

# MANAGEMENT'S RESPONSIBILITY



Matrikon's management has prepared and is responsible for the annual consolidated financial statements, management's discussion and analysis and all other information in this annual report. The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

We are responsible for ensuring that these financial statements, which include amounts based on estimates and judgments, are consistent with other information and operating data contained in the annual report and reflect our true business transactions and financial position.

We are also responsible for the information disclosed in the management's discussion and analysis section, including responsibility for the development of appropriate information systems, procedures and internal controls to ensure that the information used internally by management and disclosed externally is complete, relevant and reliable in all material respects.

The integrity and reliability of Matrikon's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and the appropriate delegation of authority and division of responsibilities. We maintain a system of internal controls to provide management with a reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

Matrikon's business code of conduct, which is communicated to all levels in the organization, requires employees to maintain high standards in their conduct of the corporation's affairs.

The independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors' report outlines the nature of their examination and their opinion on Matrikon's consolidated financial statements.

The board of directors appoints an audit committee annually. The audit committee is comprised of independent, financially literate and unrelated directors. This committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. KPMG LLP have unrestricted access to the audit committee. The audit committee reviews the financial statements, the auditors' report, and management's discussion and analysis and submits its report to the board of directors for formal approval. The audit committee is responsible for recommending external auditors for appointment by the shareholders annually.

The board of directors is responsible for review and final approval of the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities.

Nizar J. Somji  
President & CEO

Edmonton, Alberta  
November 6, 2009

Jonathan Chia  
Chief Financial Officer

# AUDITORS' REPORT TO THE SHAREHOLDERS

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We have audited the consolidated balance sheets of Matrikon Inc. as at August 31, 2009 and 2008 and the consolidated statements of income, comprehensive income, accumulated other comprehensive (loss) income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

KPMG LLP  
Chartered Accountants

Edmonton, Alberta  
November 16, 2009

# CONSOLIDATED BALANCE SHEETS

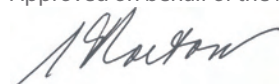
(Thousands of Canadian Dollars)

As at August 31

	2009	2008
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 8,734	\$ 15,721
Accounts receivable	23,456	22,782
Contracts in progress	6,894	6,246
Future income taxes <i>(note 3(a))</i>	492	400
Prepaid expenses	1,286	1,529
	<b>40,862</b>	<b>46,678</b>
Future income taxes <i>(note 3(a))</i>	525	762
Property and equipment <i>(note 4)</i>	4,253	3,374
Intangible assets <i>(note 5)</i>	672	1,103
Goodwill	15,807	15,851
	<b>\$ 62,119</b>	<b>\$ 67,768</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 8,603	\$ 10,065
Deferred revenue	8,292	8,909
Income taxes payable	462	1,249
Future income taxes <i>(note 3(a))</i>	971	2,046
	<b>18,328</b>	<b>22,269</b>
Future income taxes <i>(note 3(a))</i>	89	316
Non-controlling interest <i>(note 7)</i>	40	–
<b>Shareholders' equity:</b>		
Share capital <i>(note 8(a))</i>	31,735	30,633
Contributed surplus <i>(note 8(a))</i>	2,502	2,195
Accumulated other comprehensive income (loss)	(107)	129
Retained earnings	9,532	12,226
	<b>43,662</b>	<b>45,183</b>
Commitments <i>(note 10)</i>		
Contingencies <i>(note 14)</i>		
Subsequent events <i>(note 17)</i>		
	<b>\$ 62,119</b>	<b>\$ 67,768</b>

See accompanying notes to the consolidated financial statements.

Approved on behalf of the board



Hugh J. Bolton, FCA  
Chair



Janice G. Rennie, FCA  
Chair, Audit Committee

# CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Canadian Dollars Except for Per Share Amounts)

Years ended August 31

	2009	2008
<b>Revenue:</b>		
Consulting	\$ 43,254	\$ 46,497
Software license	14,147	17,879
Support	10,295	8,923
Equipment sales	4,887	5,947
Interest income <i>(note 11(b))</i>	655	785
	<b>73,238</b>	80,031
Cost of sales <i>(note 11(b))</i>	<b>32,183</b>	34,862
	<b>41,055</b>	45,169
<b>Expenses:</b>		
Consulting general and administrative	7,408	6,094
Sales and marketing	7,632	5,855
Research and development <i>(note 3(d))</i>	6,362	6,701
General and administrative	13,773	12,297
Amortization	1,229	1,276
Stock-based compensation <i>(note 8(b)-8(d))</i>	1,407	1,004
	<b>37,811</b>	33,227
Income before the undernoted	<b>3,244</b>	11,942
Foreign currency translation gain (loss)	(509)	310
Other income <i>(note 9)</i>	420	1,236
	<b>(89)</b>	1,546
Income before income taxes and non-controlling interest	<b>3,155</b>	13,488
Income taxes expense (reduction) <i>(note 3):</i>		
Current	1,924	1,011
Future	(1,109)	3,379
	<b>815</b>	4,390
Income before non-controlling interest	<b>2,340</b>	9,098
Non-controlling interest <i>(note 7)</i>	(26)	–
Net income	<b>\$ 2,314</b>	\$ 9,098
<b>Earnings per share:</b>		
Basic	\$ 0.07	\$ 0.30
Diluted	\$ 0.07	\$ 0.29
Weighted average number of shares outstanding (000's) <i>(note 8(g)):</i>		
Basic	<b>30,946</b>	30,511
Diluted	<b>31,037</b>	31,370

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Canadian Dollars)

Years ended August 31

	2009	2008
Net income	\$ 2,314	\$ 9,098
Other comprehensive loss, net of income taxes:		
Unrealized gains (losses) on translation of self-sustaining foreign operations	(236)	129
Comprehensive income	\$ 2,078	\$ 9,227

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

(Thousands of Canadian Dollars)

Years ended August 31

	2009	2008
Accumulated other comprehensive income, beginning of year	\$ 129	\$ –
Other comprehensive income (loss)	(236)	129
Accumulated other comprehensive income (loss), end of year	\$ (107)	\$ 129

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Thousands of Canadian Dollars)

Years ended August 31

	2009	2008
Retained earnings, beginning of year	\$ 12,226	\$ 14,246
Net income	2,314	9,098
Dividends <i>(note 8(e))</i>	(4,950)	(11,012)
Purchase of common shares in excess of stated capital <i>(note 8(f))</i>	(58)	–
Transition adjustment — financial instruments <i>(note 11(b))</i>	–	(106)
Retained earnings, end of year	\$ 9,532	\$ 12,226

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Canadian Dollars)

Years ended August 31

	2009	2008
<b>Operating activities:</b>		
Net income	\$ 2,314	\$ 9,098
Items not affecting cash:		
Future income taxes	(1,109)	3,379
Non-controlling interest	26	–
Unrealized foreign exchange loss (gain)	340	(1,242)
Amortization	1,229	1,276
Stock-based compensation	1,407	1,004
Interest income relating to the accretion of accounts receivable and contracts in progress	(655)	(785)
Gain on disposal of property and equipment <i>(note 9)</i>	(92)	(472)
Interest expense relating to the accretion of accounts payable	278	357
Change in non-cash operating working capital	(3,828)	1,538
Cash provided by (used in) operating activities	(90)	14,153
<b>Investing activities:</b>		
Proceeds from sale of business, net of expenses	–	668
Non-controlling interest	14	–
Purchase of property and equipment	(1,822)	(1,290)
Change in non-cash working capital	70	–
Cash used in investing activities	(1,738)	(622)
<b>Financing activities:</b>		
Proceeds of share issue, net of share issue costs	87	363
Redemption of common shares <i>(note 8(f))</i>	(143)	–
Dividends paid in cash on common shares <i>(note 8(e))</i>	(4,950)	(11,012)
Cash used in financing activities	(5,006)	(10,649)
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies	(153)	(84)
Change in cash and cash equivalents	(6,987)	2,798
Cash and cash equivalents, beginning	15,721	12,923
Cash and cash equivalents, ending	\$ 8,734	\$ 15,721
<b>Supplementary cash flow disclosure:</b>		
Income taxes paid	\$ 2,711	\$ 42
Interest recovered <i>(note 9)</i>	\$ 232	\$ 658

See accompanying notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Canadian Dollars)

Years ended August 31, 2009 and 2008

## 1. NATURE OF OPERATIONS

Matrikon Inc. was incorporated on May 27, 1999 under the Alberta Business Corporations Act. It is the continuing operation of Matrikon Consulting Inc., a private company that was incorporated on September 21, 1988. We sell software and provide professional services to industrial clients in the continuous process industries (which include oil and gas, power, refining and petrochemicals, mining, and pulp and paper). The software and the professional services we provide enable our industrial clients to operate their plants with the intent of being more efficient by optimizing performance and improving reliability. Our head office is located in Edmonton, Alberta, Canada. We have sales and services offices worldwide.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Material inter-company transactions and balances are eliminated on consolidation. Our consolidated financial statements include the accounts of Matrikon Inc., and our wholly owned subsidiaries:

- Matrikon International, Inc.
- Matrikon Asia-Pacific Pty Limited
- Matrikon UK Limited
- Matrikon Deutschland AG
- Matrikon Middle East Co. W.L.L.
- Matrikon Business Systems Inc.
- TigrSoft (India) Private Ltd., a 99.7% owned subsidiary
- Matrikon SoftDEL India Private Ltd., a 49% owned subsidiary

### (b) Use of Estimates

Canadian GAAP requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of certain contingent assets and liabilities at the financial statement date, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates used in our financial statements include:

- percentage-of-completion estimates for contracts in progress and deferred revenue
- allowances for doubtful accounts receivable
- the recoverability of future tax assets
- 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 fair value of financial instruments

- the useful lives of intangible assets and property and equipment
- estimated research and development tax credits earned

### (c) Revenue Recognition

We earn revenue from four primary sources: consulting fees, software license fees, support fees, and equipment sales (third party hardware or software sales).

Consulting contracts are either fixed fee or time and materials arrangements.

Fixed fee project revenue is recognized using the percentage-of-completion method based on the ratio of contract costs incurred to the total estimated costs. Provisions for estimated losses on incomplete contracts are recorded in the period in which the losses are determined. Time and materials revenue is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed.

Software licenses revenues are recorded when persuasive evidence of an arrangement exists, the software product has been shipped, there are no significant remaining obligations under the contract, the fees are fixed and determinable and collection is considered probable.

If we have significant obligations under the contract, we only recognize the software license revenue after these obligations have been satisfied.

Support revenues are deferred and recognized on a straight line basis over the term of the support period, which is usually one year.

Equipment revenues relate to the sale of third party equipment and software. Equipment revenue is recognized when the equipment is delivered to the customer.

If an arrangement involves multiple elements (for example, a project including software licenses, support fees and consulting), revenue for each element is recognized according to the methods described above once the following conditions are met:

- we have evidence that an arrangement exists (a contract or a purchase order)
- we have delivered all or some of the elements of the contract
- the fees are fixed and determinable
- collectibility is probable

We use the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on vendor specific objective evidence (VSOE) of the fair value of the undelivered element.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Canadian Dollars)

Years ended August 31, 2009 and 2008

Occasionally, an arrangement does not qualify for separate accounting of the software license and consulting contracts. In these situations, software license revenue is recognized together with consulting contracts based on contract accounting using the percentage-of-completion method. Contract accounting is applied to arrangements:

- where services include significant modification or customization of the software;
- where significant consulting services are provided for in the software license contract without additional charge or are substantially discounted; and
- where the software license payment is tied to the performance of consulting services.

Contracts in progress represent work in progress that has been recognized as revenue but not yet invoiced to clients. Deferred revenue includes amounts that have been invoiced to clients but not yet recognized as revenue.

## (d) Cash and Cash Equivalents

Cash and cash equivalents include deposits held in banks, certificates of deposit and term deposits.

## (e) Property and Equipment

We record our property and equipment at cost less accumulated amortization. Amortization commences once the assets are placed into service. We amortize each asset over its useful life using the straight-line method using the following annual rates:

Asset	Rate
Building	25 years
Enterprise Resource Planning System	8 years
Furniture and equipment	5 years
Automotive	3 years
Computer hardware	3 years
Computer software	1 year
Leasehold improvements	3-6 years

## (f) Goodwill and Intangible Assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. We allocate goodwill to the reporting unit(s) that is expected to benefit from the acquisition. We do not amortize goodwill. We test goodwill annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill would be reduced with an impairment loss if the carrying value of the goodwill exceeded its fair value. Our annual goodwill impairment test is completed in the fourth quarter.

We record our intangible assets at cost. Intangible assets related to acquisitions are recorded at their fair value at the acquisition date.

We expense the costs associated with maintaining intangible assets as these expenses arise.

We amortize intangible assets on a straight-line basis over their estimated useful lives at the following annual rates:

Asset	Rate
Customer lists	3 to 10 years
Tradenames	3 years
Drivers and software technology	3 to 10 years

## (g) Research and Development

We incur research and development costs to develop our software. Research costs are expensed in the period they occur. Development costs are expensed in the period they occur unless they meet the criteria for deferral under Canadian GAAP. In this case, the development costs are deferred and amortized over their useful life.

We receive Scientific Research and Experimental Development (SR&ED) tax credits to offset 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 differs from the actual SR&ED credits received, the difference is applied to research and development expenses in the period the difference is identified.

## (h) Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars.

Transactions denominated in a foreign currency and the financial statements of our integrated foreign subsidiaries are translated into Canadian dollars using the temporal method. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate (except for amortization, which is translated at historical exchange rates). Exchange gains and losses arising from translating monetary assets and liabilities into Canadian dollars are included in the determination of net income.

The foreign currency financial statements of our self-sustaining subsidiaries are translated into Canadian dollars using the current rate method. Accordingly, these operations are being translated using the current rate method wherein assets

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Canadian Dollars)

Years ended August 31, 2009 and 2008

and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the monthly average exchange rate. The resulting gains and losses are accumulated as a component of shareholders' equity within Accumulated Other Comprehensive Income.

## (i) Income Taxes

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, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized.

## (j) Stock Based Compensation

We account for all stock-based compensation payments that are settled by the issuance of equity instruments at fair value. Compensation cost is measured using the Black-Scholes model at the grant date and is expensed on a straight-line basis over the period that the stock based payment vests, with a corresponding increase to contributed surplus.

When stock options or warrants are exercised, we record the amount of the proceeds, together with the amount recorded to contributed surplus, in share capital. Previously recognized compensation cost is not reversed if a vested employee stock option expires unexercised.

For stock-based compensation that vests at the end of the period, compensation cost is recognized on a straight line basis.

Forfeitures associated with stock-based compensation that vests at the end of the period are recorded in the year that they occur as a reduction to compensation expense. The reduction is based on the expense that has been recognized to date.

## (k) Earnings Per Share

Our basic earnings per share are calculated by dividing our net income by the weighted average number of common shares outstanding throughout the year.

Diluted earnings per share is calculated using the treasury stock method, which assumes that the cash that would be received on the exercise of stock options or warrants, and any unrecognized stock-based compensation is applied to purchase shares at the average price during the year.

The difference between the shares issued on the exercise of the stock options or warrants and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. The impact of outstanding restricted share units, on a weighted average basis, is also added to the number of shares outstanding. Antidilutive stock options are not considered in computing diluted earnings per share.

## (l) Recently Adopted Canadian Accounting Pronouncements

Effective September 1, 2008, we adopted the new CICA Handbook Standards relating to capital disclosures and financial instruments. These new standards have been adopted on a prospective basis with no restatement of prior period financial statements.

### (i) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, "Capital Disclosures," effective for interim and annual financial statements related to fiscal years beginning on or after October 1, 2007, specifically September 1, 2008 for our company. This section establishes standards for disclosing information about a company's capital and how it is managed in order for a user of the financial statements to evaluate the company's objectives, policies, and processes for managing capital. See note 12 or further disclosure of our capital management. The adoption of this standard did not have an impact on our financial position or on the results of our operations.

### (ii) Financial Instruments—Disclosures and Presentation

In March 2007, the CICA Handbook Section 3862, "Financial Instruments – Disclosures," which complements CICA Handbook Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards (IFRS).

In March 2007, the CICA also issued Handbook Section 3863, "Financial Instruments – Presentation," to enhance financial statements users' understanding of the significance of financial instruments to a company'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 disclosure with IFRS.

These new standards apply to interim and annual financial statements related to fiscal years beginning on or after October 1, 2007, specifically September 1, 2008 for our company. The adoption of these standards did not have

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Canadian Dollars)

Years ended August 31, 2009 and 2008

an impact on the classification or valuation of our financial instruments. Disclosures related to the adoption of these standards are included in note 11.

### (iii) Credit Risk

In January 2009, the CICA issued Emerging Issues Committee (EIC) Abstract 173 "Credit risk and the value of financial assets and liabilities (EIC-173)." EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable to interim and annual financial statements related to periods ending on or after January 20, 2009. The adoption of EIC-173 did not have an impact on our financial position or on the results of our operations.

### (m) Recent accounting pronouncements issued and not yet applied

#### (i) 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 harmonizes Canadian GAAP and 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, specifically September 1, 2009 for our company. We are currently in the process of determining the impact of adopting this new standard.

#### (ii) Business Combinations

In January 2009, the CICA issued Handbook Section 1582—"Business Combinations" which will replace Handbook Section 1581—"Business Combinations." Section 1582 requires that most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also requires acquisition-related costs to be expensed as incurred and provides guidance on the accounting for restructuring costs. This new standard substantially harmonizes Canadian GAAP with IFRS. This section is applied prospectively to business combinations for which the acquisition date is on or at the beginning of the first annual reporting period beginning on or after January 1, 2011, specifically September 1, 2011 for our company. Earlier application is permitted. We will assess the impact of this new standard prior to adoption.

#### (iii) Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1601—"Consolidated Financial Statements" and 1602—"Non-controlling Interests" which will replace Handbook Section 1600—"Consolidated Financial Statements."

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These new standards substantially harmonize Canadian GAAP with IFRS. These sections are to be implemented with Section 1582. We will assess the impact of these new standards prior to adoption.

#### (iv) Convergence with International Financial Reporting Standards

Canada's Accounting Standards Board ratified a strategic plan that will result in GAAP, as currently 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 commencing on or after January 1, 2011, specifically September 1, 2011 for our company. We have established a financial reporting team to review the adoption of IFRS and have engaged an external expert advisor to assist in our assessment. We are closely monitoring regulatory developments made by the CICA and the Canadian Securities Administrator that may affect the timing, nature of disclosure of our adoption of IFRS. As a number of the IFRS standards are changing, we will continue to assess the impact of the proposed standards on our consolidated financial statements and disclosure as additional information becomes available.

## 3. INCOME TAXES

### (a) Future Income Taxes

The tax effects of temporary differences between the accounting and tax values of our assets and liabilities are presented in the following table:

	2009	2008
Future Tax Assets		
Non-capital losses carry forward	\$ 1,816	\$ 668
Property and equipment, principally due to differences in cost and amortization	4	35
Intangible assets, principally due to differences in cost and amortization	158	178
Other payables	637	589
	\$ 2,615	\$ 1,470
Less: Valuation allowance	—	(45)
Total gross future tax assets	\$ 2,615	\$ 1,425

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Canadian Dollars)

Years ended August 31, 2009 and 2008

	2009	2008
Future Tax Liabilities		
Property and equipment, principally due to differences in cost and amortization	\$ (93)	\$ –
Intangible assets, principally due to differences in cost and amortization	(289)	(348)
Contracts in progress	(83)	(399)
Income tax credits	(2,014)	(1,458)
Unrealized foreign exchange gains	(161)	(335)
Deferred charges		(75)
Other payables	(18)	(10)
Total gross future tax liabilities	\$ (2,658)	\$ (2,625)
Net future tax liability	\$ (43)	\$ (1,200)

Presented in the consolidated balance sheet as follows:

	2009	2008
Current future tax assets	\$ 492	\$ 400
Non-current future tax assets	525	762
Current future tax liabilities	(971)	(2,046)
Non-current future tax liabilities	(89)	(316)
	\$ (43)	\$ (1,200)

## (b) Income Tax Provision

The following table reconciles our combined statutory income tax rate of 30.17% (2008–31.08%) to the effective income tax rates as recorded in our consolidated income statement:

	2009	2008
Income before income taxes	\$ 3,155	\$ 13,488
Computed "expected" tax expense	952	4,191
Increase in income taxes, resulting from:		
Foreign exchange gain	35	16
Permanent differences and other	(172)	183
Recorded tax expense	\$ 815	\$ 4,390

## (c) Losses Carried Forward

At August 31, 2009 we have unused tax loss carry forwards in Canada of \$4,030 (2008–\$nil) expiring in year 2029, which are available to reduce taxable income in future years.

At August 31, 2009, we have unused tax loss carry forwards in the United States of approximately \$1,589 (2008–\$1,793) expiring between the years 2019 and 2025, which are available to reduce taxable income in future years. Losses incurred in the

United States are subject to the restrictions in Section 382 of the Internal Revenue Code.

At August 31, 2009, we have unused tax loss carry forwards in Germany of approximately \$nil (2008–\$300), which are available to reduce taxable income in future years. The benefits of these losses have not been recorded in these financial statements. They have been offset by a valuation allowance.

## (d) Scientific Research and Experimental Development Tax Credits (SR&ED)

We accrue SR&ED tax credits for our research and development expenses in Canada. These credits reduced our research and development expense on our consolidated statements of income (loss) by \$2,059 (2008–\$1,047). Accounts receivable on our consolidated balance sheets include investment tax credits of \$6,879 (2008–\$4,820) relating to SR&ED tax credits.

## 4. PROPERTY AND EQUIPMENT

2009	Cost	Accumulated amortization	Net book value
Building	\$ 340	\$ 12	\$ 328
Enterprise Resource Planning System	790	69	721
Furniture and equipment	3,483	1,626	1,857
Automotive	111	81	30
Computer hardware	1,615	872	743
Computer software	340	254	86
Leasehold improvements	675	187	488
	\$ 7,354	\$ 3,101	\$ 4,253

2008	Cost	Accumulated amortization	Net book value
Enterprise Resource Planning System	\$ 504	\$ –	\$ 504
Furniture and equipment	3,641	1,651	1,990
Automotive	106	76	30
Computer hardware	1,259	593	666
Computer software	202	162	40
Leasehold improvements	240	96	144
	\$ 5,952	\$ 2,578	\$ 3,374

For the year ended August 31, 2008, we had costs totaling \$504 relating to the enterprise resource planning system under construction, which had not yet been amortized.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Amortization expense for property and equipment is \$878 (2008–\$899) and is based on our estimate of the useful life of the assets.

## 5. INTANGIBLE ASSETS

2009	Cost	Accumulated amortization	Net book value
Customer lists	\$ 884	\$ 568	\$ 316
Drivers and software technology	898	549	349
Tradename	30	23	7
	\$ 1,812	\$ 1,140	\$ 672

2008	Cost	Accumulated amortization	Net book value
Customer lists	\$ 926	\$ 381	\$ 545
Drivers and software technology	988	446	542
Tradename	39	23	16
	\$ 1,953	\$ 850	\$ 1,103

Amortization expense for intangible assets is \$351 (2008–\$377) and is based on our estimate of the useful life of the assets.

## 6. LINE OF CREDIT

We have an authorized line of credit of \$7,000 with a Canadian chartered bank. The line of credit has a floating interest rate of 0.50% above the bank's prime lending rate. We have provided a general security agreement covering all of our assets as security for the facility.

As at August 31, 2009, we had utilized \$2,044 (2008–nil) of our facility for an overdraft balance on one of our subsidiary's operating back accounts, and \$810 (2008–nil) for performance bonds.

## 7. NON-CONTROLLING INTEREST

On December 1, 2008 we commenced operations with Matrikon SoftDEL India Private Ltd. (MSPL) in which we acquired a 49% interest. As a result of our equity interest and operational agreements, we have determined that we are the primary beneficiary as defined by the CICA Handbook's Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities." Pursuant to AcG-15, we have consolidated the results of MSPL since the date of acquisition.

Non-controlling interests reflected on the consolidated balance sheets are comprised of:

	Nine month period ended August 31, 2009
Non-controlling interest, beginning of year	\$ –
Non-controlling interest equity investment	14
Net income attributable to non-controlling interest	26
Non-controlling interest, end of year	\$ 40

The consolidated results of MSPL are included in our Corporate segment in note 15.

## 8. SHARE CAPITAL

### (a) Shared capital and contributed surplus

2009	Share Capital		Contributed Surplus
	# of shares	\$000s	\$000s
Authorized in unlimited numbers:			
Common shares issued:			
Balance, beginning of year	30,686,917	\$ 30,633	\$ 2,195
Stock options exercised	47,500	133	(46)
Employee stock ownership plan	–	–	(6)
Restricted share units	297,665	1,054	359
Normal course issuer bid	(83,312)	(85)	–
Balance, end of year	30,948,770	\$ 31,735	\$ 2,502

2008	Share Capital		Contributed Surplus
	# of shares	\$000s	\$000s
Authorized in unlimited numbers:			
Common shares issued:			
Balance, beginning of year	30,187,379	\$ 29,003	\$ 2,458
Stock options exercised	159,684	476	(112)
Employee stock ownership plan	68,403	211	(68)
Restricted share units	271,451	943	(83)
Normal course issuer bid	–	–	–
Balance, end of year	30,686,917	\$ 30,633	\$ 2,195

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## (b) Stock Options

We maintain a stock option plan for directors and employees. Options are granted at an exercise price equal to the closing price of our common shares on the date of granting. We discontinued grants of stock options under this plan during fiscal 2006. Options granted between 2002 and 2006 expire five years after the vesting date. Prior to 2002, options were valid for 10 year periods. 3,500,000 common shares were reserved for the exercise of these options. The following stock options, with expiry dates up to November 2011, remain outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2007	586,734	\$ 2.64
Exercised	(159,684)	\$ 2.27
Cancelled	(43,500)	\$ 3.59
Balance, August 31, 2008	383,550	\$ 2.68
Exercised	(47,500)	\$ 1.82
Expired	(98,500)	\$ 1.86
Cancelled	(32,500)	\$ 3.60
Balance, August 31, 2009	205,050	\$ 3.14

The following table summarizes information about stock options outstanding and exercisable at August 31, 2009:

Range of Exercise Prices	Weighted Average Remaining Contractual Life (Years)	Number Outstanding and Exercisable	Weighted Average Exercise Price
\$ 1.70-1.99	0.36	40,000	\$ 1.87
\$ 2.00-2.49	0.18	6,000	\$ 2.25
\$ 2.88-3.60	0.84	88,050	\$ 2.96
\$ 4.11-4.15	1.75	71,000	\$ 4.14
	1.04	205,050	\$ 3.14

The following table summarizes information about stock options outstanding and exercisable at August 31, 2008:

Range of Exercise Prices	Weighted Average Remaining Contractual Life (Years)	Number Outstanding and Exercisable	Weighted Average Exercise Price
\$ 1.36-1.69	0.26	23,500	\$ 1.64
\$ 1.70-1.99	0.50	139,500	\$ 1.85
\$ 2.00-2.49	0.18	30,500	\$ 2.09
\$ 2.88-3.60	1.59	104,550	\$ 2.99
\$ 4.11-4.15	3.25	85,500	\$ 4.14
	1.37	383,550	\$ 2.68

We did not grant any stock options during fiscal 2009 and have not recorded any stock based compensation during this fiscal year (2008—\$nil) related to stock options. During fiscal 2009, we have reclassified \$46 (2008—\$112) from contributed surplus to share capital in relation to the exercise of stock options.

## (c) Employee Stock Ownership Program

We also have an Employee Stock Ownership Program (ESOP). Under the ESOP, we issue one common share from treasury at no cost for every two shares that an employee purchased and held for 16 months. Employees could register common shares valued to a maximum of 10% of their earnings in the prior calendar year in the program, with registration periods at the end of every calendar quarter. We discontinued registrations of common shares under the ESOP during fiscal 2007.

During fiscal 2009, we recorded compensation expense of \$nil (2008—\$168) with a corresponding credit to contributed surplus for the employee stock ownership plan. In addition, \$nil (2008—\$211) has been reclassified from contributed surplus to share capital for the matching shares issued in the year. At August 31, 2009, there were no common shares eligible for issuance under the ESOP.

Forfeitures of previously registered ESOP shares reduced compensation expense by \$6 in fiscal 2009 (2008—\$25).

## (d) Restricted Share Units

We have a Restricted Share Unit (RSU) plan. Under the RSU plan, participants are eligible to receive common shares issued from treasury at a future date. The only performance condition under the RSU plan is that the employee, officer or director remains employed with Matrikon during the vesting period. The cost of the RSU is equal to fair market value at the date of grant. Compensation expense is recognized on a straight line basis over the RSU vesting period of three years. The maximum number of RSUs available under the RSU plan as at August 31, 2009 is 1,700,294.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Canadian Dollars)

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The following table summarizes the RSUs outstanding:

	Number of RSUs	Weighted average fair value per unit
Balance, August 31, 2007	1,066,000	\$ 3.45
Granted	155,166	\$ 3.93
Vested	(271,453)	\$ 3.40
Forfeited	(181,506)	\$ 3.22
Balance, August 31, 2008	768,207	\$ 3.53
Granted	178,307	\$ 3.46
Vested	(297,655)	\$ 3.51
Forfeited	(59,935)	\$ 3.39
Balance, August 31, 2009	588,924	\$ 3.53

During fiscal 2009, we recorded compensation expense of \$1,562 (2008–\$1,182) with a corresponding credit to contributed surplus relating to RSUs. In addition, \$1,054 (2008–\$943) has been reclassified from contributed surplus to share capital for RSUs vested during fiscal 2009. Compensation expense for fiscal 2009 was reduced by \$149 (2008–\$321) due to the forfeiture of RSUs.

## (e) Dividends

On October 9, 2008, the Board of Directors declared a special dividend of \$0.07 per common share and a quarterly dividend of \$0.03 per common share to all shareholders of record on October 17, 2008. On October 31, 2008, \$3,095 was paid.

On December 19, 2008, the Board of Directors declared a dividend of \$0.03 per common share to all shareholders of record on December 31, 2008. On January 14, 2009, \$928 was paid.

On April 18, 2009, the Board of Directors declared a dividend of \$0.03 per common share to all shareholders of record on April 29, 2009. On May 13, 2009, \$927 was paid.

## (f) Normal Course Issuer Bid

In fiscal 2009, we commenced a normal course issuer bid (NCIB) to purchase our common shares. Pursuant to the NCIB, we are entitled to acquire up to 1,547,595 common shares, representing not more than 5% of the 30,951,918 common shares issued and outstanding as of January 14, 2009. The NCIB expires on January 15, 2010. Daily purchases will be limited to 23,679 common shares, other than block purchase exceptions until March 31, 2009 and thereafter shall be limited to 11,839 common shares, other than block purchase exceptions. The excess of the purchase price over the weighted average cost of shares purchased for cancellation will be charged to retained earnings.

During the year ended August 31, 2009, we purchased 83,312 shares for cancellation under the NCIB at a weighted average cost of \$1.72 per share for total consideration of \$143. The excess of \$58 over the weighted average cost of shares purchased was charged to retained earnings.

There was no NCIB in effect during fiscal 2008.

## (g) Earnings Per Share

For fiscal 2009, the weighted average number of shares outstanding used to calculate basic earnings per share was 30,946,347 (2008–30,511,080).

In determining diluted earnings per share, the weighted average number of shares outstanding was increased by 6,965 (2008–88,376) for stock options eligible for exercise where the average market price of the common shares for the year exceeds the exercise price, by nil (2008–1,974) for matching shares under ESOP, and by 83,613 (2008–768,207) for RSUs outstanding. The diluted weighted average number of shares outstanding was 31,036,925 (2008–31,369,637). In both fiscal 2009 and 2008, no adjustments were made to net income to calculate diluted earnings per share.

## (h) Employee Share Purchase Plan

In fiscal 2009, we commenced an employee share purchase plan (ESPP) where we contribute to the ESPP based on the amount of employee contributions made subject to maximum limits per employee. We account for such contributions as an expense in the period which the contributions are made.

During the year ended August 31, 2009, we recorded \$395 (August 31, 2008–\$nil) related to the ESPP.

## 9. OTHER INCOME

	2009	2008
Interest income, other than accretion	\$ 232	\$ 658
Gain on disposal of property and equipment	92	472
Sundry expense recoveries	96	106
	\$ 420	\$ 1,236

## 10. COMMITMENTS

We have entered into a number of lease commitments for office space and equipment. In addition to minimum lease payments, our office facility leases require payment of our proportionate share of real estate taxes and building operating expenses. We are also party to research funding arrangements with educational institutions in Canada and Australia. The commitments for each of the next five years for these lease and research funding arrangements are as follows:

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	Amount
2010	\$ 2,421
2011	1,970
2012	1,206
2013	319
2014	48
Subsequent years	–
	\$ 5,964

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### (a) Classification of financial instruments

The following is a summary of the accounting model that we have applied to each of our significant categories of financial instruments:

<b>Cash and cash equivalents</b>	Held for trading
<b>Accounts Receivable</b>	Loans and receivables
<b>Contracts in progress</b>	Loans and receivables
<b>Accounts payable and accrued liabilities</b>	Other financial liabilities

We have not classified any assets as held to maturity or as available-for-sale.

Held for trading financial assets and liabilities are recorded at fair value, with realized and unrealized gains and losses reported in net income. Loans and receivables and other financial liabilities are accounted for on initial recognition at fair value and subsequent to initial recognition at amortized cost using the effective interest method.

### (b) Fair value of financial instruments

Fair value refers to the value a financial instrument can be closed out or sold at, in a transaction with a willing and knowledgeable counterparty. Fair values are determined for measurement and/or disclosure purposes. We estimate the fair values of our financial instruments on the basis of available market information and the use of valuation techniques such as the discounted cash flow method if quoted market prices are not available. The process of determining fair values, using valuation techniques, for financial instruments can be subjective and requires us to exercise judgment in making assumptions about cash flow projections and discount rates.

#### *Non-derivative financial instruments*

Non-derivative financial instruments that have been classified as held-for-trading are cash and cash equivalents, which are short-term in nature and recorded at fair value. We record interest on cash and cash equivalents in other income.

The carrying values of our accounts receivable, contracts in progress, and accounts payable and accrued liabilities approximate their fair values. We have used a discounted cash flow analysis in making this assessment.

Interest income relating to the accretion of accounts receivable and contracts in progress included in interest income during fiscal 2009 was \$655 (2008–\$785). Interest expense relating to the accretion of accounts payable and accrued liabilities included in cost of sales for fiscal 2009 was \$278 (August 31, 2008–\$357). Interest income and expense due to accretion are determined using the effective interest rate method.

The transition adjustment attributable to the remeasurement of accounts receivable, contracts in progress, and accounts payable and accrued liabilities were recognized in opening retained earnings as at September 1, 2007. We recorded a net transition adjustment of \$106 to opening retained earnings. This is comprised of \$128, net of taxes, representing the reduction of accounts receivable to amortized cost; and adjustment of \$57, net of taxes, representing a reduction of contracts in progress to amortized cost; and an adjustment of \$79, net of taxes, representing a reduction of accounts payable and accrued liabilities to amortized cost. There were no other transition adjustments for our other financial assets and liabilities as their carrying values approximate fair value due to their short-term nature.

#### *Derivative financial instruments*

Our derivative financial instruments include our foreign currency forward contracts which we utilize to manage cash flows between currencies typically for short-term periods. These forward contracts are designated as held-for-trading and are recorded at fair value. The fair values of these instruments are estimated based on quoted market rates.

As at August 31, 2009, we did not have any foreign currency forward contracts.

As at August 31, 2008, the fair value of these contracts resulted in a derivative liability of \$73. This liability is recorded in accounts payable and accrued liabilities.

### (c) Risk management

We are exposed to credit, liquidity and market risks. Our primary objective is to protect earnings, cash flow and shareholder value.

#### *(i) Credit risk*

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the counterparty by failing to discharge an obligation. We are primarily exposed to credit risk through our cash and cash equivalents, trade accounts receivable and contracts in progress. Our maximum of credit risk exposure is limited to the reported amounts of these financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Credit risk arising from our treasury activities, including activities related to the use of derivative financial instruments, are managed by a central treasury function. We manage our treasury activities by placing cash investments and foreign currency forward contracts with select financial institutions, limiting the amount of exposure to any one institution, and periodically monitoring the investments to evaluate returns and review credit ratings of the financial institutions with which we do business.

Trade accounts receivable result from the sale of our products and services to diverse clients in various industries, geographies and sectors of the economy. Our credit risk is not concentrated in any particular client entity, industry, economic or geographic sector. We manage our credit risk through ongoing review of the amount and aging of trade receivable balances and perform collection procedures. In addition, we maintain allowances for doubtful accounts. The aging of trade accounts receivable as at August 31 is as follows:

2009	Gross	Allowance	Net
Current	\$ 10,639	\$ –	\$ 10,639
30-90 days	2,544	–	2,544
Greater than 90 days	3,135	(528)	2,607
	\$ 16,318	\$ (528)	\$ 15,790

2008	Gross	Allowance	Net
Current	\$ 9,325	\$ –	\$ 9,325
30-90 days	5,355	–	5,355
Greater than 90 days	3,579	(852)	2,727
	\$ 18,259	\$ (852)	\$ 17,407

In determining an allowance for doubtful accounts, we consider the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition and historical experience. We believe that the allowance for doubtful accounts is sufficient to reflect the related credit risk. The accounts receivable balance disclosed in the consolidated balance sheet is comprised of our trade accounts receivable net of allowances for doubtful accounts, SR&ED income tax credits and other miscellaneous receivables. There has been no change to how we manage our credit risk from the prior period.

## (ii) Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. We manage our liquidity risk by monitoring our cash flows and other anticipated expenses so there is sufficient cash resources to meet forecasted operational expenses and financial obligations. We also maintain a facility of \$7,000 (2008-\$7,000), of which \$2,044 (2008-nil) was utilized for overdraft balance on one of our subsidiary's operating bank accounts.

Contractual maturity dates and amounts related to our derivative financial instruments are disclosed in note 11(b). Our non-derivative financial liabilities consist of accounts payable and accrued liabilities and are contractually due at various dates within the next twelve months. The aggregate undiscounted contractual amount of our non-derivative financial liabilities at August 31, 2009 is \$8,729 (2008-\$10,267). There has been no change to how we manage our liquidity risk from the prior period.

## (iii) Market risk

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks that affect our financial instruments include:

- *Interest rate risk:* refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are not exposed to material interest rate risk on our financial assets and financial liabilities due to the contractual nature of these instruments.
- *Foreign currency risk:* refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

We operate internationally and are exposed to risk from changes in foreign currency rates. We are primarily exposed to fluctuations in the US dollar (USD), Australian dollar (AUD), British pound (GBP), Euro (EUR) and Indian Rupee (INR). While we attempt to match cash outlays with cash inflows in the same currency, fluctuations in exchange rates do create volatility in our cash flows and reported amounts for revenues and expenses on a period-to-period basis.

Further volatility in reported amounts arises from the translation (referred to as "translation risk") of our foreign operations using the temporal and current rate translation methods.

Canadian GAAP requires us to disclose a sensitivity analysis that shows our foreign currency risk exposure at our period end. More specifically, GAAP requires that the sensitivity analysis include only the effect on our financial instruments which excludes the consideration of translation risk, financial instruments that are non-monetary items, and financial instruments denominated in the functional currency in which they are transacted and measured.

The following table discloses our sensitivity to a 10% variation of the foreign currencies on net income against the Canadian dollar:

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Foreign currency impact in CAD for:	USD	AUD	GBP	EUR	NR
Spot rate at August 31, 2009	1.09	0.92	1.78	1.56	0.02
Impact of 10% increase of spot rate on net income	932	(12)	70	50	–
Impact of 10% decrease of spot rate on net income	(932)	12	(70)	(50)	–

Brackets denote decrease in net income

Our analysis of the effects of hypothetical foreign exchange changes are based on assumptions, including the maintenance of the existing level and composition of assets and liabilities, and should not be relied on as indicative of actual or future results.

## 12. CAPITAL RISK MANAGEMENT

Our capital management objectives are to safeguard our ability to continue as a going concern, in order that we can provide future returns for our shareholders. We strive to accomplish this objective with the least dilution to our shareholders. We manage our capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, we may incur or repay debt, adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, and issue new shares. The Board of Directors reviews and approves capital and operating budgets and any material transactions outside of the ordinary course of business, including proposals on acquisitions. Total capital managed is determined as follows:

	August 31, 2009	August 31, 2008
Line of credit	\$ 7,000	\$ 7,000
Shareholders' equity, net of accumulated other comprehensive income	43,769	45,054
	\$ 50,769	\$ 52,054

We have provided a general security agreement covering all of our assets as security for the line of credit. The line of credit is subject to certain restrictive covenants, including, but not limited to, incurring additional secured debt and selling assets. We are also required to meet certain financial covenants under the line of credit agreement. We were in compliance with all covenants under the line of credit agreement as at August 31, 2009.

There were no changes to how we manage our capital from the prior period.

## 13. FOREIGN CURRENCY TRANSLATION

During the year ended August 31, 2009, we re-evaluated the functional currencies of our wholly owned UK subsidiary, Matrikon UK Limited (MUK) and our wholly owned German subsidiary, Matrikon Deutschland AG (MDAG). Due to changes in economic circumstances, we have determined the functional currency of MUK is British pounds and MDAG is the Euro. Accordingly, these operations are being translated prospectively as of October 1, 2008 for MUK and February 1, 2009 for MDAG, using the current rate method. There have been no changes in the assessment of the functional currency for our other foreign operations at August 31, 2009.

During the year ended August 31, 2008, we re-evaluated the functional currency of our wholly owned Australian subsidiary, Matrikon Asia-Pacific Pty Limited (MAPL). Due to changes in economic circumstances, we determined the functional currency of MAPL is Australian dollars. Accordingly, these operations are being translated using the current rate method as of May 1, 2008.

## 14. CONTINGENCIES

We are subject to various legal claims that arise in the normal course of business. We believe that the aggregate unrecorded liability arising from these claims is immaterial.

## 15. SEGMENTED INFORMATION

We sell software and provide professional services in the area of continuous process industries throughout North America and internationally. We have five business segments that are primarily segmented based on geographic areas, which is how we monitor and assess performance as well as make operating decisions. Operating segments are defined as components of Matrikon for which separate financial information is available and are evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. Our reportable segments are North America, Asia-Pacific, EMEA (Europe, Middle East and Africa), Products and Corporate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Years ended August 31, 2009 and 2008

## Year ended August 31, 2009

(CAD \$000s)	North America	Asia-Pacific	EMEA	Products	Corporate	Total
External revenue	\$ 26,104	\$ 18,561	\$ 18,554	\$ 10,019	\$ –	\$ 73,238
Intercompany revenue (cost of sales)	(2,283)	(843)	(2,800)	5,926	–	–
Cost of sales	12,946	10,210	6,073	2,340	614	32,183
	10,875	7,508	9,681	13,605	(614)	41,055
Expenses	(6,281)	(6,385)	(5,631)	(8,909)	(10,605)	(37,811)
Other income and foreign exchange gain (loss)	–	107	140	–	(336)	(89)
Income (loss) before income taxes and non-controlling interest	\$ 4,594	\$ 1,230	\$ 4,190	\$ 4,696	\$ (11,555)	\$ 3,155
Goodwill	2,961	1,098	5,490	6,258	–	15,807
Property and equipment	2,468	1,183	602	–	–	4,253

## Year ended August 31, 2008

(CAD \$000s)	North America	Asia-Pacific	EMEA	Products	Corporate	Total
External revenue	\$ 32,609	\$ 20,246	\$ 19,531	\$ 7,645	\$ –	\$ 80,031
Intercompany revenue (cost of sales)	(3,273)	(777)	(2,832)	6,882	–	–
Cost of sales	15,365	9,947	7,233	2,317	–	34,862
	13,971	9,522	9,466	12,210	–	45,169
Expenses	(6,657)	(5,959)	(3,969)	(7,880)	(8,762)	(33,227)
Other income and foreign exchange gain (loss)	41	187	341	–	977	1,546
Income (loss) before income taxes and non-controlling interest	\$ 7,355	\$ 3,750	\$ 5,838	\$ 4,330	\$ (7,785)	\$ 13,488
Goodwill	2,961	1,097	5,535	6,258	–	15,851
Property and equipment	1,533	1,238	603	–	–	3,374

### Customers

We have a large number of clients in various industries and sectors of the economy. Revenue within the segments is not concentrated in any particular client with the exception of one entity that makes up approximately 32% of EMEA revenue. Revenue from the Asia-Pacific and North America segments are not concentrated with any particular client.

In the prior year, revenue within the segments was not concentrated in any particular client with the exception of one entity per segment that comprised approximately 30% of EMEA, 13% of Asia-Pacific and 12% of North America revenue.

### 16. CUSTOMER INDEMNIFICATION

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. To date, we have not incurred any costs as there have been no claims for indemnification. Accordingly, we have not accrued any liabilities related to such obligations in our consolidated financial statements.

### 17. SUBSEQUENT EVENTS

Subsequent to the year end:

- We acquired 100% of the shares of Newcastle-based Integration Automation and Control Pty (IAC) for consideration of \$2,012,010 AUD. We are in the process of finalizing the estimated fair values of assets acquired and liabilities assumed at the date of acquisition, including goodwill and identifiable intangible assets. The acquisition of IAC, and any post closing purchase price adjustments currently estimated in the consideration, will be reflected in our consolidated financial statements beginning September 1, 2009.
- Effective November 11, 2009, we acquired the remaining 51% shares of MSPL for \$575.
- Matrikon's Board of Directors declared a dividend of \$0.03 per common share payable December 20, 2009 to shareholders of record as of November 19, 2009. The dividend is eligible for Canadian income tax.

### 18. COMPARATIVE FIGURES

We have reclassified certain figures for fiscal 2008 to reflect the financial presentation adopted for fiscal 2009.