

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

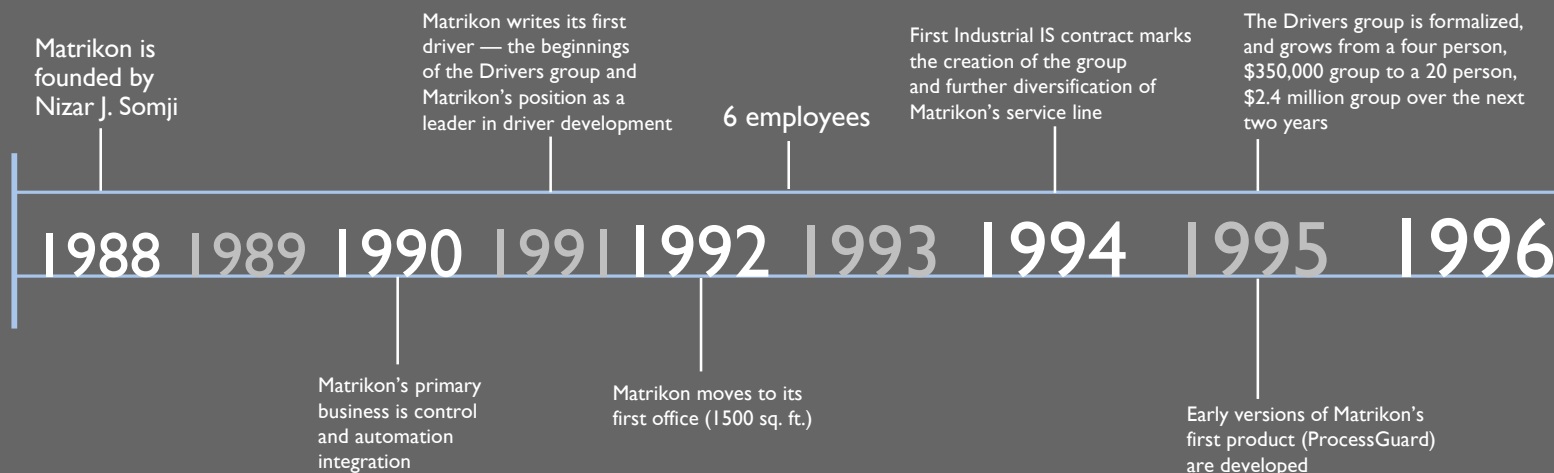
size (19% increase over 2000) and in closing new business with a high success rate. Prior to this fiscal year, technical staff and senior management were responsible for sales and marketing activities. Infrastructure built in 2000 and 2001 (increased employee base and related infrastructure) also contributed 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*
Revenue	\$27,681		\$19,092		45%	N/A
Gross Profit	\$11,454	41%	\$8,211	43%	(2)%	57%
Expenses						
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.

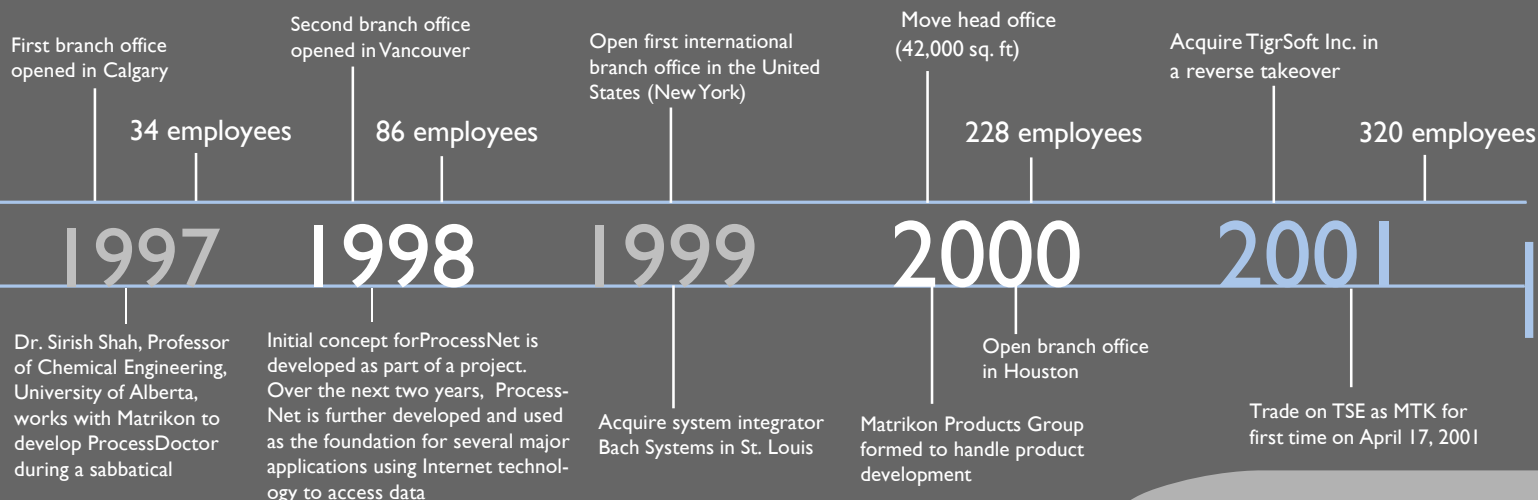
Sales and marketing expenses saw a planned increase to \$2.2 million, or 8.0% of revenue, from \$522,000, or 2.7% recorded in 2000. This increase is related to building a designated sales force beginning in September 2000 and developing an internal marketing department during 2001. We anticipate another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