

Management's 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 Matrikon. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments 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 independent 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



Shafin U. Kanji
Chief Financial Officer

Edmonton, Alberta
October 18, 2002

Auditors' Report

To the Shareholders of Matrikon Inc.

We have audited the consolidated balance sheets of Matrikon Inc. as at August 31, 2002 and 2001 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, 2002 and 2001 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, 2002

| Financial Statements

Consolidated Balance Sheets

Thousands of Dollars
As at August 31

	2002	2001
ASSETS		
Current		
Cash	\$ 285	\$ 238
Accounts receivable	11,674	8,087
Future income taxes (Note 6a)	680	601
Contracts in progress (Note 2c)	2,909	1,142
Prepaid expenses	328	449
	15,876	10,517
Long term investments (Note 5)	-	564
Future income taxes (Note 6a)	1,578	2,595
Capital assets (Note 7)	1,318	1,525
Intangible assets (Note 8)	1,256	690
Goodwill	3,695	3,695
	\$ 23,723	\$ 19,586
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 9)	\$ 2,273	\$ 938
Accounts payable and accrued liabilities	2,801	3,271
Deferred revenue	3,300	2,972
Income taxes payable	85	459
	8,459	7,640
Commitments (Note 13)		
Subsequent event (Note 14)		
Shareholders' equity		
Share capital (Note 10)	11,990	10,222
Retained earnings	3,274	1,724
	15,264	11,946
	\$ 23,723	\$ 19,586

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board:



Hugh Bolton, Chairman of the Board



Mike Percy, Chairman of the Audit Committee

Consolidated Statements of Income and Retained Earnings

Thousands of Dollars
Years ended August 31

	2002	2001
Revenue		
Consulting fees	\$ 27,780	\$ 22,364
Software license fees	4,172	1,884
Equipment sales	3,372	2,535
Extended software support	2,252	898
	37,576	27,681
Cost of sales	19,003	16,227
	18,573	11,454
Expenses		
Consulting general and administrative	5,727	1,597
Sales and marketing	4,032	2,226
Research and development	2,288	1,765
General and administrative	3,135	2,918
Amortization	1,062	830
Income before the undernoted	2,329	2,118
Management compensation	-	(700)
Other income	380	80
Income before income taxes	2,709	1,498
Income tax expense (Note 6)		
Current	141	461
Future	1,018	85
	1,159	546
Net income	\$ 1,550	\$ 952
Retained earnings, beginning of year	\$ 1,724	\$ 772
Net income	1,550	952
Retained earnings, end of year	\$ 3,274	\$ 1,724
Earnings per share (note 10c)		
Basic earnings per share	0.07	0.05
Diluted earnings per share	0.07	0.05

See accompanying notes to the consolidated financial statements.

| Financial Statements

Consolidated Statements of Cash Flows

Thousands of Dollars
Years ended August 31

	2002	2001
OPERATING ACTIVITIES		
Net income	\$ 1,550	\$ 952
Items not affecting cash:		
Amortization	1,062	830
Future income taxes	1,018	85
	3,630	1,867
Changes in non-cash operating working capital	(5,749)	(48)
	(2,119)	1,819
INVESTING ACTIVITIES		
Purchase of intangible assets	(574)	(668)
Cash acquired in business acquisition (Note 4)	-	588
Proceeds from sale of capital assets	200	-
Deferred charges	-	(290)
Purchase of capital assets	(483)	(337)
	(857)	(707)
FINANCING ACTIVITIES		
Proceeds (repayment of) bank indebtedness	1,335	(1,144)
Proceeds of share issue, net of share issue costs	1,688	-
	3,023	(1,144)
Cash increase	47	(32)
Cash, beginning of year	238	270
Cash, end of year	\$ 285	\$ 238
Supplementary cash flow disclosure:		
Income taxes paid	505	33
Interest (received) paid	68	(18)

See accompanying notes to the consolidated financial statements.

Years ended August 31, 2002 & August 31, 2001

Thousands of Canadian dollars except share
and 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 Services, Expert Systems, and SCADA professional services and the development of software related to these activities including real-time driver development. The Corporation's head office is located in Edmonton, Alberta, with offices in Calgary, Ft. McMurray, Toronto, Quebec City, Vancouver, New York, St. Louis, Cleveland, Houston, and Saudi Arabia with sales in the international marketplace. The Corporation also has sales offices in Chicago, Denver, and Pittsburgh.

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 International, Inc., TigrSoft (India) Private Ltd., a 99.7% owned subsidiary and Matrikon Business Systems Inc., a 51% owned subsidiary.

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.

The consolidated financial statements for August 31, 2001 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 calculation of percent completion related to contracts in progress and deferred revenue, valuation of future income taxes, intangible assets, capital assets and goodwill, as well as estimated useful lives of intangible assets and capital assets.

(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. Contracts in progress are recorded at the lower of cost and normal profit earned and their estimated realizable value based on the percentage-of-completion method. 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) Intangible Assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. The cost incurred to enhance the service potential of an intangible asset is capitalized as a betterment.

Costs incurred in the maintenance of the service potential of an intangible asset are expensed as incurred.

Intangible assets with finite lives are amortized over their useful lives. The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Asset	Amortization Method	Annual Rate
Development costs	Straight line	50%
Technology rights	Straight line	33%
Drivers, software technology and customer lists	Straight line	10%

(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, bank indebtedness, 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 carrying value of the long term investment approximated its value.

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. The company enters into forward contracts to manage its exposure to changes in exchange rates.

(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 accounts receivables 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 10. 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.

(m) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is no longer amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

(n) Comparative figures

Certain comparative amounts from the fiscal year 2001 have been reclassified to conform with current year presentation.

3. CHANGES IN ACCOUNTING POLICIES

(a) Goodwill and Other Intangible Assets

In August 2001, the Accounting Standards Board of the CICA issued Handbook Section 1581, Business Combinations, and Section 3062 Goodwill and Other Intangible Assets. Under Section 3062, goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The Corporation has adopted Sections 3062 and 1581 effective September 1, 2001. As of the date of adoption, the Corporation had unamortized goodwill in the amount of \$3,119. In addition, balances disclosed as deferred charges at August 31, 2001, in the amount of \$576, (net of accumulated amortization), have been re-evaluated as to their nature and reclassified to goodwill. The remaining goodwill is no longer being amortized. This change in accounting policy resulted in a reduction in the amortization expense related to this goodwill of \$562 (\$326 net of tax) for the fiscal year 2002. In accordance with the requirements of Section 3062, this change in accounting policy is not applied retroactively and the amounts presented for prior periods have not been restated for this change.

The following table compares basic earnings per share as reported in the prior year recalculated as a result of applying the new standards.

	2002	2001
Net income	\$ 1,550	\$ 952
Amortization of goodwill (net of tax)	-	135
	1,550	1,087
Weighted average shares outstanding (000s)	22,982	20,131
Basic net earnings per share	\$ 0.07	\$ 0.05
Adjusted basic net earnings per share	\$ 0.07	\$ 0.05

(b) Earning Per Share

In January 2001, the CICA issued new requirements under Handbook Section 3500, Earnings Per Share. The standard required a change from the imputed earnings method to the treasury stock method of presentation for earnings per share. Under the treasury stock method, the objective is to provide a measure of the interests of each common share in the performance of an enterprise for the reporting period. The Corporation adopted the Section 3500 requirements and applied them on a retroactive basis. This new standard had no effect on earnings per share amounts for the fiscal year 2001.

4. BUSINESS ACQUISITION

In the fiscal year 2001 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 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 (000s)	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

Amortization of \$200 was recorded in fiscal year 2001 until the adoption of the new standards (see note 3a) on September 1, 2001. This goodwill was being amortized on a straight-line basis over 7 years.

5. LONG TERM INVESTMENTS

	2002	2001
1,000,000 Common shares of Industrial Evolution Inc., representing a 8.5% interest, at cost (note 8)	\$ -	\$ 564

6. INCOME TAXES**(a) Future taxes**

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at August 31, 2002 are presented below:

	2002	2001
Future tax assets:		
Non-capital loss carry forwards	\$ 2,605	\$ 3,353
Capital assets principally due to differences in cost and depreciation	59	80
Intangible assets principally due to differences in cost and depreciation	116	-
Other	17	3
Total gross future tax assets	2,797	3,436
Future tax liability:		
Contracts in progress	(359)	(152)
Deferred charges	(148)	-
Unrealized foreign exchange gains	(32)	(88)
Total future tax liability	(539)	(240)
Net future tax asset	\$ 2,258	\$ 3,196
Less current portion	\$ 680	\$ 601
Non-current future tax asset	\$ 1,578	\$ 2,595

(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 40.42% to fiscal 2002 (42.79% in 2001) pretax income as a result of the following:

	2002	2001
Income before income taxes	\$ 2,709	\$ 1,498
Computed "expected" tax expense	1,095	641
Increase in income taxes resulting from:		
Adjustment to future assets and liabilities for enacted changes in tax laws and rates	11	107
Large corporation tax, other capital taxes and state taxes	21	-
Permanent differences and other	32	(202)
Recorded tax expense	\$ 1,159	\$ 546

(c) Losses Carried Forward

At August 31, 2002 the Corporation had non-capital losses of approximately \$6,508 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
2005	\$ 267
2006	1,623
2007	97
2008	961
2019	1,717
2020	1,549
2021	294
	\$ 6,508

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	2002 Net Book Value
Computer hardware	\$ 2,024	\$ 1,369	\$ 655
Computer software	759	699	60
Furniture and equipment	715	380	335
Leasehold improvements	458	195	263
Automotive	21	16	5
	\$ 3,977	\$ 2,659	\$ 1,318

	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
	\$ 3,760	\$ 2,235	\$ 1,525

Amortization provided for in the current period totals \$490 (\$466 in 2001).

8. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	2002 Net Book Value
Technology rights	\$ 1,138	\$ 221	\$ 917
Development costs	668	445	223
Drivers and software technology	92	28	64
Customer lists	74	22	52
	\$ 1,972	\$ 716	\$ 1,256

During the fiscal year 2002, the Corporation acquired the rights to all ProcessNet modules for total considerations of \$1,138. The consideration was comprised of the Corporation's 8.5% investment in Industrial Evolution Inc. ("IE") that had a carrying value of \$564, cash of \$495 and additional costs of \$79. These costs have been capitalized and are being amortized on a straight-line basis over three years.

These technology rights were acquired in conjunction with the settlement of a lawsuit brought by IE, where the Corporation incurred additional expenses of \$623 that have been recorded as a charge to earnings.

	Cost	Accumulated Amortization	2001 Net Book Value
Development costs	\$ 668	\$ 111	\$ 557
Drivers and software technology	92	18	74
Customer lists	74	15	59
	\$ 834	\$ 144	\$ 690

Amortization of \$572 has been provided for in 2002 (\$164 in 2001) and is based on management's estimate of the economic life of the assets.

9. BANK INDEBTEDNESS

The Corporation has an authorized line of credit of \$6,000 with a Canadian chartered bank bearing a floating interest rate of 0.25% 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.

10. SHARE CAPITAL

(a) Issued shares

	Number of Shares	2002 \$ 000's
Authorized in unlimited numbers Common shares		
Issued		
Balance, August 31, 2001	22,734,875	\$ 10,222
Private placement, net of share issue costs	1,000,000	1,768
Cancelled shares	(15,539)	-
Employee purchase plan	2,649	-
Balance, August 31, 2002	23,721,985	\$ 11,990

On May 30, 2002 the Corporation issued 1,000,000 common shares through private placement for \$1.90 per share. After deducting underwriting and other expenses amounting to \$212 and accounting for future income tax of \$80, the net amount credited to capital stock was \$1,768.

The Corporation's authorized and issued share capital from the date of the reverse takeover to August 31, 2001 is as follows:

	Number of Shares	2001 \$ 000s
Authorized in unlimited numbers Common shares		
Issued		
Arising on reverse takeover (note 4)		
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 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 up to September, 2009, remain outstanding:

	Number of Shares	Weighted Average Exercise Price
Balance, August 31, 2001	1,326,179	\$ 2.71
Granted	1,020,183	1.95
Expired	(645,588)	2.89
Cancelled	(71,584)	2.31
Balance, August 31, 2002	1,629,190	\$ 1.86

	Number of Shares	Weighted Average Exercise Price
Balance, August 31, 2000	-	-
Granted	4,000,000	\$ 0.50
Exercised	(2,000,000)	-
Cancelled	(43,464)	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
Cancelled	(111,000)	1.91
Balance, August 31, 2001	1,326,179	\$ 2.71

The following table summarizes information about share options outstanding at August 31, 2002:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Prices	Options Exercisable	Weighted Average Exercise Price
\$ 8.50	60,000	.62	\$ 8.50	60,000	\$ 8.50
2.00-2.49	789,367	4.89	2.02	699,367	2.02
1.40-1.99	716,323	4.60	1.88	580,323	1.90
1.36	63,500	5.64	1.36	-	-
	1,629,190	4.63	\$ 1.86	1,339,690	\$ 2.26

The Corporation also has an employee share ownership program, whereby Common Shares that employees have purchased in the market and held for 16 months are matched by a ratio of 1:2 by Common Shares issued from Treasury at no cost to the employee. Before the end of April each year, employees are eligible to purchase Common Shares valued to a maximum of 10% of their earnings in the prior calendar year. During the fiscal year 2002, 2,649 Common Shares (nil at August 31, 2001) were issued to eligible participants. On August 31, 2002 19,927 Common Shares remain eligible for matching, while 5,678 Common Shares remain eligible for matching on October 31, 2002 and 93,677 Common Shares remain eligible for matching on August 31, 2003.

(c) Earnings per share

For fiscal 2002, the weighted average number of shares outstanding for the purposes of calculating basic earnings per share was 22,981,676 (20,131,000 in 2001).

In calculating diluted earnings per share, the weighted average number of shares outstanding (denominator), has been increased by 15,832 (8,879 in 2001) in respect of stock options using the treasury stock method and by 59,641 (nil in 2001) in respect of the Corporation's employee share ownership program. Thus, for fiscal 2002, the weighted average number of shares outstanding for the purposes of calculating the diluted earnings per share was 23,057,149 (20,139,879 in 2001). There are no items that impact the numerator for both fiscal 2002 and 2001 in calculating diluted earnings per share.

11. RELATED PARTY TRANSACTIONS

The Corporation leases facilities in India from an individual related to a Director who is also a Vice President. Approximately 2,000 square feet of office space has been leased over a 60-month term expiring October 31, 2003. For the year ended August, 2002 lease payments amounted to \$37 (\$15 in 2001). The terms and conditions of the lease reflected prevailing market conditions at the time the lease was entered into.

12. SEGMENT DISCLOSURE

Management has determined that the Corporation and its subsidiaries are engaged in a number of lines of business including Control and Automation, Industrial Information Services, Advanced Applications, 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:

12 MONTHS ENDED August 31, 2002	Control & Automation	Industrial IS	Advanced Applications	Drivers	Products Sales & Implementation	Multidisciplinary Projects	Corporate and Eliminations	Total
Revenue	\$ 7,458	\$ 8,841	\$ 4,169	\$ 3,031	\$ 9,333	\$ 4,479	\$ 265	\$ 37,576
Intercompany consulting revenue	701	1,258	639	815	1,525	811	(5,749)	-
Total revenue	8,159	10,099	4,808	3,846	10,858	5,290	(5,484)	37,576
Operating expenses	6,056	7,458	4,190	1,975	9,614	4,420	472	34,185
Amortization	-	-	-	-	-	-	1,062	1,062
Total operating expenses	6,056	7,458	4,190	1,975	9,614	4,420	1,534	35,247
Other income (expenses)	-	-	-	-	-	-	380	380
Income before income taxes	2,103	2,641	618	1,871	1,244	870	(6,638)	2,709
Goodwill					3,695			3,695

12 MONTHS ENDED August 31, 2001	Control & Automation	Industrial IS	Advanced Applications	Drivers	Products Sales & Implementation	Multidisciplinary Projects	Corporate and Eliminations	Total
Revenue	\$ 6,371	\$ 8,683	\$ 2,859	\$ 2,366	\$ 3,636	\$ 3,209	\$ 557	\$ 27,681
Intercompany consulting revenue	321	1,056	892	352	1,077	196	(3,894)	-
Total revenue	6,692	9,739	3,751	2,718	4,713	3,405	(3,337)	27,681
Operating expenses	3,352	6,215	3,108	2,033	4,648	3,076	2,301	24,733
Amortization	-	-	-	-	-	-	830	830
Total operating expenses	3,352	6,215	3,108	2,033	4,648	3,076	3,131	25,563
Other income (expenses)	-	-	-	-	-	-	(620)	(620)
Income before income taxes	3,340	3,524	643	685	65	329	(7,088)	1,498
Goodwill					3,695			3,695

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

	2002	2001
Canada	\$ 1,040	\$ 1,217
United States	278	296
Other	-	12
	\$ 1,318	\$ 1,525

Revenue of the Corporation and its subsidiaries are distributed geographically as follows:

	2002	2001
Canada	\$ 11,557	\$ 5,813
United States	20,740	17,993
Other	5,279	3,875
	\$ 37,576	\$ 27,681

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 April, 2008. Remaining lease payments are as follows:

	Amount
2003	\$ 2,359
2004	2,200
2005	1,542
2006	1,141
2007	507
2008	63
	\$ 7,812

Under the terms of these leases, the Corporation is also committed to pay its pro-rata share of operating costs. In August 2001 and August 2002 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 \$115 in 2003 and \$6 in 2004.

The Corporation enters into forward exchange contracts for the sale of U.S. currency 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, 2002 the Corporation was committed to the following series of monthly forward exchange contracts:

Start date	Expiry date	Amount Hedged U.S. \$	Rate
August 15, 2002	September 16, 2002	\$ 500	1.5902
September 3, 2002	September 30, 2002	\$ 500	1.5614
October 1, 2002	October 31, 2002	\$ 500	1.5626

14. SUBSEQUENT EVENT

On September 5, 2002, the Corporation reached an agreement with the shareholders of Hunter Control Pty Ltd ("Hunter Control") whereby 479,830 Matrikon Common Shares were issued in exchange for all issued and outstanding shares of Hunter Control. Hunter Control has approximate book values of \$1,640 in total assets and \$2,500 of liabilities for a net asset deficiency of \$860. Management will assess the fair value of the acquisition and allocate the purchase price accordingly once purchase price adjustments have been finalized.

Hunter Control, a privately-owned company, is an independent Australian automation and information system integration company with 60 employees and offices in Newcastle, Brisbane and Singleton.

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 regularly review Matrikon's organization plan and structure, monitor senior management's progress, and review succession plans at the board and senior executive level.
Communications policy	✓ Management, supported by the board, has put structures in place to ensure effective communication between Matrikon and its stakeholders, including the adoption of a disclosure policy to guide appropriate two-way communication. The board approves all news releases and other communication relating to material changes. The board is consulted on communication issues as they arise.
Internal controls and management information systems	✓ Integrity of internal control and management information systems are ensured through the delegation of this responsibility to the chief financial officer and the Audit Committee, which is composed entirely of independent directors. The Audit Committee reviews methods of controlling corporate assets and information systems and oversees the financial reporting process in accordance with proper accounting principles. In addition to a full annual audit, external auditors review Matrikon's quarterly results and meet with the Audit Committee without management each quarter.
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 unrelated directors and two members of management. The board chairman is unrelated to the company.
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, whose responsibilities include ensuring that adequate and proper information is made available to the board and maintaining communication between the board and senior management. In addition, the committees are comprised entirely of unrelated directors. Sufficient time is allocated on the agenda of each board meeting for the outside directors to meet without management or related directors in attendance.
Procedures by which directors can retain outside advisors	✓ Requests to engage an outside advisor by individual directors are considered by the unrelated chairman, who recommends that the board approve the request if it is deemed appropriate.
Board & Management Effectiveness	
Process for assessing board effectiveness	✓ The Compensation and Governance Committee (comprised solely of unrelated directors) has the responsibility for ongoing review of the performance and suitability of the board as a whole as well as the Audit and Compensation and Governance committees.
Orientation for new directors	✓ The corporation provides an orientation manual to each board member. Directors also undergo an orientation process with the board and senior managers. In addition, board members may attend industry conferences at the expense of Matrikon if desired.
Board size suitable for individual accountability	✓ The board has reviewed the size of the board and has determined the number to be effective considering the size and needs of the corporation.

Satisfactory compensation to directors	<p>✓ The unrelated directors of the corporation are compensated to reflect the high degree of responsibility and expected commitment. Unrelated directors receive an annual retainer fee (US\$5,000), compensation per board meeting and committee meetings attended in person and via phone (US\$500), and stock options. In addition to the above, the chairman of the board receives an annual retainer of CDN\$20,000.</p>
Position descriptions for the board of directors and the CEO	<p>✓ Board The board manages the company for the collective benefit of the shareholders. The board strives to meet or exceed duties and responsibilities outlined in section 474 of the TSX Company Manual. Any responsibility that is not delegated to senior management or a board committee remains with the full board. In addition to matters that require board approval by law, management seeks board approval for major transactions, including those involving material investments and expenditures or divestitures.</p> <p>CEO 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 approves explicit performance objectives for the CEO and the corporate goals for which the CEO has responsibility.</p>
Defined Audit Committee mandate	<p>✓ The Audit Committee is comprised entirely of independent directors, each of whom is financially literate, and has a written mandate that is approved by the board.</p> <p>The Audit Committee meets at least 4 times each year. The mandate of the Audit Committee is:</p> <ul style="list-style-type: none"> • monitoring audit functions and the preparation of financial statements • reviewing management's actions in relation to the preparation of financial statements and the maintenance of internal controls • reviewing the corporation's financial reporting in connection with the annual audit and the preparation of financial statements • discussing with management the corporation's policies and procedures for management of risks • reviewing audit plans for the external auditors • meeting with external auditors independent of management

left to right

Back Row:
Dilip Kembhavi,
Robert Moore
Mike Percy

Middle Row:
John Zaozirny
Kent Jespersen

Front Row:
Nizar J. Somji
Hugh Bolton



| Board of Directors & Executives

Board of Directors

Hugh Bolton, Chairman ①②
Chairman, EPCOR Utilities Inc.

C. Kent Jespersen ①*
Chairman, La Jolla Resources International Ltd.

Dilip Kembhavi
Executive Vice President, Matrikon

Robert Moore ②
Consultant & Business Advisor

Michael Percy ②*
Dean, School of Business, University of Alberta

Nizar J. Somji
President & Chief Executive Officer, Matrikon

John Zaozirny ①
Counsel, McCarthy Tetrault

Dwight Bliss, Corporate Secretary
Counsel, Fraser Milner Casgrain

① Compensation & Corporate Governance Committee

② Audit Committee

* Committee Chairman

Executives

Nizar J. Somji
President & Chief Executive Officer

Shafin U. Kanji
Chief Financial Officer

Amin Rawji
Executive Vice President

Dilip Kembhavi
Executive Vice President, Manufacturing

Bijan Shams
Vice President, Services

Gordon Freund
General Counsel

Nils Mann
Chief Technology Officer

Floyd Bjorgan
Managing Director, Australian Operations

Warren Mitchell
Director, Advanced Control



Our Clients

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

Legal Counsel
 Fraser Milner Casgrain LLP

Auditors
 KPMG LLP

Bank
 HSBC Bank Canada

Investor Information
 Nicole Saylor
 Email: ir@matrikon.com
www.matrikon.com/investors
 1-877-MATRIKON ext.4010

Notice of Annual General Meeting
 All shareholders are cordially invited to attend the Annual Shareholders Meeting.

January 21, 2003
 3:00 p.m. MT

Matrikon Corporate Offices
 Main Training Centre
 Suite 1800, 10405 Jasper Avenue

Our Office Locations
Canada: Edmonton, Vancouver, Calgary, Ft. McMurray, Toronto, Quebec City
USA: Cleveland, Milwaukee, New York, St. Louis, Houston, Chicago, Denver
International: Saudi Arabia, Australia

Our Offices

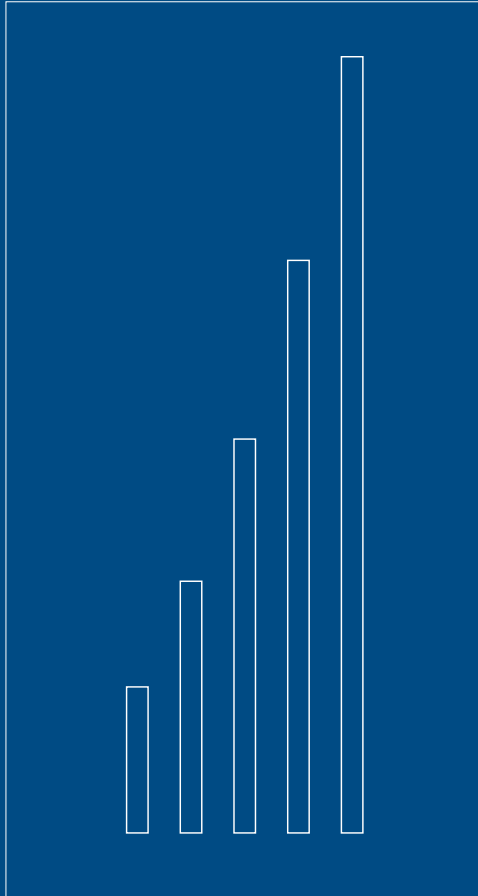


Forward Looking Statements

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 Management's 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.



Success. Growth. Results.

Annual Report 2002



Matrikon Inc.

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