was a self-sustaining entity due to a change in economic circumstances. The Australian dollar is the functional currency of MAPL. As a self-sustaining entity, MAPLs operations are translated using the current rate method, which means that assets and liabilities are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated using the average exchange rates over the period. Translation gains and losses related to MAPL are included in accumulated other comprehensive (loss) income in shareholders' equity. For FY-08 we recorded $0.13 million in unrealized gains due to foreign exchange translations related to MAPL.

Foreign exchange gains or losses from our integrated international operations are recorded in the Consolidated Statement of Income. We realized a foreign exchange loss of $0.93 million, offset by an unrealized gain of $1.24 million.

Quarterly Results

The following table presents a summary of our unaudited consolidated operating results for the past eight quarters. This information should be read in conjunction with the applicable interim financial statements, notes to the financial statements and management's discussion and analysis.

NOTE: SR&ED tax credits for prior years were reclassified to offset R&D expenses. Previously, these credits were reported in other income.

CAN $000s except per share amounts	*FY-07*				*FY-08*			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	18,807	17,247	19,009	18,435	19,889	19,444	20,536	20,162
Gross profit	11,035	10,011	9,789	9,361	11,200	10,533	11,533	11,903
Gross margin	59%	58%	51%	51%	56%	54%	56%	59%
Operating income	1,787	(73)	(1,531)	(227)	3,380	2,617	3,103	2,842
Net income (loss)	1,803	307	(2,085)	(245)	2,239	1,809	2,467	2,583
Net margin	10%	2%	(11%)	(1%)	11%	9%	12%	13%
Shares outstanding *(000s)*	30,978	30,637	30,191	30,308	30,598	30,440	30,548	30,636
Diluted shares outstanding *(000s)*	31,386	31,006	30,691	31,574	31,549	31,340	31,467	31,494
EPS - basic	0.06	0.01	(0.07)	(0.01)	0.07	0.06	0.08	0.09
EPS - diluted	0.06	0.01	(0.07)	(0.01)	0.07	0.06	0.08	0.08
Headcount	581	605	582	530	530	501	506	521

Seasonality

Historically, consulting revenue has been lower in the second quarter, which has 10% fewer working days than other quarters as a result of a company-wide office closure. In FY-08, a 5% reduction in consulting staff contributed to the 5% drop in consulting revenue in Q2. Given this, we are not certain that this seasonality would have been present had all other factors remained constant.

Software license revenue has historically been higher in the first and second quarters, which correspond to calendar year-end and the end of the budget year for many clients. In FY-08, software licenses grew quite steadily throughout the year.

We believe our Products|Solutions strategy has minimized this seasonal variability in our revenue streams as a result of:

- Products focus on selling off-the-shelf products through both direct sales and Reseller Partners. This strategy results in increased sales volume, lower average sale price and a shorter sales cycle.
- Traction gained with our industry solutions, which are generally larger projects rolled out over longer periods of time, contributing to revenue stability.

Off Balance Sheet Arrangements

We lease office space, office equipment and motor vehicles, have research funding partnerships with educational institutions in Canada and Australia, and enter into contracts to sell foreign currencies at a future date. The future cash flow impacts of these arrangements are summarized in the table below. We are not party to any other undisclosed off balance sheet arrangements.

At 31-Aug-08 (CAD $000s unless noted)	**Payment Due**				
	Total	**< 1 year**	**2-3 years**	**4-5 years**	**> 5 years**
Operating lease obligations	6,458	1,994	3,263	1,161	40
Other long-term obligations	200	100	100	-	-
Foreign exchange forward contracts (US $000s)	2,000	2,000	-	-	-
Total contractual obligations	8,658	4,094	3,363	1,161	40

Share Data

We are listed on the Toronto Stock Exchange under the trading symbol "MTK". As at October 31, 2008 there were 30,946,311 common shares of the corporation issued and outstanding and 374,050 options and 631, 776 restricted share units outstanding, each convertible into one common share upon exercise or exchange.

Fourth Quarter Results

3 Months Ended *(CAD $000s)*	**31-Aug-08** **(Q4-08)**	% revenue	**31-Aug-07** **(Q4-07)**	% revenue	**31-May-08** **(Q3-08)**	% revenue	**Q4-08 vs Q4-07**	**Q4-08 vs Q3-08**
Total Revenue	**$20,162**	**100%**	**$18,435**	**100%**	**$20,536**	**100%**	**9%**	**(2%)**
Consulting fees	11,503	58%	12,671	69%	11,591	56%	(9%)	(1%)
Margin on consulting fees	*37%*		*46%*		*37%*			
Equipment sales	1,142	6%	1,020	6%	1,891	9%	12%	(40%)
Margin on equipment sales	*36%*		*14%*		*31%*			
Total Solutions revenue	**12,645**	**63%**	**13,691**	**74%**	**13,482**	**66%**	**(8%)**	**(6%)**
Software license fees	5,006	25%	2,821	15%	4,578	22%	77%	9%
Margin on software license fees	*96%*		*95%*		*97%*			
Support	2,471	12%	1,923	10%	2,262	11%	28%	9%
Margin on support	*96%*		*92%*		*95%*			
Total Products revenue	**7,477**	**37%**	**4,744**	**26%**	**6,840**	**33%**	**58%**	**9%**
Interest income	40	0%	-	0%	214	1%	nmf	(81%)
Consulting headcount	*266*		*267*		*259*		*(0%)*	*3%*
Gross margin	*59%*		*51%*		*56%*			
Utilization	*71%*		*72%*		*77%*			
Total Expenses	**9,061**	**45%**	**9,588**	**52%**	**8,430**	**41%**	**(5%)**	7%
Consulting G&A	1,492	7%	2,111	11%	1,571	8%	(29%)	(5%)
Sales & marketing	1,632	8%	2,084	11%	1,589	8%	(22%)	3%
Research & development	1,668	8%	1,633	9%	1,718	8%	2%	(3%)
General & administrative	3,639	18%	3,136	17%	2,967	14%	16%	23%
Operations headcount	*255*		*263*		*247*		*(3%)*	*3%*
Stock-based compensation	290	1%	256	1%	269	1%	13%	8%
Amortization	340	2%	368	2%	316	2%	(8%)	8%
Foreign exchange translation gain (loss)	768	4%	(68)	(0%)	329	2%	nmf	nmf
Net income (loss)	**2,583**	**13%**	**(245)**	**(1%)**	**2,467**	**12%**	**nmf**	5%
Earnings (loss) per share - basic	0.09		(0.01)		0.08		nmf	13%
Earnings (loss) per share - diluted	0.08		(0.01)		0.08		nmf	0%
Weighted average shares outstanding (000s)	30,636		30,308		30,548		1%	0%
Total assets	67,768		64,663		74,058		5%	(8%)
Total long term liabilities (Future income taxes)	316		569		471		(44%)	(33%)
Deferred revenue	8,909		9,578		9,657		(7%)	(8%)
Contracts in progress	6,246		6,015		6,623		4%	(6%)

Highlights of the fourth quarter of FY-08 include:

- We paid $10.10 million in dividends on our common shares ($0.30 special and $0.03 regular dividends), which contributed to a $4.84 million decrease in cash and cash equivalents from Q3-08.
- Accounts payable and accrued liabilities increased due to increased commissions and bonuses payable based on strong results throughout the year.
- Our Products strategy continues to bear results, with software license and support revenue comprising 37% of total revenue in the quarter.
- We achieved record software license revenue of $5.00 million, a 9% increase over the previous record set in Q3-08.
- Support revenue was also a record at $2.47 million, a 9% increase over the prior record set in Q3-08.
- Sales by reseller partners were exceptionally strong, with 42% of the total annual sales by reseller partners coming in Q4-08.
- Strong Product revenue contributed to record quarterly gross margin of 59% and record net income of $2.58 million.
- On the Solutions side, at $11.50 million, consulting revenue was relatively flat compared to Q3-08, while utilization was down 6% to 71% versus 77% as many consultants took vacation over the summer months.
- We continue to gain traction with our industry applications and are rolling MEM out to additional mine sites and implementing the first M2P solution.
- Q4-08 G&A expense increased by 23% compared to Q3-08 as a result of increases in legal and professional fees and start-up costs related to Matrikon SoftDEL India Ltd.

Critical Accounting Estimates

Our discussion and analysis of Matrikon's financial condition and the result 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:

- Percentage-of-completion estimates for contracts in progress and unearned revenue
- Scientific Research & Experimental Development tax credits
- The fair value of the intangible assets acquired in business acquisitions
- Future cash flows used to estimate the fair value of reporting units for goodwill impairment purposes
- The useful lives of intangible assets and capital assets
- Allowances for doubtful accounts receivable
- Valuation of tax provisions and tax assets and liabilities
- The fair value of financial instruments

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

The critical accounting estimates discussed below are those we believe to be 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 and Cost Recognition Estimates on Contracts

We earn revenue from four primary sources:

- Software license fees received from the sale of proprietary software
- 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 fees relating to post-implementation support services

Consulting contracts either have a fixed fee for the project, or are based on the amount of time used to complete the project and the cost of any materials incurred (time and materials).

Fixed-fee project revenue is recognized based on the ratio of contract costs incurred to the total estimated costs. Estimating total direct contract costs is subjective and requires the use of our best judgments based upon the information we have available at that point in time. Our estimate of total direct contract costs has a direct impact on the revenue we recognize. If our current estimates of total direct contract costs turn out to be higher or lower than our previous estimates, we would have over or under-recognized revenue for the previous period. We also accrue for any estimated losses on incomplete contracts in the period when they become apparent. Changes in our estimates are reflected in the period in which they are made and would affect our revenue, cost of sales and contracts in progress balances.

Scientific Research & Experimental Development Tax Credits

We receive Scientific Research & Experimental Development (SR&ED) tax credits to offset a portion of our research and development costs. We estimate the SR&ED credits that will be received each year and apply this amount against research and development expenses equally over the year. If our estimate of the amount of SR&ED tax credits for prior periods changes, the change is recorded as a reduction to R&D expenses in the period we receive confirmation from Canada Revenue Agency (CRA). A change in the estimated amount of qualifying expenditures for SR&ED tax credits may have a material impact on research and development expenses.

R&D tax credits received in the UK and Australia reduce the effective tax rate for those regions.

Business Combinations, 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.

In a business combination, we may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earning multiples. If our estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods. There were no changes to purchase price allocations during FY-08.

Goodwill results when the purchase price of an acquired business is more than its fair value (based on the fair value of the assets acquired, less liabilities assumed). We allocate goodwill to the reporting unit(s) that is expected to benefit from the acquisition.

At the date of the acquisition, we 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, we do not believe any of our intangible assets have a book value in excess of their fair market value.

We test 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. Fair values are arrived at using valuation methods such as discounted cash flow analysis, price-to-earning ratios, and other multiples. We must exercise judgment and make assumptions in determining fair value, and different judgments and assumptions could affect the determination of fair value and any resulting impairment write-down. As at June 1, 2008, the estimated fair value of each of our reporting units was greater than the carrying value. As a result, we did not recognize any goodwill impairment charges in the current fiscal year.

Income Tax Provisions

We recognize income taxes for each jurisdiction where we operate when preparing our consolidated financial statements.

We use the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and the tax basis of assets and liabilities using the substantively enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future tax assets are recognized only if we believe that it is more likely than not that the future income tax assets will be realized.

Through our acquisitions, Matrikon has obtained tax operating losses. In addition, we have certain tax assets that may be used to reduce taxable income. Our assessment as to the value of these tax operating losses is based on our 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, we have recorded future tax assets relating to loss carry forwards in the United States and Germany. A valuation allowance has been taken against the future tax assets relating to loss carry forwards in Germany.

Changes in Accounting Policies

On September 1, 2007, we adopted the Canadian Institute of Chartered Accountants (CICA) new Handbook sections 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Disclosure and Presentation", 3865 "Hedges", 1530 "Comprehensive Income" and 1506 "Accounting Changes". Prior periods have not been restated.

Financial Instruments – Recognition & Measurement

Section 3855 requires that all financial assets and liabilities be classified as one of: held-to-maturity, held-for-trading, loans and receivables, available-for-sale or other financial liabilities.

Transitional adjustments resulting from these standards are recognized in the opening balances of retained earnings.

In Q1-08, the following adjustments were made to our balance sheet to adopt the new requirements:

CAN $000s	**Applicable Accounting Model**	**Adjustments (Net of Tax)**
Cash and cash equivalents	Held-for-trading	-
Accounts receivable	Loans and receivables	(128)
Accounts payable and accrued liabilities	Other financial liabilities	79
Contracts in progress	Loans and receivables	(57)
Transition adjustment to opening retained earnings		**(106)**

We made the following adjustments to our income statement in Q4-08 in accordance with this new requirement:

Gross Adjustments CAN $000s	**Q4-08**	**YTD-08**
Interest income relating to the accretion of accounts receivable and contracts in progress	40	785
Interest expense relating to the accretion of accounts payable	72	357

Financial Instruments - Disclosure & Presentation

CICA Handbook Section 3861 - "Financial Instruments - Disclosure and Presentation" establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed. There was no material effect on our financial statements when we adopted Section 3861 on September 1, 2007.

Comprehensive Income

This section establishes standards for the reporting and disclosure of comprehensive income in a new category, accumulated other comprehensive income, which is added to shareholders' equity on the consolidated balance sheet. Comprehensive income includes all changes in equity during a period except those resulting from investments by shareholders and distributions to shareholders. The major components included in accumulated other comprehensive income will be unrealized foreign exchange gains and losses arising on translation of the financial statements of our self-sustaining foreign operation, MAPL. In FY-08, other comprehensive income was increased by $0.13 million as the Australian dollar gained in relation to the Canadian dollar.

Hedges

Section 3865 "Hedges" did not have any impact on our consolidated financial statements as at February 29, 2008.

Accounting Changes

CICA Handbook Section 1506 - "Accounting Changes," establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an interim and annual basis, a description of the impact on the enterprise of any new primary source of GAAP that has been issued but is not yet effective. There was no material effect on our financial statements when we adopted Section 1506 on September 1, 2007.

Recent Accounting Pronouncements Issued and Not Yet Applied

Capital Disclosures

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on our financial position or results of operations. This standard applies to our interim and annual financial statements beginning September 1, 2008.

Financial Instruments

In March 2007, the CICA also issued Handbook Section 3863 - "Financial Instruments - Presentation" to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and non financial derivatives. It deals with the classification of financial instruments from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, gains and losses, and the circumstances in which financial assets and financial liabilities are offset. This standard harmonizes disclosures with International Financial Reporting Standards. We are in the process of assessing the impact of adopting this new standard. This standard applies to our interim and annual financial statements beginning September 1, 2008.

CICA Handbook Section 3862 "Financial Instruments - Disclosures" complements CICA 3861 with expanded disclosure requirements for financial assets and liability categories. This standard harmonizes disclosures with IFRS. We are in the process of assessing the impact of adopting these new standards. This standard applies to our interim and annual financial statements beginning September 1, 2008.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064 - "Goodwill and Intangible Assets" which will replace Handbook Section 3062 - "Goodwill and Other Intangible Assets" and Section 3450 - "Research and Development Costs". This revision aligns Canadian GAAP with IFRS and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to fiscal years beginning on or after October 1, 2008. We are currently in the process of determining the impact of adopting this new standard. This standard applies to our interim and annual financial statements beginning September 1, 2009.

General Standards of Financial Statement Presentation

An amended Canadian standard requires an assessment of an entity's ability to continue as a going concern and requires disclosure of any material uncertainties that cast doubt on its ability to continue as a going concern. In assessing the appropriateness of the going concern assumptions, the standard requires us to consider all available information about the future, which is at least, but not limited to twelve months from the balance sheet date. The new standard applies to interim and annual financial statements related to fiscal year on or after January 1, 2008, specifically September 1, 2008. We do no expect the adoption of this standard to have a material impact on our consolidated financial statements.

Convergence with IFRS

Canada's Accounting Standards Board ratified a strategic plan that will result in GAAP, as used by Canadian public companies, being evolved and converged with IFRS over a transitional period to be completed by 2011. The official changeover date to IFRS is for interim and annual financial statements related to fiscal years on or after January 1, 2011. For Matrikon this will be the period started September 1, 2011. We have not yet assessed the impact of the ultimate adoption of IFRS on our future financial reporting.

We have established a Financial Reporting Team to review the adoption of IFRS. The team has provided updates to management and the Audit Committee. We plan to engage an external expert advisor. We are closely monitoring regulatory developments made by the Canadian Securities Administrator that may affect the timing, nature or disclosure of our adoption of IFRS. We are also monitoring developments in accounting made by the AcSB and the IASB to ensure that on adoption of IFRS, we are fully compliant with IFRS as issued by the IASB.

Risks Related to Our Business

This document contains forward-looking statements, including statements regarding the future success of our business and technology strategies and future market opportunities. These statements are not guarantees of future results. These statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from what is implied by these forward-looking statements. These risks include risks related to revenue growth, operating results, the economic condition of the industries we serve, product development, and litigation as well as other factors described below and elsewhere in this report. Please note that forward-looking statements represent our estimates on the date they were made and undue reliance should not be placed on these statements. We disclaim any obligation to publicly update or revise any such statements to reflect changes in our expectations. We also disclaim any obligation to provide an update if changes to the events, conditions or circumstances on which these statements are based occur.

The following internal and external risks may affect Matrikon's operations. We continually monitor and evaluate these risk factors and take action to minimize them; however as many are outside of our control, it is impossible to completely mitigate these risks. Readers are reminded that in addition to the foregoing all forward-looking statements below are qualified by the Forward-Looking Statements disclaimer at the beginning of this MD&A.

Market Demand for Products and Services

We have experienced growing revenue from our products in the past. However, we cannot be certain that product revenue will continue to grow or grow at the same pace as past results or at the rate projected by management.

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 product and industry advisory boards 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 industry cycles and global economic conditions on our customers.

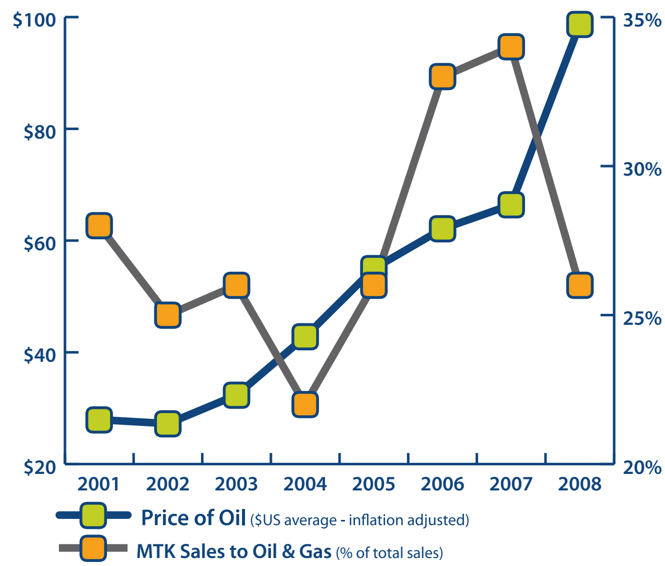
Matrikon's diversification in terms of geography, industrial sectors, and technology serve to mitigate this risk.

While the priorities of our clients change based on the economic climate, Matrikon's products and services are able to meet those needs. In a robust economic environment, our clients seek increased throughput and focus their resources on expanding operations and, to a lesser degree, optimization technology. In a softer or neutral market, the focus shifts to improving efficiencies, reducing costs, and optimizing maintenance and operations. While some Matrikon solutions can be used when the emphasis is on expanding operations, our technology primarily addresses the latter objectives. This is why, even though our exposure to specific industries is high (55-60% per cent of our revenue comes from customers in oil and gas or mining industries), we believe we are well positioned to weather modest declines in the marketplace.

A complete collapse of the oil & gas or mining industry could impact our business over the long-term and may hamper short-term growth.

We experienced the collapse of the pulp & paper industry, with revenues from that industry declining from 10-12% of revenues from 2001-2005 to less than 1% in 2008. The decline occurred gradually (8% in 2006, 3% in 2007), and revenue was replaced with revenue from other industries with more favourable economic conditions.

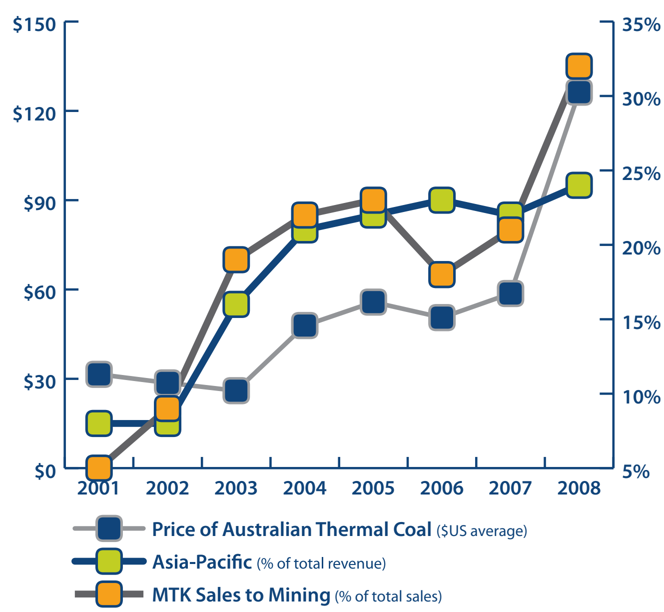
Oil & Gas Sales vs. Price of Crude



Source: Indexmundi.com

Figure 1: Sales to the Oil & Gas industry are not tightly linked to crude prices. Sales held steady at 22-28% while the price rose from $27 to $55; there was a slight increase in the percentage of sales from oil & gas customers while the price was in the $60 range, and sales to these customers declined while the price was at its peak.

Mining Sales & Asia-Pacific Revenue vs. Price of Coal



Source: Indexmundi.com

Figure 2: Mining industry & Asia-Pacific sales are tightly linked and on trend with the Australia Coal price index, however the impact of MEM (introduced in 2008) and increased mining industry presence in North America are not clear at this point.

Execution of Projects and Delivery of Solutions

A substantial portion of our revenue is derived from consulting fees. Some of these engagements are undertaken on a fixed price basis (approximately 40% of projects). When making proposals for fixed price 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 completed in relation to the total project. Any adjustments to these estimates may adversely affect quarterly or annual results.

To reduce this risk, Matrikon has established project management best practices, which are applied to all projects. Project managers regularly audit projects to ensure that they remain on track and to detect any deviations from budget. In addition, we have invested in Project Management training for staff in our solutions business.

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

We operate internationally; accordingly, our contracts are in various local currencies, including United States dollars, Australian dollars, British pounds and Euros. The conversion of our international segments' operating results into Canadian dollars for financial statement presentation may impact quarterly or annual results and comparison between prior periods, particularly when exchange rates fluctuate rapidly.

Matrikon enters into forward contracts to partially manage exposure to currency fluctuations primarily between the United States (US) and Canadian dollars. We also enter into forward contracts for other currencies on occasion. Forward contracts are entered based on projected cash conversion requirements. Forward contracts at the end of the fiscal year are discussed on page 47. Approximately 84% of the company's billings are received in foreign currencies, while approximately 53% of the expenses are in Canadian dollars.

As Matrikon expands internationally, the growing diversity of the revenue currencies should serve to offset currency fluctuations. Revenue denominated in foreign currencies other than US dollars or Canadian dollars was 45% in fiscal year 2008.

Ability to Retain and Attract Qualified Employees and Contain Payroll Expenses

Executive management, senior technical personnel and other key personnel are essential to our 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 research and development groups. Local labour market conditions can impact labour expenses.

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.

We are focused on improving our cost structure by using personnel in countries where advanced technical expertise is available at lower costs to offset peak demand for our consultants.

Research and Development

If we do not respond effectively and on a timely basis to rapid technological change, our products and services may become obsolete. This could result in customer loss and reduced software support revenue. The markets for our products are characterized by:

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

We have defined a product development roadmap, with a resulting leap forward in technology strategy, including the development and release of next-generation technology (Intuition), Matrikon Suite Essentials and additional high-value industry applications, both in development and planned.

We have employed a lean approach to product development to ensure more frequent product introductions and have hired or plan to hire product managers to liaise with customers, development and sales and marketing.

We also extend our own commitment to research and development through Matrikon sponsored Industrial Research Chairs at the University of Alberta and an Australian Research Council Centre of Excellence at the University of Newcastle.

Other strategies for minimizing this risk include Matrikon's industry and product advisory boards, which keep us informed of changes in our clients' technological direction and future needs, 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.

Length of Sales Cycle

The lengthy sales cycle required to close larger projects makes it difficult to predict quarterly or annual revenue levels and operating results. The sales process for larger projects and solutions can be lengthy and can exceed one year. As we succeed in shifting customer purchases to 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 and cause quarterly or annual operating results to fluctuate.

The dynamics of the sales cycle and our close rates continue to evolve. 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.

We have shifted the focus of our sales and marketing organization to focus on commercial off-the-shelf software, which generally requires less effort to sell and have minimal contractual requirements, enabling revenue to be recognized on a timely basis.

Our solution organization is focused on delivering technical excellence via partnership with long-term clients. It is our belief that this model will provide more consistent work load for consultants.

Increasing Expenses

A high percentage of our expenses are relatively fixed and growing as we expand our operations and our employee base in anticipation of future sales volume. Therefore, a delay in completing a license transaction, closing a solution sale or delays in meeting project milestones for revenue recognition may cause significant variations in operating results quarter to quarter.

We seek to mitigate this risk through the establishment of best practices for project management, including regular monitoring and analysis of projects.

In addition, we have plans to implement an ERP solution to aid our ability to monitor and control expenses. We will continue to invest in sales and marketing and research and development to position Matrikon for future growth.

As the baseline of large, multi-element solution sales – which are typically delivered over multiple periods – increases, we expect that fluctuations in quarterly operating results should be minimized.

Additional Tax Liabilities

As a multinational corporation, we are subject to income taxes and other taxes in Canada and in various foreign jurisdictions. Significant judgment is required when determining our world-wide provision for income taxes and other tax liabilities. In addition, the tax on many intercompany transactions is uncertain.

Although we believe that our tax estimates are reasonable, there is no assurance that the final amounts will not be different from the provisions and accruals presented on our financial statements.

We use external subject matter experts to advise on international tax and transfer pricing issues.

Legal Claims

Intellectual property claims and other claims against the company could be time consuming and costly to defend. If we are unsuccessful at defending against such claims, 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. 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.

Intellectual and Intangible Properties

We rely on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect our proprietary rights. We provide software products to customers under non-exclusive license agreements.

In order to protect its intellectual property rights, Matrikon does not sell or transfer title to our products to our customers. Instead, under our standard form license agreement, licensed software may be used solely for the customer's internal operations at sites specified in the license contract. However, this affords only limited protection. As our industry is subject to rapid technological change, we believe that factors such as new product development, product enhancement, name and brand recognition, and customer service and support are important in establishing and maintaining a technological advantage.

Integration of 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, and the assumption of legal or other liabilities and contingencies. 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, interviewing 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.

International Operations

Business may suffer if there is a failure to address the challenges associated with international operations. Approximately 82% of total sales were from customers outside of Canada in fiscal year 2008. It is expected that revenues from customers outside of Canada will continue to account for a significant portion of total revenues for the foreseeable future. Operations outside of 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 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. Our Reseller Partner Program also minimizes risk related to working in international countries where language and cultural norms differ from North America.

Availability of Credit Line and Future Financing

We 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 we 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 had cash and equivalents of $15.72 million at August 31, 2008 which, coupled with our existing line of credit of $7.00 million, we believe is sufficient to meet our growth objectives. The impact of the global credit contraction could have an effect on our business. Our customer base is largely comprised of Fortune Global 500 companies, with over 40% of sales coming from these companies; however projects may be delayed.

Our financial strength is highlighted by the quarterly dividend of $0.03/share we announced in FY-08, on top of a special dividend of $0.30/share that was paid out in the fourth quarter and an additional $0.07/share special dividend paid out on October 31, 2008.

Evolving financial reporting standards, regulation of corporate governance and public disclosure

Changing financial reporting standards, corporate governance laws and regulations, including National Instrument 52-109, and the pending changeover to International Financial Reporting Standards may create challenges for Matrikon. The application of these new securities laws and financial reporting standards will evolve over time and may result in higher costs and periods of uncertainty regarding compliance matters and director and officers' liability.

We employ financial professionals with accounting designations in key roles and invest in training and professional development to ensure that our people are current on standards and best practices for financial reporting. When necessary, we also use external subject matter experts in areas where our internal resources lack expertise.

Internal Control over Financial Reporting and Disclosure Controls

Management is responsible for certifying the design of the Company's internal control over financial reporting as required by Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Our internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable GAAP. Internal Control over Financial Reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP
- receipts and expenditures are only being made in accordance with authorizations of management and the board of directors
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, carried out an evaluation of the design of our internal controls over financial reporting as at August 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with Canadian GAAP. We concluded that the following disclosable weakness existed at August 31, 2008.

It was determined that we did not sufficiently design and maintain effective controls over the identification of projects that should be accounted for using Contract Accounting as defined by SOP 81-1. Specifically, we did not have a formal policy and procedure in place to ensure that revenue was accounted for correctly pertaining to projects that required a significant level of services to customize the features and functionality of our off-the-shelf software.

In fiscal 2009, we are implementing a policy that requires all material contracts to be reviewed prior to commencement to identify projects that require contract accounting treatment.

We believe we are taking the steps necessary for the remediation of this weakness and will continue to monitor the effectiveness of these procedures to make any changes that management deems appropriate.

Additional procedures have been performed by management in order to ensure the consolidated financial statements were prepared in accordance with GAAP for fiscal year 2008.

Disclosure Controls

Matrikon's CEO and CFO are responsible for establishing and maintaining our disclosure controls and procedures, and have so certified, as required by Multilateral Instrument 52-109. These officers have evaluated the effectiveness of our disclosure controls. They have concluded that these disclosure controls and procedures provide management with a reasonable level of assurance that the information we are required to disclose 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.