



# Matrikon

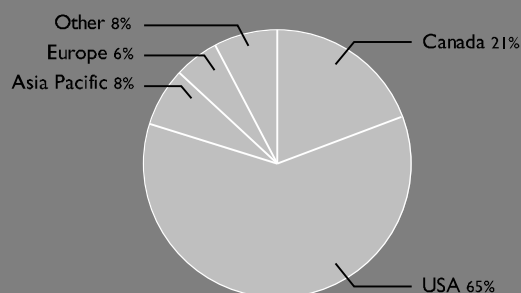
Delivering Value  
Delivering Results

2001 Annual Report

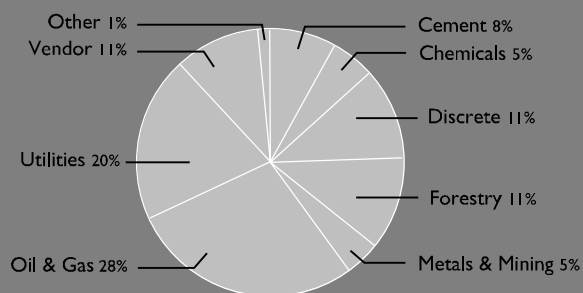
 Matrikon

## Financial Highlights

### Revenue by Region



### Revenue by Industry

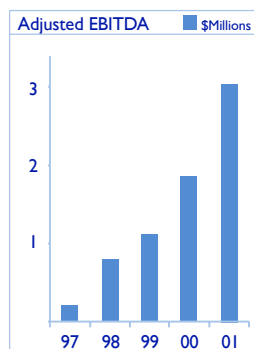
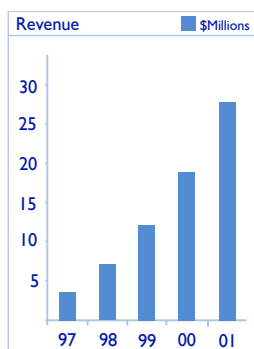


61% adjusted EBITDA growth

45% revenue growth

700% growth since 1997

13th consecutive year of profitability



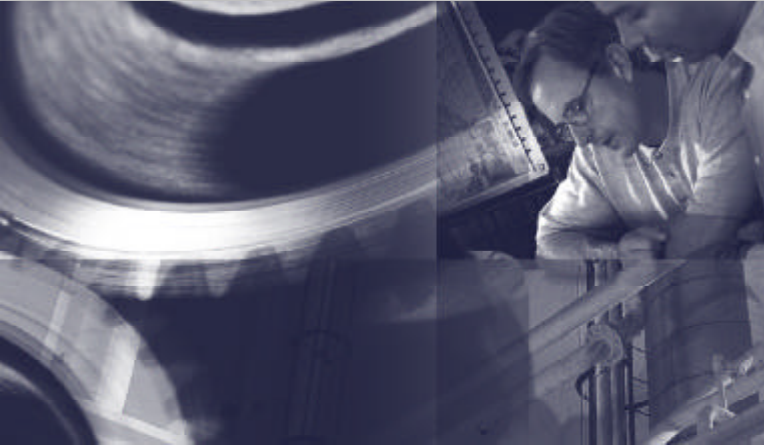
## Financial Highlights

In thousands, except per share amounts

Fiscal Year Ended August 31

Consolidated Operational Data	2001	2000
<b>Revenue</b>	\$ 27,681	\$ 19,092
<b>Cost of Sales</b>	16,227	10,881
	\$ 11,454	\$ 8,211
<b>Expenses</b>		
Consulting	\$ 1,597	\$ 1,567
Sales & marketing	2,226	522
Research & development	1,765	1,102
General & administrative	2,918	3,044
<b>Adjusted EBITDA*</b>	\$ 3,028	\$ 1,875
<b>Adjusted EBITDA* per share</b>	0.15	0.10
Net income (loss)	\$ 952	\$ (449)
Net income (loss) per share	\$ 0.05	\$ (0.02)
<b>Weighted average number of shares outstanding</b>	20,131	18,271

\* As a private company, Matrikon bonused out all of its profits to shareholders on an annual basis, resulting in nominal or negative net income remaining in the company. Adjusted EBITDA is earnings before interest, taxes, depreciation, amortization and these annual bonuses.



## This is Matrikon

Matrikon delivers industrial IT solutions that optimize and streamline plant operations for maximum agility and profitability. We provide web-based products and optimization services to a broad client base, which includes industry leaders in oil and gas, petrochemicals, cement, utilities, pulp and paper, pharmaceuticals, and food and beverage processing. As a leading integrated solution provider, our expertise ranges from data acquisition and storage to data analysis and decision support, complemented by our experience in connectivity and our leadership in web-delivered data technologies.

We understand the unique industrial IT challenges faced by manufacturing facilities—an understanding founded on our service roots and expanded through our commitment to understanding our clients' unique problems and diverse needs.

### Corporate Values

**Delivering value: our business.** We deliver total solutions that meet or exceed our clients' expectations, and ultimately add value to their bottom line.

**Innovative solutions: our edge.** We combine innovative technology, a strong commitment to R&D, and our own process optimization expertise to deliver truly innovative solutions.

**Exceptional people: our asset.** We employ, develop, and empower the best people in the industry. Matrikon is built on their knowledge, their dedication, and their energy.

**Customer satisfaction: our priority.** At Matrikon, our highest priority is turning customer service into customer satisfaction.

# Delivering Value Delivering Results

In a world filled with complex and complicated businesses, Matrikon offers simple solutions that deliver what our clients really want – **value**.

For each client, value has a different definition. For some, it means increased throughput so they can produce more to meet growing demand. For some it means improved quality control. For some it means the ability to maintain a high level of customer service by offering accurate delivery dates. What it all really means in the end is optimizing operations for maximum bottom line impact.

At Matrikon, we know that delivering value is essential to our continued success. We must not only deliver value to our customers, but also to our partners, our investors, our employees and the communities in which we live and work. It is only through our continual commitment to delivering value that we are able to deliver results to our stakeholders. When we help our clients achieve their business goals, we achieve our own. When we help our partners achieve their goals, it adds to our success. That is why we're never satisfied until our clients receive the value they desire.

## Dear Fellow Shareholders:

We have seen dramatic changes in the global business climate over the past few years. In North America, this impact was felt long before the tragic events of September 11, 2001. The technology meltdown drained trillions of dollars out of the capital markets, shattered investor confidence and created massive uncertainty. Capital markets dried up, many technology companies disappeared, and many others were swallowed in mergers and acquisitions. The threat of a recession during the early part of our fiscal year turned into a significant economic downturn as we concluded the year in August. Against this backdrop, Matrikon became a publicly traded company.

In spite of the poor economic climate, Matrikon had another tremendous year with record revenues and profitability. While other companies were struggling, Matrikon spent the past year adding significant capacity, building the infrastructure (financial, sales, management) and technology that will ensure sustained growth and profitability. With the infrastructure now in place, a solid suite of products and a strengthened sales and marketing team, I am confident that Matrikon is well positioned to continue to grow and to do so profitably.

As you read this, we are well into the second quarter of fiscal 2002. The past fiscal year was perhaps the most challenging and indeed most rewarding year in the history of the company. As we transitioned from a closely held private company to a public entity, our challenge was to retain our focus on growing and building the company. Given the underlying economic climate, any distraction would have had a severe impact on our bottom line. I am pleased to report that everyone at Matrikon rose to this challenge.

### The Year in Review

The past year was unlike any other in Matrikon's history. While very few companies ventured into the public arena, Matrikon moved forward boldly and transitioned with minimal impact on the overall performance of the company. These results were accomplished due to the dedication and commitment of every member of the Matrikon staff. Everyone remained focused and committed to making Matrikon a significant leader in industrial IT solutions. I express my deepest gratitude to every staff member who helped make this a record year.

Among our many accomplishments were the following notable highlights:

- We completed the reverse takeover of TigrSoft Inc. and integrated the two companies. Today, the result of this integration is evident with the release of MxSuite, which integrates web-based technology with APS (Advanced Planning and Scheduling). We have already achieved an increase in the sales of our supply chain suite.

- We significantly improved the product development team and development processes. Major enhancements to each product were achieved during the fiscal year, with new version releases either during the fiscal year or subsequent to year-end.
- We reorganized our sales and marketing department with a renewed focus on achieving a solid balance between product license revenue, services related to Matrikon products, and third party integration services.
- We successfully increased both the average value of projects by 19%, and the number of large projects. This is a significant trend that will help the company to continue to grow.
- We significantly grew the business backlog. A healthy backlog ensures our sustained growth and profitability.
- With the general decline in the technology market space and reduced hiring by other companies, Matrikon was able to attract some outstanding talent. Both new graduates as well as seasoned veterans were hired to complement the existing team. We added 100 people to the company, an increase of 40%. As the economy recovers, Matrikon is well positioned from a human resources perspective to take full advantage of the rebound.

These achievements are made even more significant since they were accomplished while the company transitioned to a public company, integrated new people and products, and maintained a solid growth rate. And in keeping with Matrikon's philosophy, they were also accomplished without sacrificing profitability.

### Board and Management Team

Matrikon is committed to ensuring that our Board is strong and independent — a Board that adds significant value to the company and its shareholders. The Board, selected to provide a balance of skill and experience, was also challenged to guide the public company transition and implement processes for effective governance. I am pleased to report that the Board has served the company well and they have all accepted, subject to shareholder approval, to serve the company for another year.

In keeping with the philosophy of an independent Board, Mr. Hugh Bolton has accepted the role of non-executive Chairman of the Board. Mr. Dilip Kembhavi, who graciously agreed to serve as Chairman during the transition period, will now focus his energies on growing Matrikon's supply chain business as a member of the executive management team.

Our management team has evolved over the past twelve months and we now have a solid team, ready and eager to take Matrikon to the next level. The team remained focused during the year and was able to achieve outstanding results.

**“We are confident in where we are headed, but we are not satisfied. We will continue to work hard to deliver the results that will continue to earn your confidence.”**



## Growth Strategy

Over the past few months, we have developed a clear and focused five-year plan to map out our growth strategy. The plan is aggressive but achievable. Some of the key growth strategies are to:

1. Maintain steady growth for revenue and EPS at rates above industry average by:
  - Divesting risk across industry sectors. By increasing our penetration in three additional vertical industries (utilities, chemicals, mining and mineral processing), we will complement our strong presence in oil and gas, cement, pulp and paper and discrete industries.
  - Increasing software licenses as a percentage of revenue. This will result in a corresponding increase in gross margins and revenue per employee and also provide residual benefit through licensing and maintenance renewals. The long-range target is a 30:70 ratio, with a target of 15:85 for 2002.
  - Developing sales channels and OEM relationships. We will continue to cultivate newly established sales partner relationships with local and/or specialized system integrators and identify new opportunities for sales partnerships and OEM (original equipment manufacturer) relationships.
2. Maintain growth in average project size.
3. Continue to enhance product technology.

Over the next year, our product technology will continue to grow and evolve. We have seen a significant increase in interest in our products, but the challenge is to translate this interest into sales. If the latter part of 2001 is any indication, I expect that we will successfully translate these opportunities into sales and increase our market penetration.

## A Solid Investment

All independent market assessments of the manufacturing sector expect industrial IT to continue to grow, with estimates of the total value of the sector in the range of US \$12 billion in North America alone. Today, Matrikon is one of the largest vendor independent systems integrators in the world and we are recognized globally as a technology leader. The company has grown organically, with no external capital injection, and has remained profitable year after year. Very few companies, let alone technology companies, can make that claim today.

The demand for our products and services continues to grow despite the economic downturn. During good times, our clients are focused on increasing throughput, building new facilities

and retrofitting existing installations. When times are tough, the focus shifts to improving efficiencies, reducing costs, and optimizing maintenance and operations. Matrikon has the technology and the people to meet either of these challenges and bring agility to our client base.

At Matrikon, we maintain that a project is not completed when contractual obligations are met, but when the value that the client desired is delivered. With this philosophy, we have retained a large and loyal customer base.

From an investment perspective, we offer a solid opportunity for growth. Matrikon products are proven and delivering value for our clients today. One of Matrikon's key strengths, and an important factor in our sustained growth and success, is our ability to manage money. As a current or potential shareholder, I personally reiterate this commitment to you — we will look after the company resources and ensure that we continue to deliver value to our clients and shareholders.

We are confident in where we are headed, but we are not satisfied. We will continue to work hard to deliver the results that will continue to earn your confidence.

Sincerely,

Nizar J. Somji  
President & Chief Executive Officer

Proven track record of profitability: 13th consecutive year of profitable operations (when private company management bonuses excluded)

# Leading vendor independent solutions integrator

Prudent fiscal management:

organic growth with no external financing to date

Fully integrated business units for best-of-breed solutions

Proven track record of growth:  
over **900%** 5-yr growth rate

Blue-chip client base, including approximately 50% of all Fortune 500 companies in target industries

## Thorough understanding of the unique needs of our industrial clients

Demonstrated acquisition and integration ability

Strong management team, complemented by independent board

### 2002 Strategic priorities

- 1 Maintain steady growth. Target 15-25% revenue growth and 60-140% earnings per share growth.
- 2 Increase penetration in three additional industries (utilities, chemicals, mining & mineral processing).
- 3 Increase software licenses as a percentage of revenue. Target 15:85 products:services split for 2002.
- 4 Grow average project value by 10%.
- 5 Increase revenue per employee by 10%.

## Matrikon at a Glance

Matrikon's products and services are wholly integrated, generating solutions that are much greater than the sum of their parts and providing clients with a one-stop shop for complete best-of-breed solutions.

This tight integration provides Matrikon with an array of competitive advantages that are unequalled in industry:

- each unit is backed by the experience and expertise of other Matrikon business units
- intimate understanding of the unique challenges of industrial IT
- connectivity experts, we have the capability to communicate between any industrial hardware, software and device
- industry expertise with specific domain knowledge in a wide range of industries
- vendor independence

## Products

**ProcessNet.** A Virtual data warehouse — Delivers web-based access to process data in real-time.

**SCADANet.** A Virtual SCADA host — Delivers timely, accurate production data from remote oil & gas wells via the web.

**ProcessDoctor.** Control loop health optimization — Optimization tool for increased production, improved performance.

**ProcessGuard.** Alarm Management Software — Monitors, archives and audits plant alarm strategies.

**Mx Suite.** Advanced Planning & Scheduling — Solutions for supply chain management.

## Services

**Industrial Information Systems (IS).** Implement plant information infrastructure; integrate third party products; develop custom applications; implement Matrikon's own products.

**Advanced Control.** Implement multivariable predictive control, optimization, advanced statistical analysis and auditing solutions for improved plant performance.

**Business Systems.** Provide ERP integration services for plant floor modules.

**Advanced Network Services.** Integrate real-time data networks at the process control level.

**Drivers.** Develop custom and off-the-shelf drivers for connectivity between industrial hardware, software and devices.

**Control & Automation.** Design and implementation of plant automation strategies.

## Matrikon Products

## and Services

## Management's Discussion & Analysis

The following discussion and analysis should be read in conjunction with the company's financial statements for the years ended August 31, 2001 and 2000 and the accompanying notes.

### Overview

Matrikon is an industrial IT solutions company, delivering solutions that optimize and streamline plant operations for maximum agility and profitability. Following a series of mergers and acquisitions amongst systems integrators and vendors over the past few years, Matrikon is now one of the largest vendor-independent process industry system integrators in North America. This is a strong competitive advantage for Matrikon, as we are able to provide clients with a best-of-breed solution using components from a number of different vendors.

Matrikon is well diversified in a number of vertical industries, including oil and gas, energy and utilities, chemicals, cement and pulp and paper. Matrikon has a growing list of international clients in various industries, including approximately half of all Fortune 500 corporations in the company's target industries.

Fiscal 2001 marked the 13th consecutive year of profitability for the company (when bonuses paid to shareholders as part of private-company tax planning measures are added back). Matrikon achieved record growth in both revenue and earnings, with revenue increases of 45% and an adjusted EBITDA increase of 61% in fiscal 2001.

Matrikon's long-term focus is to increase revenue, improve gross margins and increase product sales as a percentage of total revenue.

### Results of Operations

**Revenue.** For the year ended August 31, 2001, the company recorded revenues of \$27.7 million, which represented a 45% increase over the prior year when the company recorded \$19.1 million in total revenue. This increase is due in large part to the sales force Matrikon started to build in September 2000. This sales force has been successful in increasing the average project

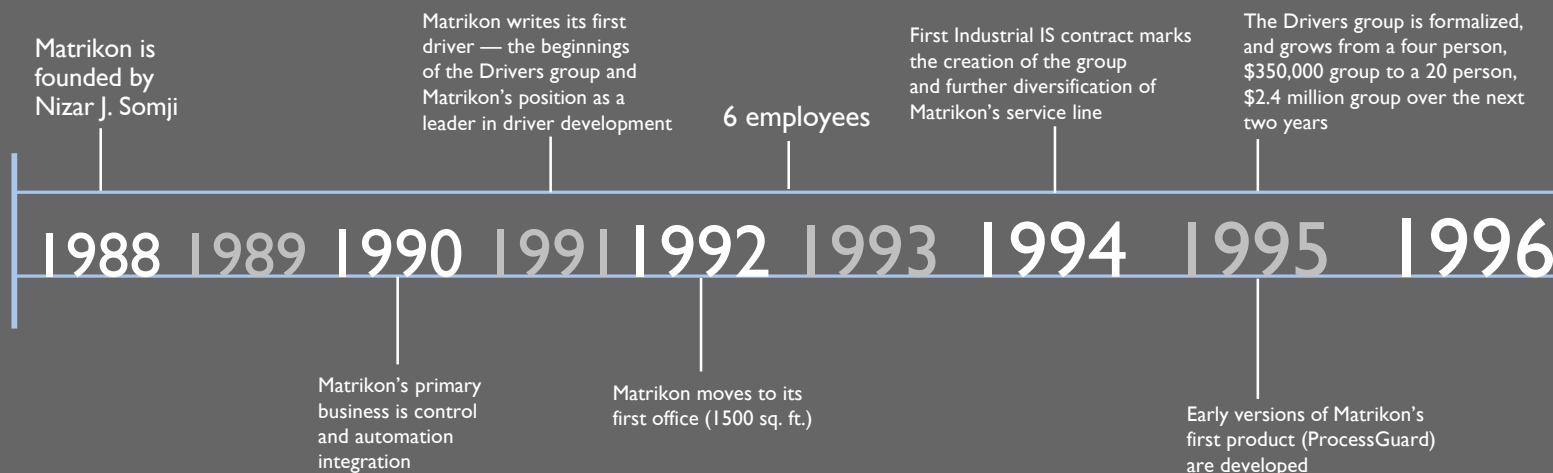
size (19% increase over 2000) and in closing new business with a high success rate. Prior to this fiscal year, technical staff and senior management were responsible for sales and marketing activities. Infrastructure built in 2000 and 2001 (increased employee base and related infrastructure) also contributed to the company's ability to bid on and complete larger projects. Approximately \$1.5 million of this increase in revenue is a result of the TigrSoft acquisition completed in April 2001.

Total revenue from implementation and consulting services in 2001 accounted for \$22.0 million or 79% of revenue compared to \$17.0 million or 89% of revenue for the prior year. The decrease of consulting and implementation services as a percentage of revenue is consistent with the company's goal to increase the product to services mix in total revenue.

License fee revenue, derived primarily from the licensing of the company's proprietary software was \$1.8 million or 6.7% of total revenue. In prior years, all contracts involving software were quoted as a fixed price and therefore the company did not record license fee and implementation revenues separately.

Increased product sales are attributable to three things: 1) the creation of a quality assurance group in August 2000, with responsibility for product testing; 2) increased focus on developing new functionality for products; and 3) improved stability and reduced installation times for the products, lowering the overall cost to customer. Extended support revenue accounted for \$0.9 million representing a 58% increase from fiscal 2000, when the company reported \$0.6 million. This increase in renewal rates can be attributed to increased driver sales, which require first year maintenance with each sale, and a designated technical support department, which has enhanced customer satisfaction with support services.

Matrikon also earned \$2.5 million from equipment sales, representing a 71% increase from the \$1.5 million the company had reported for the prior year. Equipment sales are ancillary to consulting engagements where customers specifically request Matrikon to purchase and install required equipment.



## Results of Operations

Fiscal Year ended August 31 (thousands of dollars)	2001	% of revenue	2000	% of revenue	Change	Industry*
<b>Revenue</b>	\$27,681		\$19,092		45%	N/A
Gross Profit	\$11,454	41%	\$8,211	43%	(2)%	57%
<b>Expenses</b>						
Consulting	\$1,597	5.8%	\$1,567	8.2%	(2.4)%	-
Sales and Marketing	\$2,226	8.0%	\$522	2.7%	5.3%	30%**
Research & Development	\$1,765	6.4%	\$1,102	5.8%	0.6%	20%**
General & Administrative	\$2,918	10.5%	\$3,044	15.9%	(5.4)%	23%**
Amortization	\$830	3.0%	\$437	2.3%	0.7%	-
Total Operating Expenses	\$9,336	33.7%	\$6,672	34.9%	(1.2)%	-
Adjusted EBIT	\$2,198		\$1,438		53%	N/A
Adjusted EBIT/share	\$0.11		\$0.08		38%	N/A
Net income	\$952	3.4%	\$(449)	(2.4)%	\$1,401	(57.1)%
Net income per share	\$0.05		\$(0.02)		\$0.07	-

**Gross profit** was 41% of sales for 2001 compared with 43% in 2000. To meet contractual obligations of new engagements, 100 new employees were hired over the course of the year. This ramp up in employees caused a brief decline in gross profit while new staff were trained and not generating revenue. An increase in the product to services revenue mix helped to partially offset this decline in gross profit, since higher margins are realized from product licensing and extended support revenue.

**Operating expenses** reflect a growing business, but have generally remained constant as a percentage of sales as the company continues to maintain tight control over expenditures and manage growth.

**Consulting expenses** representing overhead expenses directly related to consulting engagements remained constant at \$1.6 million, representing a decrease to 5.8% of revenue in 2001 from 8.2% for the prior fiscal year.

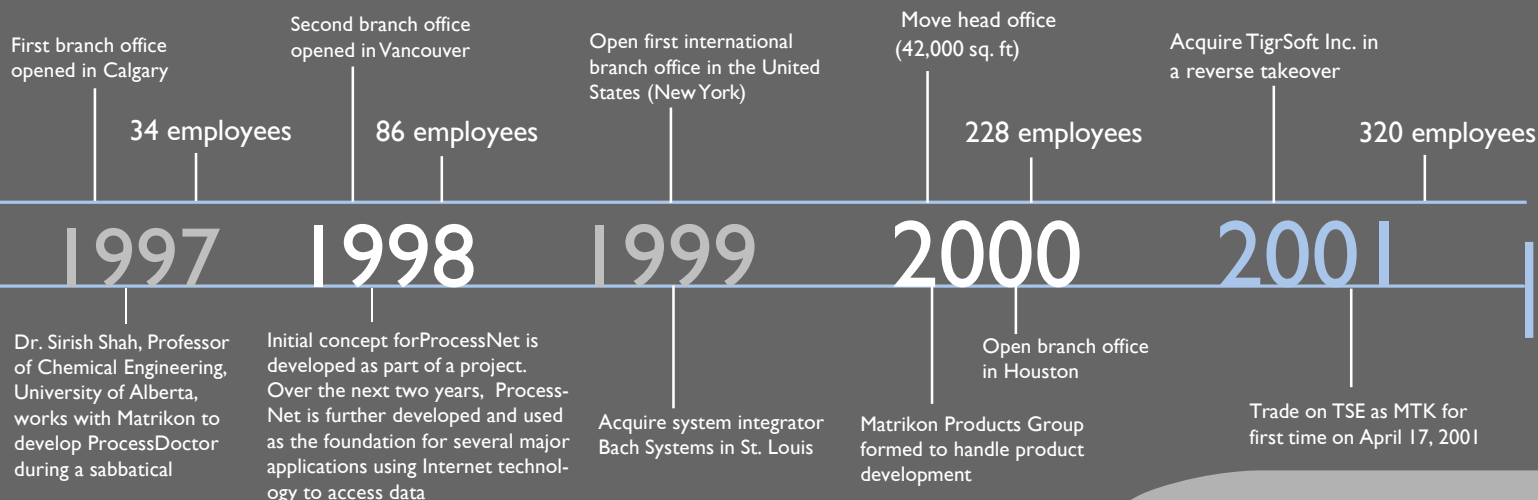
**Sales and marketing** expenses saw a planned increase to \$2.2 million, or 8.0% of revenue, from \$522,000, or 2.7% recorded in 2000. This increase is related to building a designated sales force beginning in September 2000 and developing an internal marketing department during 2001. We anticipate another slight

increase for 2002 as sales and marketing programs are rolled out to support our growth goals, particularly the drive to increase the product to services mix. Sales and marketing expenses are expected to level out at 10-12% of revenue.

**Research and development** expense increased to 6.4% or \$1.8 million for 2001 as compared to 5.8% or \$1.1 million spent during 2000. This increase reflects Matrikon's commitment to developing new products, improving existing technology, and delivering quality solutions through the creation of a quality assurance group. Research and development also includes contributions to the Matrikon Industrial Research Chair in Computer Process Control established in 2001 at the University of Alberta. Research and development expenses are expected to continue to grow over the next few years to approximately 10% of revenue.

**General and administrative** expenses decreased by 5.4% to \$2.9 million from the \$3.0 million recorded in 2000. This decrease reflects continued cost control, improved operating efficiencies and synergies realized from organic growth and from the TigrSoft acquisition. The company's administrative infrastructure was expanded in fiscal 2000 to facilitate growth through fiscal 2001; hence, the additional growth realized in the year did not result in additional infrastructure costs, particularly with respect to office space. In the first quarter of fiscal 2002, Matrikon increased office space in Edmonton, Vancouver, and St. Louis for a total increase of 62% in preparation for the growth required to execute the strong backlog of projects and an increasing sales pipeline, which the company hopes will result in significant product and services wins in fiscal 2002. During the fourth quarter, Matrikon opened a sales office in Saudi Arabia. Subsequent to year-end, operations in Pune, India ceased.

**Adjusted EBIT** is used as a measure of profitability instead of net income because, as a private company, Matrikon paid out (via bonuses) the majority of the pre-tax income to its shareholders on an annual basis. As a result, only nominal and in some years negative net income was maintained in the company.



Consequently, net income is a poor indicator of the company's profitability prior to its going public. Adjusted EBIT is earnings before interest, taxes and these annual bonuses, reflected in the statements of income as "Management compensation".

Adjusted EBIT for the twelve-month period was \$2.2 million or \$0.11 per share versus \$1.5 million or \$0.08 per share during the same period in 2000. Prior to Matrikon becoming a public company in April 2001, a final management bonus of \$700,000 was paid out.

**Net income.** Matrikon posted net earnings of \$952,000 or \$0.05 per share for the 2001 fiscal year compared to a net loss of \$(449,000) or \$(0.02) per share during the corresponding period in fiscal year 2000. As a private company, Matrikon paid out (via bonuses) the majority of pre-tax income to its shareholders on an annual basis. As a result, only nominal and in some years negative net income was maintained in the company.

The company paid taxes during the current year; however, going forward, the \$8.5 million in tax losses inherited as part of the TigrSoft acquisition will be available to reduce portions of Matrikon's future income taxes payable.

### Liquidity and Capital Resources

**Financial condition.** At the end of the year, the company had cash on hand of \$238,000 and accounts receivable in the amount of \$8.0 million. The average collection period in fiscal 2001 was 98 days, an increase from the prior year when the average collection period was 93 days. This increase reflects growth in international business, where collection cycles are typically longer.

Matrikon has an operating line of credit in the amount of \$6.0 million at a variable interest rate of Canadian prime plus 45 basis points. At August 31, 2001, \$0.9 million was drawn, compared to the \$2.1 million advanced as at August 31, 2000.

Operating cash flow was \$1.8 million, up significantly from a decrease of \$(2.0) million in the prior year, reflecting improved capital management and an increase in maintenance revenue and other contracts where project advances are received from the client. Changes in non-cash working capital also improved to positive \$32,000 in 2001 from \$(2.0) million in 2000.

### Investing Activities

**Acquisition.** The company's investing activities in the current fiscal year consisted mainly of the reverse takeover of TigrSoft Inc. ("TigrSoft") in April 2001. TigrSoft develops supply chain management software solutions that allow manufacturers to plan and manage production efficiently and generate realistic and useful production schedules. TigrSoft's Advanced Planning and Scheduling software is installed at approximately 60 blue-chip companies throughout the world, including 4 out of 5 of the world's largest automobile manufacturers. TigrSoft had license revenues of \$1.4 million, implementation fee revenue of \$2.1 million and extended support revenue of \$0.9 million for the year ended October 31, 2000.

The acquisition blends TigrSoft's planning and scheduling expertise in automotive and manufacturing industries with Matrikon's process management, control and optimization products and services in process control industries.

As part of this acquisition, Matrikon acquired cash of \$588,000, recorded goodwill of \$3.3 million, capitalized \$290,000 for its share of the professional, legal, and exchange listing expenses relating to the transaction and \$322,000 for related costs capitalized by the acquired company. The company believes that the goodwill is fairly recorded and that the acquisition will contribute to net income in fiscal 2002.

**Technology development.** Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria for deferral and amortization. The new SCADANet business unit met this criteria with a contract from a customer that guarantees revenues from data hosting activities for a minimum of two years. The development expenses for this contract are incurred upfront, with the revenues being generated over the two years following completion of the client-specific solution and once the data hosting has commenced. Pursuant to this contract, the company capitalized \$668,000 of expenses to be amortized over the two-year minimum contract period. Other than expenditures related to SCADANet, all research and development costs are expensed in the period incurred.

**Capital expenditures** were \$337,000 in 2001 as compared with \$568,000 in 2000. Most of these expenditures were for computer hardware and software provided to new employees. The company continues to impose tight controls over capital expenditures.

### Market Conditions

Process control industries in North America have a market size of approximately US \$12 billion for industrial IT products and services alone. The manufacturing industries underwent a significant transformation over the past decade. Two significant situations forced this change:

### Liquidity & Capital Resources

Fiscal Year ended August 31 (thousands of dollars)	2001	2000	Change	Matrikon %	Industry*
Cash and cash equivalents	\$238	\$270	(12)%	1.2%	26.1%
Accounts receivable	\$7,972	\$6,892	16%	40.7%	26.9%
Average collection period	98 days	93 days	5 days	-	87 days
Bank indebtedness (operating line of credit)	\$938	\$2,082	(55)%	4.7%	11.4%
Income taxes payable	\$458	\$25	1,732%	-	-
Weighted avg. number of shares outstanding	20,131	18,271			



1. Companies spent billions of dollars on process control and information technology infrastructures. Industry estimates peg the expenditure on process control infrastructure in North America alone at US\$50 Billion. While this new infrastructure allowed for the collection and storage of huge amounts of data, the resulting improvement in overall performance was minimal (under 3%).
2. Due to the threat of massive computer failure related to Y2K, additional billions were spent on upgrades that produced no return on investment.

Today the focus is on realizing value from the existing infrastructure—specifically from the huge amounts of data collected—before further expenditures are made. Companies that deliver solutions by extracting value from the infrastructure are replacing the vendors that collected and stored data. Successful vendors integrate information at the data visualization layer (the interface through which users see and interact with the data) as opposed to the database layer. Today, data warehouses are being replaced by virtual databases, or portals, that access information in its original form, from its original system, and allow for easy access and translation through the visualization layer. Proprietary client tools are being replaced with web-based tools that can access and manage disparate data sources. The Internet has significantly revolutionized the way we do business and Matrikon is leading this revolution on the plant floor with ProcessNet.

There are two aspects to extracting value from data. One is to make data seamlessly available from a variety of sources in a single, integrated environment, such as Matrikon's ProcessNet. The second aspect is to provide a set of off-line/on-line tools to analyze the data, identify opportunities for improvement, execute, and of course continually measure the improvements. Matrikon is poised to be the leader in this area with the advanced data analysis technology of ProcessDoctor, the supply chain planning and scheduling facilities in the Mx Suite, and the event and alarm management capabilities in ProcessGuard. These products, coupled with Matrikon's services, provide the capability to implement technology that significantly enhances our clients' competitive advantage—from the plant floor to the executive boardroom.

**Outlook**

Although the events of September 11 and the downturn in the U.S. economy have affected some sectors, Matrikon has not observed a change in its sales cycle or ability to win new business in either the United States or internationally. Management is continuing to monitor the business environment in which it operates and will provide future guidance where necessary.

Based on current contracts under way and assuming Matrikon's ability to win new business continues at the current pace, management expects the company to achieve revenue of \$32 million to \$35 million, with corresponding earnings between \$0.08 and \$0.12 per share during its 2002 fiscal year.

To date, Matrikon has been successful in securing larger engagements from its clients and in selling its proprietary solutions. A key objective for the company is to increase software licensing as a percentage of revenue, resulting in a corresponding increase in gross margins and revenue per employee. Matrikon began developing product and marketing strategies to drive this process in fiscal year 2001 and will continue to give these strategies high priority. Initiatives towards this end included increasing the sales and marketing team from nine members in 2000 to 30 in 2001, as well as refining the software development process and creating Quality Assurance and Technical Support departments. Management's current long-range plans include a 30:70 ratio of software licensing to professional services mix, a process that will take several years. The target for 2002 is to achieve a 15:85 software to services mix.

**Performance Measures**

	2001	2000	Change	Industry*
<i>Fiscal Year ended August 31</i>				
Return on net worth (excludes goodwill)	10.7%	(15.2)%	25.7%	(28.6)%
Earnings per share	\$ 0.05	\$ (0.02)	\$ 0.07	N/A
Price-earnings ratio	38.4	N/A	N/A	N/A
Gross Margin %	41.4%	43.0%	(1.63)%	57%
Profit Margin %	3.4%	(2.4)%	5.8%	0.9%
Adjusted EBIT Margin %	7.9%	7.5%	0.4%	N/A
Days Sales Uncollected	98 days	93 days	5 days	87 days
Current Ratio	1.3	0.9	0.3	1.8
Debt Ratio %	86.5%	240%	(153.5)%	60.6%

**Risks & Uncertainties**

The table (below) itemizes the internal and external risks that affect Matrikon's operations. Management strives to mitigate these risks to the extent possible in order to optimize profits.

**Risks & Uncertainties**

<i>Market demand for products and services</i>
<i>State of economy</i>
<i>Exchange rates</i>
<i>Ability to retain and attract qualified employees &amp; payroll expenses</i>
<i>Research and development</i>

*Market demand for products and services.* We cannot assure you that our products will remain competitive, nor respond to market demands and developments and 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 our products based on industry feedback. In addition, Matrikon's service units provide us with insight into the business problems and trends occurring in a variety of industries. To date, Matrikon's products and product enhancements have been developed through this insight and continual feedback between industry, our services-based units and our product development team.

*State of the economy.* Our operating results may vary significantly based on the impact of changes in global economic conditions on customers. Although the current economic environment is uncertain, Matrikon has not observed a change in its sales cycle or ability to win new business in any region where Matrikon currently does business. While client needs change based on the economic climate, Matrikon's products and services are able to meet those needs regardless of the climate. In a growing economy, our clients want to increase throughput, and thus focus on optimizing technology. During a recession, the focus shifts to improving efficiencies, reducing costs, and optimizing maintenance and operations. Matrikon's diversification in terms of geography, industrial sectors, and its lack of dependence on any one customer also helps to mitigate this risk. In addition, our strong backlog will see us through several months of a recession if needed.

*Exchange rates.* We operate internationally; accordingly, most contracts outside of Canada are in United States currency. To manage exposure to foreign exchange fluctuations, Matrikon enters forward contracts to hedge exposure to currency fluctuations between the United States (US) and Canadian dollars. Approximately 60% of the company's revenues are received in US dollars while 80% of the expenses are in Canadian dollars.

*Ability to retain and attract qualified employees and contain payroll expenses.* Our 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 our business, results of operations, and financial condition. As a growing company, our ability to develop, market and support our products and services could be harmed if we are not able to recruit and retain qualified personnel. In addition, due to the service nature of the company, payroll is a significant component of costs. To mitigate these risks,

Matrikon offers unique and challenging career opportunities and maintains close ties with academic institutions that train specialists in our field. Our corporate culture supports diversity, creativity, and equality and we value integrity and innovation. In addition to providing a challenging and rewarding work environment, Matrikon's social activities and corporate culture foster creativity and teamwork.

*Availability of credit line and future financing* The company may require additional funds through public or private financing, strategic relationships or other arrangements to meet future growth objectives. There can be no assurance that we will be able to obtain additional funding on favorable terms, if at all. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products and services, expand our 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, results of operations and financial condition. Our available line of credit is sufficient to meet our growth objectives for the next few years. In addition, the opportunity to reduce income taxes payable by utilizing tax losses inherited in our recent acquisition will help improve our future cash position.

*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 and we could lose customers.

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.

To mitigate this risk, Matrikon is committed to research and development to ensure our continued technological leadership position. In addition to internal research and development, Matrikon sponsors the NSERC-Matrikon-ASRA Industrial Research Chair in Computer Process Control with a mandate of developing an Industrial Decision Support System. Other strategies for minimizing this risk include membership and active involvement with industry standards organizations, ensuring compliance of Matrikon products and providing an early glimpse at new trends.

\* Source: Dun & Bradstreet financial report based on SIC code for companies that "provide system analysis, design and computer software"

\*\* Source: S&P/TSE SmallCap® Index technology companies

## Managements' Responsibility for Financial Statements

The accompanying consolidated financial statements and all of the information included in this annual report have been prepared by and are the responsibility of management and the Board of Directors of the Corporation. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgements based on currently available information. The significant accounting policies which management believes are appropriate for the Corporation are described in Note 2 of the consolidated financial statements.

The Corporation has developed and maintains an appropriate system of internal controls in order to ensure, on a reasonable and cost-effective basis, that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. The Board has appointed an Audit Committee comprised of three Directors.

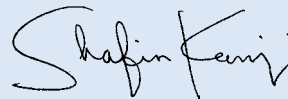
The Audit Committee reviews the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited financial statements for publication.

KPMG LLP have been appointed as external auditors to perform an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements.



*Nizar J. Somji*  
President and Chief Executive Officer

*October 18, 2001*  
*Edmonton, Canada*



*Shafin U. Kanji*  
Chief Financial Officer

## Auditors' Report

To the Shareholders of Matrikon Inc:

We have audited the consolidated balance sheets of Matrikon Inc. as at August 31, 2001 and 2000 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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 from 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 Corporation as at August 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



*Chartered Accountants*  
*Edmonton, Alberta*  
*October 18, 2001*

## Consolidated Balance Sheets

(Thousands of Canadian Dollars)

As at August 31 2001 2000

### ASSETS

#### Current

Cash	\$ 238	\$ 270
Accounts receivable	7,972	6,892
Contracts in progress	1,142	976
Prepaid expenses and deposits	449	29

---

**9,801** 8,167

Long term investments (Note 4)	644	564
Future income taxes (Note 5)	3,196	24
Capital assets (Note 6)	1,525	1,089
Deferred charges and other assets (Note 7)	1,301	216
Goodwill	3,119	8

---

**\$ 19,586** \$ 10,068

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current

Bank indebtedness (Note 8)	\$ 938	\$ 2,082
Accounts payable and accrued liabilities	3,272	2,504
Management compensation payable	-	1,805
Deferred revenue	2,972	693
Income taxes payable	458	25

---

**7,640** 7,109

Commitments (Note 13)		
Subsequent events (Note 14)		
Shareholders' equity		
Share capital (Note 9)	10,222	2,187
Retained earnings	1,724	772

---

**11,946** 2,959

---

**\$ 19,586** \$ 10,068

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Hugh Bolton, (signed)  
Chairman

Michael Percy, (signed)  
Director

## Consolidated Statements of Income and Retained Earnings

(Thousands of Canadian Dollars, except per share amounts)

Years ended August 31	2001	2000
<b>Revenue</b>		
Consulting fees	\$ 21,957	\$ 17,028
Software license fees	1,849	-
Equipment sales	2,488	1,455
Extended support	880	556
Other	507	53
	<b>27,681</b>	<b>19,092</b>
<b>Cost of sales</b>	<b>16,227</b>	<b>10,881</b>
	<b>11,454</b>	<b>8,211</b>
<b>Expenses</b>		
Consulting	1,597	1,567
Sales and marketing	2,226	522
Research and development	1,765	1,102
General and administrative	2,918	3,044
Amortization	830	437
<b>Income before the undernoted</b>	<b>2,118</b>	<b>1,539</b>
Management compensation	(700)	(1,805)
Other income (expenses)	80	(101)
<b>Income (loss) before income taxes</b>	<b>1,498</b>	<b>(367)</b>
Income tax expense (Note 5(b))		
Current	461	85
Future (reduction)	85	(3)
<b>Net income (loss)</b>	<b>\$ 952</b>	<b>\$ (449)</b>
Retained earnings, beginning of year	\$ 772	\$ 1,221
Net income (loss)	952	(449)
Retained earnings, end of year	<b>\$ 1,724</b>	<b>\$ 772</b>
Earnings (loss) per common share (Note 10)	<b>0.05</b>	<b>(0.02)</b>
Weighted average number of shares outstanding (thousands)	<b>20,131</b>	<b>18,271</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

(Thousands of Canadian Dollars)

Years ended August 31 2001 2000

### OPERATING ACTIVITIES

Net income (loss)	\$ 952	\$ (449)
Items not affecting cash		
Amortization	830	437
Non-controlling interest	(80)	-
Future income taxes	85	(3)
	<b>\$ 1,787</b>	<b>\$ (15)</b>
Changes in non-cash working capital	32	(2,007)
	<b>\$ 1,819</b>	<b>\$ (2,022)</b>

### INVESTING ACTIVITIES

Purchase of long-term investment	-	(376)
Cash acquired in business acquisition (Note 3b)	588	-
Technology development	(668)	-
Deferred charges	(290)	-
Capital asset expenditures	(337)	(568)
	<b>\$ (707)</b>	<b>\$ (944)</b>

### FINANCING ACTIVITIES

Proceeds (repayment of) bank indebtedness	(1,144)	2,082
Proceeds of share issue, net of share issue costs	-	300
Repayment of loan payable	-	(112)
Advances from related parties	-	452
	<b>\$ (1,144)</b>	<b>\$ 2,722</b>

Cash decrease	(32)	(244)
Cash and short-term investments, beginning of year	270	514
Cash and short-term investments, end of year	<b>\$ 238</b>	<b>\$ 270</b>

#### Supplementary cash flow disclosures:

Income taxes paid	33	36
Interest (received) paid	(18)	83

See accompanying notes to consolidated financial statements.

## Consolidated Financial Statements

Years ended August 31, 2001 and 2000

(in thousands, except per share amounts)

### 1. NATURE OF OPERATIONS

Matrikon Inc., (the "Corporation"), was incorporated on May 27, 1999 under the Alberta Business Corporations Act. The Corporation is engaged in Control and Automation, Advanced Control, Industrial Information Systems, Real-time Software and Interface development, product sales and implementation. The Corporation's head office is located in Edmonton, Canada, with offices in Calgary, Toronto, Vancouver, Fort McMurray, New Jersey, St. Louis, Cleveland, Houston, Milwaukee, Pittsburgh, Atlanta, India and Saudi Arabia, with sales in the international marketplace.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

#### (a) Basis of Consolidation

The consolidated financial statements include the accounts of Matrikon Inc., and its wholly-owned subsidiaries: Matrikon Applications Inc., Matrikon Consulting Inc., Matrikon Management Inc., Matrikon International Inc., TigrSoft (USA) Inc., TigrSoft (India) Private Ltd., a 99.7% owned subsidiary, and Matrikon Business Systems Inc., a 51% owned subsidiary.

#### (b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period presented. Actual results could differ from those estimates made by management. The significant items requiring management estimates include contracts in progress, future income taxes, deferred charges and other assets, capital assets, goodwill and deferred revenue.

#### (c) Revenue Recognition

The Corporation's revenue consists primarily of software license revenues, implementation revenues, consulting services and extended support revenues. Software license revenues are recognized upon the customer's execution of a software license agreement, the receipt of a purchase order and shipment of the software, provided that no significant vendor obligations remain outstanding. Where significant vendor obligations are negotiated, software license revenues are recognized only after these obligations have been satisfied. Revenue from implementation activity is recognized as services are delivered. Consulting services are recognized on the percentage of completion basis. The Corporation records costs in excess of billings as contracts in progress and billings in excess of costs as deferred revenue. Contracts in progress are recorded at estimated realizable value. Losses are provided for in the period when they become apparent. Extended support revenues are deferred and recognized on a straight-line basis over the term of the maintenance period, which is usually one year.

#### (d) Long Term Investments

Investments are accounted for using the cost method. Such investments would be written down to realizable value when a decline in value is considered to be other than temporary.

#### (e) Capital Assets

Capital assets are carried at cost less accumulated amortization. Amortization commences once the assets are placed into service and is calculated using the following methods and annual rates:

Asset	Amortization Method	Rate
Computer hardware	Declining balance	30%
Computer software	Declining balance	100%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight line	20%
Automotive	Declining balance	30%

Amortization for capital assets amortized on a declining balance basis is calculated at one-half of the annual rate in the year in which assets are placed into service.

#### (f) Research and Development

Research and development costs relate principally to software products intended for licensing to end-user customers. Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria

under Canadian generally accepted accounting principles for deferral and amortization. Development costs which meet these criteria are capitalized and amortized over their useful life.

**(g) Drivers, Software Technology, Customer Lists and Other Deferred Charges**

Drivers, software technology and customer lists are recorded at cost and are amortized over ten years using the straight-line method. On an ongoing basis, management reviews the valuation and amortization of drivers and software technology and customer lists, taking into consideration any events and circumstances which might have impaired the carrying value. Drivers and software technology and customer lists are written down to realizable value when declines in value are considered to be other than temporary. Deferred charges represent the unamortized balance of costs related to the TigrSoft Inc. acquisition. Amortization is provided on a straight line basis over 7 years.

**(h) Translation of Foreign Currencies**

The Corporation's foreign operations are integrated. Accordingly, the methods used in translating the financial statements of its foreign operations are consistent with the methods used by the Canadian operation to translate its foreign currency transactions.

Monetary assets and liabilities 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. Revenues and expenses are translated at the exchange rate in effect at the time of the transaction. Amortization is translated at the exchange rates used in translating the underlying assets. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of net income.

**(i) Financial Instruments**

The Corporation's financial instruments include cash, accounts receivable, and accounts payable and accrued liabilities. The carrying values of these financial instruments are considered to approximate fair value because of their near-term maturity.

The Corporation mitigates credit risk by placing funds with major financial institutions and in well-capitalized and professionally managed money market funds. The corporation enters into forward contracts to manage its exposure to changes in exchange rates. Accounts receivable stem from sales to a number of customers who operate in different industries and who are geographically dispersed. Credit review and collection procedures are in place and provisions are maintained for potential credit losses.

The Corporation is exposed to currency risk since it realizes most of its sales in United States dollars. Consequently, the majority of the Corporation's trade receivable balance and a portion of its cash resources are denominated in United States dollars. Therefore, the carrying value of these assets will fluctuate with changes in the United States dollar exchange rate. The Corporation is constantly reviewing its exposure to exchange rate fluctuations and takes action to mitigate risks where appropriate.

**(j) Derivative Financial Instruments**

The Corporation is party to certain derivative financial instruments, principally forward foreign exchange contracts (used to manage foreign currency exposures on export sales). These instruments are not recognized in the consolidated financial statements on inception. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate. The carrying amounts of derivative financial instruments, which comprise accrued gains and losses not yet realized, are included in other receivables and prepaid expenses in the case of contracts in a gain position and in accounts payable and accrued liabilities in the case of contracts in a loss position.

**(k) Income Taxes**

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. 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.

**(l) Stock Based Compensation**

The Corporation has stock based compensation plans, which are described in note 9. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Consideration paid by employees on the exercise of stock options is credited to common shares. For consideration paid to an employee for the repurchase of stock options, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings.

### 3. BUSINESS ACQUISITIONS

(a) On September 1, 2000, Matrikon Inc. acquired 100% ownership of Matrikon Management Inc., a company controlled by related shareholders, through the issuance of 3,500,000 Class A shares.

The Corporation issued 3,767,753 Class A shares as repayment of \$1,883,877 of liabilities due to related parties and also issued 16,600,000 Class A common shares in exchange for 80,000 Class B preferred shares and 3,000 Class C preferred shares issued and outstanding. The Class B and C shares were then cancelled. These transactions have been accounted for on the continuity of interest basis. Accordingly, the financial statements have been prepared as though the companies had been combined since their inception. The following table outlines the condensed balance sheets for Matrikon Inc. and Matrikon Management Inc. as at August 31, 2000 and the related combination entries:

	Matrikon Inc.	Matrikon Management Inc.	Combination Entries	Combined
Current assets	\$ 6,467	\$ 1,348	\$ 352	\$ 8,167
Non-current assets	822	988	91	1,901
Current liabilities	6,796	1,754	(1,441)	7,109
Share Capital	303	-	1,884	2,187
Retained earnings	190	582	-	772

(b) During the year Matrikon Inc. entered into a reverse takeover agreement with TigrSoft Inc. ("TigrSoft"). As at March 31, 2001, under the terms of the acquisition agreement, TigrSoft issued 91,355,520 common shares for all of the issued and outstanding shares of Matrikon Inc., on the basis of 1.728 TigrSoft shares for each Matrikon share. Immediately following the acquisition Matrikon Inc. and TigrSoft were amalgamated. The acquisition was accounted for as a reverse takeover utilizing the purchase method whereby Matrikon Inc. was treated as the acquirer and TigrSoft the acquiree. The results of TigrSoft are included in these financial statements for the period since the reverse takeover.

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

Pre-acquisition common shares of TigrSoft outstanding (000's)	22,193
Market price of common shares, per share	\$ 0.36
Total purchase consideration	\$ 7,989
Fair value of net assets acquired (see below)	\$ 4,679
Value ascribed to goodwill	\$ 3,310
Fair value of net assets acquired:	
Cash	\$ 588
Other current assets	942
Non-current assets	4,181
Current liabilities	1,032
Fair value of net assets acquired	\$ 4,679

This goodwill is recorded at cost and is amortized on a straight-line basis over 7 years. Goodwill is regularly evaluated by reviewing the expected earnings taking into account associated business risks. Any impairment of goodwill is charged against earnings in the year it occurs. Amortization of \$200 has been provided for in 2001 (\$4 - 2000) for a total accumulated amortization of \$205 (\$5 - 2000).

### 4. LONG TERM INVESTMENTS

	2001	2000
1,000,000 Common shares of IndustrialEvolution.com, representing a 9.4% interest, at cost	\$ 564	\$ 564
Other	80	-
	<b>\$ 644</b>	<b>\$ 564</b>

IndustrialEvolution.com, a U.S. privately-owned company, is an application service provider. The investment was acquired in exchange for cash of \$376 and the recognition of an accounts payable for the balance.

## 5. INCOMETAXES

### (a) Net Future Taxes

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at August 31, 2001 are presented below:

	2001	2000
<b>Future tax assets</b>		
Non-capital loss carry forwards	\$ 3,353	\$ 24
Capital assets, principally due to differences in cost and depreciation	80	-
Other	3	-
Total future tax assets	3,436	24
<b>Future tax liabilities</b>		
Contracts in progress	152	-
Unrealized foreign exchange gains	88	-
Total future tax liabilities	240	-
<b>Net future tax asset</b>	<b>\$ 3,196</b>	<b>\$ 24</b>

### (b) Income Tax Provision

The income tax provision differs from the amounts computed by applying the combined federal, provincial and foreign income tax rate of 42.79% to fiscal 2001 (19.2% - 2000) pretax income as a result of the following:

	2001	2000
Income (loss) before income taxes	\$ 1,498	\$ (367)
Computed "expected" tax expense (recovery)	641	(70)
Increase in income taxes resulting from:		
Adjustment to future assets and liabilities for changes in enacted tax laws and rates	107	152
Other	(202)	-
Recorded tax expense	<b>\$ 546</b>	<b>\$ 82</b>

### (c) Loss Carry Forwards

At August 31, 2001 the Corporation has non-capital losses of approximately \$8,605 that may be carried forward and used to reduce taxable income in future years. The non-capital losses expire as follows:

Year of Expiry	Amount
2004	\$ 2
2005	2,548
2006	1,618
2007	150
2008	396
2019	2,094
2020	1,527
2021	270
	<b>\$ 8,605</b>

## 6. CAPITAL ASSETS

	Cost	Accumulated Amortization	2001 Net Book Value
Computer hardware	\$ 1,980	\$ 1,128	\$ 852
Computer software	639	604	35
Furniture and equipment	829	328	501
Leasehold improvements	262	136	126
Automotive	50	39	11
	<b>\$ 3,760</b>	<b>\$ 2,235</b>	<b>\$ 1,525</b>

**6. CAPITAL ASSETS CONTINUED**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2000 Net Book Value</b>
Computer hardware	\$ 1,210	\$ 497	\$ 713
Computer software	297	220	77
Furniture and equipment	328	93	235
Leasehold improvements	125	72	53
Automotive	22	11	11
	<b>\$1,982</b>	<b>\$ 893</b>	<b>\$1,089</b>

Amortization provided in the current period totals \$466 (\$417 - 2000).

**7. DEFERRED CHARGES AND OTHER ASSETS**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2001 Net Book Value</b>
Deferred charges	\$ 612	\$ 36	\$ 576
Development costs	668	111	557
Drivers and software technology	92	18	74
Customer lists	74	15	59
Investment tax credit	35	-	35
	<b>\$ 1,481</b>	<b>\$ 180</b>	<b>\$ 1,301</b>

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2000 Net Book Value</b>
Drivers and software technology	\$ 92	\$ 9	\$ 83
Customer lists	74	7	67
Investment tax credits	66	-	66
	<b>\$ 232</b>	<b>\$ 16</b>	<b>\$ 216</b>

Amortization of \$164 has been provided in 2001 (\$16 - 2000) and is based on management's estimate of the economic life of the assets.

**8. BANK INDEBTEDNESS**

The Corporation has an authorized line of credit of \$6,000 with a Canadian chartered bank bearing a floating interest rate of 0.45% above the bank's prime lending rate. The Corporation has provided a general security agreement covering all assets of the Corporation as security for the facility.

**9. SHARE CAPITAL****(a) Issued shares**

The Corporation's authorized and issued share capital prior to the reverse takeover described in note 3(b) was as follows:

	<b>Number of Shares</b>	<b>\$ 000's</b>
Authorized in unlimited numbers		
Class A voting common shares		
Class B 3% non-voting preferred shares		
Class C 3% non-voting preferred shares		
Issued Class A common shares		
Balance, August 31, 1999	27,000,000	\$ 3
Acquisition of Matrikon Management Inc.	3,500,000	-
Repayment of liabilities to related parties	3,767,753	1,884
Exchange of Class B and Class C preferred shares	16,600,000	300
Balance, August 31, 2000	50,867,753	\$ 2,187
Exercise of stock options	2,000,000	-
Balance, March 31, 2001	52,867,753	\$ 2,187

## 9. SHARE CAPITAL CONTINUED

The Corporation's authorized and issued share capital subsequent to the reverse takeover is as follows:

	Number of Shares	\$ 000's
Authorized in unlimited numbers		
Common shares		
Issued		
Arising on reverse takeover (note 3(b))		
Stated value of Matrikon's shares		\$ 2,187
TigrSoft Inc.'s shares outstanding	22,193,855	
Issued for shares of Matrikon ❖	91,355,520	7,989
	113,549,375	
Share consolidation (1 for 5 ratio)	22,709,875	\$ 10,176
Shares issued during the 5 months ended August 31, 2001 ❖	25,000	46
Balance, August 31, 2001	22,734,875	\$ 10,222

❖ The number of shares issued for Matrikon Inc. is represented by the legal number of shares issued by TigrSoft Inc. to the date of the reverse takeover and thereafter by the amalgamated company. The shares issued during the five months ended August 31, 2001 represent shares issued in exchange for legal services provided.

### (b) Options

The Corporation has a stock option plan under which its directors and employees may receive options to purchase Common Shares at a price equal to fair market value at the date of granting. Common Shares reserved for exercise of these options may not exceed 10% of the number of Common Shares then outstanding. No compensation expense is recognized for this plan when share options are granted and any consideration paid by option holders on the exercise of options is credited to share capital. The following stock options, with expiry dates between November, 2001 and September, 2009, remain outstanding:

	2001	2000
Balance, August 31, 2000	-	-
Granted	4,000,000	\$0.50
Exercised	(2,000,000)	-
Cancelled	(43,564)	1.00
Balance, immediately prior to TigrSoft acquisition	1,956,536	1.00
Balance, restated for effect of acquisition and share consolidation ratios	676,179	2.89
TigrSoft options at acquisition	277,100	3.39
Granted	484,500	1.89
Exercised	(600)	1.70
Expired	-	-
Cancelled	(111,000)	1.91
Balance, August 31, 2001	1,326,179	\$2.71

During the year ended August 31, 2001 and prior to the acquisition of TigrSoft as described in note 3(b), the Corporation adopted a stock option plan (the "Stock Option Plan") for directors, officers, employees and consultants which permits the granting of options to purchase up to a maximum of 10% of the Corporation's issued and outstanding common shares. The number of options and the exercise price thereof was set by the Board of Directors at the time of the grant.

In relation to this Stock Option Plan there were an aggregate of 3,956,536 options issued and outstanding with an expiry date of June 30, 2002 and an average exercise price of \$0.50 per share. Of these options, 2,000,000 had a nominal exercise price and 1,956,536 had an exercise price of \$1.00 per share.

Immediately preceding the completion of the business acquisition of TigrSoft, the 2,000,000 options issued with a nominal exercise price [note 9(a)] were exercised. Upon completion of the business acquisition the remaining options were converted into options of the amalgamated Corporation at the exchange ratio of 1.728 options for each Matrikon Inc. option. The share consolidation ratio of 1 for 5 was also applied to these options. After applying both ratios, there were an aggregate of 676,179 options outstanding that have an expiry date of June 30, 2002 and an exercise price of \$2.89 per share.

The following table summarizes information about share options outstanding at August 31, 2001:

Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$8.50	60,000	1.61	\$ 8.50	60,000	\$ 8.50
\$2.50 - \$2.99	676,179	0.83	2.89	676,179	2.89
\$2.00 - \$2.49	77,000	4.26	2.26	62,500	2.18
\$1.40 - \$1.99	513,000	5.35	1.87	331,400	1.89
	1,326,179	2.81	\$ 2.71	1,130,079	\$ 2.86

The Corporation also has an employee share ownership program, whereby Common Shares that employees have purchased in the market, and held for 20 months, are matched by Common Shares issued from Treasury at no cost to the employee. Before the end of February each year, employees are eligible to purchase Common Shares valued to a maximum of 10% of their earnings in the prior calendar year. As of August 31, 2001, no Common Shares (6,750 at October 31, 2000) were issued to eligible participants. On October 31, 2001 3,864 Common Shares remain eligible for matching on October 31, 2001.

## 10. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated on the basis of the weighted average number of shares outstanding for the year. Potential conversions of stock options and shares issued under the employee share ownership program were not materially dilutive in 2001 or 2000.

## 11. RELATED PARTY TRANSACTIONS

The Corporation leases facilities in India from an individual related to a Director who is also Executive Vice President. Approximately 2,000 square feet of office space has been leased over a 60-month term expiring October 31, 2003. Under the terms of the lease the Corporation was charged an amount of \$18 at the inception of the lease and monthly amounts of \$3 thereafter. For the year ended August, 2001 lease payments amounted to \$15 (\$36 for the 12 months ended October 31, 2000). No amount was outstanding at August 31, 2001. The terms and conditions of the lease reflected prevailing market conditions at the time the lease was entered into.

## 12. SEGMENTED INFORMATION

Management has determined that the Corporation and its subsidiaries are engaged in a number of lines of business including Control and Automation, Industrial Information Systems, Advanced Controls, Driver development and product sales and implementation.

Matrikon operates the following business segments, which have been segmented based on the way that management organizes the segments within the business for making operating decisions and assessing performance. The distribution of revenue by business unit is as follows:

	Control & Automation	Industrial IS	Advanced Controls	Systems (Drivers)	Products Sales & Implementation	Multidisciplinary Projects	Corporate and Eliminations	Total
<b>2001</b>								
Revenue	\$6,371	\$8,683	\$2,859	\$2,416	\$3,636	\$3,209	-	\$27,174
Intercompany consulting revenue	321	1,055	892	352	1,077	196	(3,893)	-
Other income	-	-	-	(50)	-	-	557	507
<b>Total Revenue</b>	<b>\$6,692</b>	<b>\$9,739</b>	<b>\$3,751</b>	<b>\$2,718</b>	<b>\$4,713</b>	<b>\$3,405</b>	<b>\$(3,336)</b>	<b>\$27,681</b>
Operating expenses	3,351	6,215	3,108	2,032	4,648	3,076	2,304	24,733
Amortization	-	-	-	-	-	-	830	830
<b>Total Operating Expenses</b>	<b>\$3,351</b>	<b>\$6,215</b>	<b>\$3,108</b>	<b>\$2,032</b>	<b>\$4,648</b>	<b>\$3,076</b>	<b>\$3,134</b>	<b>\$25,563</b>
Other income (expenses)	-	-	-	-	-	-	620	620
<b>Income before tax</b>	<b>\$3,340</b>	<b>\$3,524</b>	<b>\$643</b>	<b>\$685</b>	<b>\$65</b>	<b>\$329</b>	<b>\$(7,088)</b>	<b>\$1,498</b>

**12. SEGMENTED INFORMATION CONTINUED**

	Control & Automation	Industrial IS	Advanced Controls	Systems (Drivers)	Products Sales & Implementation	Multidisciplinary Projects	Corporate and Eliminations	Total
<b>2000</b>								
Revenue	\$3,058	\$6,183	\$2,971	\$3,601	\$2,416	\$811	-	\$19,039
Intercompany consulting revenue	238	846	770	419	431	144	(2,847)	-
Other income	-	(2)	-	(56)	66	-	44	53
<i>Total Revenue</i>	\$3,295	\$7,028	\$3,741	\$3,964	\$2,913	\$954	\$(2,803)	\$19,092
Operating expenses	2,123	5,897	3,294	2,041	3,376	717	(333)	17,116
Amortization	-	-	-	-	-	-	437	437
<i>Total Operating Expenses</i>	\$2,123	\$5,897	\$3,294	\$2,041	\$3,376	\$717	\$104	\$17,553
Other income (expenses)	-	-	-	-	-	-	(1,906)	(1,906)
<i>Income (loss) before tax</i>	\$1,172	\$1,131	\$446	\$1,923	\$(463)	\$237	\$(4,814)	\$(367)

The Corporation does not allocate assets to business segments. The capital assets of the Corporation are distributed geographically as follows:

	2001	2000
Canada	\$ 1,217	\$ 988
United States	296	101
Asia Pacific	12	-
	\$ 1,525	\$ 1,089

The Corporation's goodwill relates primarily to the acquisition of TigrSoft [see note 3(b)], a company with operations in Canada and the United States.

**13. COMMITMENTS**

The Corporation has a number of lease commitments relating to office space and equipment. Lease terms range from 60 to 63 months expiring between May, 2003 and June, 2006. Remaining lease payments are as follows:

	Amount
2002	\$ 2,086
2003	2,133
2004	1,910
2005	1,306
2006	998
	\$ 8,433

Under the terms of these leases, the Corporation is also committed to pay its pro-rata share of operating costs. In August 2001 the Corporation entered into a contract with a third party to sublease office space. Under the terms of this sublease agreement, the remaining lease payments above will be reduced by \$75 in 2002, \$77 in 2003 and \$6 in 2004.

The Corporation enters into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future net cash flows of U.S. dollars from operations. The purpose of the Corporation's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. Unrealized gains or losses on foreign exchange contracts are not significant. At August 31, 2001 the Corporation was committed to the following series of monthly forward exchange contracts for the sales of US funds:

Start date	Expiry date	Amount Hedged U.S. \$	Rate
September 17, 2001	October 17, 2001	\$ 500	1.5423
October 17, 2001	November 19, 2001	\$ 500	1.5430
November 19, 2001	December 17, 2001	\$ 500	1.5437
January 1, 2002	January 31, 2002	\$ 500	1.5578
February 1, 2002	February 28, 2002	\$ 500	1.5581

**14. SUBSEQUENT EVENTS**

On September 1, 2001 Matrikon Applications Inc., Matrikon Consulting Inc., and Matrikon Management Inc. were amalgamated with Matrikon Inc. while TigrSoft (USA) Inc. was amalgamated with Matrikon International Inc.

## Corporate Governance

Matrikon's board believes in the importance of maintaining integrity and strong business ethics in its corporate governance practices, and has therefore established the Compensation and Governance Committee, made up entirely of unrelated directors. The table below contains highlights of Matrikon's corporate governance practices.

Stewardship	
Strategic planning involvement	One board meeting each year is specifically designated for a strategy planning session in which the board reviews, discusses and approves strategies developed by management. In addition, implementation of and changes to strategies are discussed regularly.
Risk management systems in place	The Audit Committee monitors and considers the principal risks of Matrikon's business and reviews and monitors insurance coverage and financial risk management activities.
Succession planning for senior management	The board and its Compensation and Governance Committee will regularly review Matrikon's organizational plan and structure.
Communications policy	The board approves news releases and corporate communication documents relating to material changes, not just financial statement releases. The board is also consulted on other communication issues as they arise.
Internal controls and management information systems	The Audit Committee (comprised entirely of unrelated directors) reviews and formally approves internal controls and management information systems and oversees the financial reporting process in accordance with proper accounting principles.
Explicit attention to governance	The Compensation and Governance Committee's mandate is to continually develop and update the corporation's approach to responsible corporate governance practices and regularly discusses and considers such issues with the board as a whole. The Compensation and Governance Committee is comprised solely of unrelated directors.
Independence	
Board constituted with majority of unrelated directors	The board is composed of seven members; five are independent. The board chairman is unrelated to the company. Two directors are company officers — Nizar J. Somji, President and CEO and Dilip Kembhavi, Executive Vice President.
Committees composed of outside directors	Matrikon's board has two standing committees: the Audit Committee, and the Compensation and Governance Committee. Each committee is comprised entirely of unrelated directors.
Process for board to function independently of management	Board independence is established through the non-executive chairman and also through the Compensation and Governance Committee and the Audit Committee, each of which is comprised of unrelated directors. <i>In camera</i> sessions are held for a portion of each board and committee meeting, without management or inside directors in attendance.
Procedures by which directors can retain outside advisors	The unrelated chairman of the board considers and recommends to the board for approval the requests of individual directors to engage outside advisors at the expense of the corporation.
Board & Management Effectiveness	
Process for assessing board effectiveness	The Compensation and Governance Committee (comprised solely of unrelated directors) has the responsibility for reviewing board members' performance and suitability. There is currently no formal process for assessing the effectiveness of the board, although the board plans to develop such a process.
Orientation for new directors	The corporation provides an orientation manual to each board member. Directors also undergo a formal orientation process with the board and senior managers.
Board size suitable for individual accountability	The directors have reviewed the size of the board and have determined the number to be effective considering the size and needs of the corporation.
Satisfactory compensation to directors	The directors of the corporation are compensated to reflect the high degree of responsibility and expected commitment. Directors are compensated through the following: an annual retainer fee; compensation per board meeting attended in person and via phone; compensation per committee meetings attended in person and via phone; and stock options.
Position descriptions for directors and CEO and setting CEO objectives	The scope and extent of the CEO's mandate has evolved through interaction and ongoing consultation with the board. The CEO's objectives are discussed annually with the Compensation and Governance Committee. These objectives include the general mandate to manage the corporation's physical, intellectual, financial and human resources, and to maximize shareholder value. The board does approve explicit performance objectives for the CEO and the corporate goals for which the CEO has responsibility.
Defined Audit Committee mandate	The Audit Committee, comprised of independent directors, has a written mandate, which is approved by the board. The Audit Committee meets at least 4 times each year. The mandate of the Audit Committee is: <ul style="list-style-type: none"> <li>• monitoring audit functions and the preparation of financial statements</li> <li>• reviewing management's actions in relation to the preparation of financial statements and the maintenance of internal controls</li> <li>• reviewing the corporation's financial reporting in connection with the annual audit and the preparation of financial statements</li> <li>• discussing with management the corporation's policies and procedures for management of risks</li> <li>• reviewing audit plans for the external auditors</li> <li>• meeting with external auditors independently of management</li> </ul>



## Board of Directors

**Hugh J. Bolton, Chairman** <sup>①</sup> - Hugh Bolton is the former Chairman and CEO of Coopers & Lybrand Canada. He recently retired with almost forty years service with PricewaterhouseCoopers and predecessor firms. Mr. Bolton is a respected senior business executive and board member. In addition to being the current Chairman of the Board of EPCOR Utilities Inc., he is also a Director of TeckCominco Limited and the National Canadian Diabetes Association. He is a proven leader who has obtained impressive results.

**C. Kent Jespersen** <sup>②</sup> - Kent Jespersen is Chairman of La Jolla Resources International Ltd. and has held senior executive positions with a wide variety of energy resources companies, including serving as President at Nova Gas International and Foothills Pipe Lines and as Senior Vice President at Husky Oil.

**Dilip Kembhavi, Executive Vice President** - Dilip Kembhavi was the co-founder, President and CEO of TigrSoft until the reverse takeover by Matrikon in April 2001. Mr. Kembhavi has over 25 years of manufacturing, management consulting, system development and project management experience.

**Robert Moore** <sup>②</sup> - Dr. Robert Moore has held senior executive positions with a number of successful companies in the control and automation sector. Most recently he co-founded Gensym Corporation and as President grew the company to over \$50 million in revenue. Dr. Moore is a Director of Doxis Inc., and is an advisor to a number of software companies.

**Michael Percy** <sup>②③</sup> - Dr. Michael Percy is the Dean of the School of Business at the University of Alberta. He is an active researcher and commentator on a variety of public policy issues. He also serves on the boards of EPCOR, Timber Investments Ltd., the Alberta Science and Research Authority, and as president of the Edmonton Chamber of Commerce.

**Nizar J. Somji, President and CEO** - A visionary leader, Nizar J. Somji's ability to identify emerging trends in both business and technology has established Matrikon's reputation as a leading provider of cutting edge solutions for over 13 years. Under Mr. Somji's leadership, Matrikon continues to build and strengthen existing business relationships while searching the world for new opportunities.

**John Zaozirny** <sup>①</sup> - John Zaozirny is counsel to the law firm of McCarthy Tetrault and Vice-Chairman of Canaccord Capital Corporation. Mr. Zaozirny is also a director and advisor to a number of public and private corporations. Mr. Zaozirny served as Alberta's Minister of Energy and Natural Resources from 1982 to 1986 and negotiated the Western Energy Accord which ended the Federal Government's National Energy Program.

<sup>①</sup>Compensation & Governance Committee <sup>②</sup>Audit Committee

## Senior Management

**Nizar J. Somji, President and CEO** - (see Directors)

**Dilip Kembhavi, Executive Vice President** - (see Directors)

**Amin Rawji, Executive Vice President** - Amin Rawji brings extensive business development, project management and software development experience to Matrikon. Mr. Rawji has helped to shape various areas of the corporation and is currently responsible for the vision behind product development and marketing.

**Shafin U. Kanji, Chief Financial Officer** - Shafin Kanji brings a wealth of accounting, financial, consulting and information technology experience to his role of Chief Financial Officer. As CFO, Mr. Kanji is responsible for the supervision of all aspects of the finance and legal functions of the Company.

**Nils Mann, Chief Technical Officer** - Nils Mann has over 20 years of experience in operations, business development and project management. Mr. Mann is responsible for strategic planning, bid management and execution of large or technically complex projects. Mr. Mann also manages Project IT, Internal IT and Contract Software Development.

**Floyd Bjorgan, General Manager** - Floyd Bjorgan is responsible for ensuring the continued growth and success of Matrikon's remote office operations. Mr. Bjorgan also coordinates supply chain business development activities and provides corporate representation to key clients in all regions.

**Nand Ramchandani, Director, Business Development** - As Director of Business Development, Nand Ramchandani oversees Matrikon's business development and sales in the process industries. Mr. Ramchandani has over 10 years of senior management and business development experience with global technology-based companies.

**Warren Mitchell, Director, Advanced Control** - Warren Mitchell is responsible for the company-wide management and development of advanced control business. Mr. Mitchell brings extensive experience in process control and automation to this role. In addition, he has proven project management, and business development skills.

**Bijan Shams, Director, Engineering Services** - Bijan Shams is responsible for the company-wide management and development of Control and Automation business. Mr. Shams brings extensive experience in process control and automation, project management, and business development to this role.

## Office Locations

Edmonton (Corporate Home Office),  
Vancouver, Calgary, Ft. McMurray,  
Toronto, Quebec City, Milwaukee,  
Pennsylvania, New Jersey, St. Louis,  
Houston, Middle East



### Forward-Looking Statements

Certain statements made in this annual report constitute forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement to the company's services and products, expectations concerning future revenue and earnings, market opportunities, and the sufficiency of capital to meet working capital and capital expenditure requirements.

These forward-looking statements are made in light of the company's experience, its perception and assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. The factors which could cause actual results to differ materially are described in the Risks and Uncertainties section of the Management Discussion and Analysis.

Readers should note that some assumptions, although considered reasonable at the date the forward-looking statement was made, might not materialize. Forward-looking statements are not guarantees of future performance.



**MATRIKON INC.**

Suite 1800, 10405 Jasper Avenue  
Edmonton, Alberta  
T5J 3N4  
Tel: 780-448-1010  
Fax: 780-448-9191  
Toll Free: 1-877-MATRIKON

**STOCK EXCHANGE**

Toronto Stock Exchange  
Trading Symbol – MTK

**TRANSFER AGENT**

Computershare Trust Company  
Edmonton, AB

**LEGAL COUNSEL**

Fraser Milner Casgrain LLP  
Edmonton, AB

**AUDITORS**

KPMG LLP  
Edmonton, AB

**INVESTOR INFORMATION**

Email: [ir@matrikon.com](mailto:ir@matrikon.com)  
[www.matrikon.com/investors](http://www.matrikon.com/investors)  
1-877-MATRIKON

**NOTICE OF ANNUAL & SPECIAL MEETING**

All shareholders are cordially invited to attend the Annual and Special Shareholders Meeting and Matrikon's Open House.

**Matrikon Corporate Offices**

Main Training Centre  
Suite 1800, 10405 Jasper Avenue  
Edmonton, AB

January 24, 2002

3:00 p.m. MT

Open House immediately following

