



MD&A.

Management's Discussion & Analysis of financial position and results of operations.

The following discussion and analysis should be read in conjunction with the company's financial statements for the years ended August 31, 2002 and 2001 and the accompanying notes.

Matrikon is a provider of industrial IT solutions that optimize and streamline plant operations for maximum agility and profitability. Solutions include industrial data acquisition and storage strategies, data analysis and decision support systems, and data connectivity and web-delivered data presentation technologies.

Matrikon's products and services are marketed globally, with 55% revenue from the United States, 31% from Canada, 6% in the Middle East and 8% originating elsewhere.

Matrikon is 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's client base is diversified across a number of vertical industries, including oil and gas, energy and utilities, forestry, chemicals, metals and mining and discrete manufacturing.

Fiscal 2002 marked Matrikon's 14th consecutive year of growth and profitability. The company's long-term growth strategy focuses on four fundamentals: technological advancement, complementary services, geographic expansion and vertical industry expansion. These fundamentals will be achieved through both organic growth and strategic acquisitions.

Headquartered in Edmonton, Alberta, Matrikon employed 330 people at August 31, 2002 compared to 294 people at August 31, 2001. As at November 30, 2002, Matrikon employed 423 people, and there were 24,227,742 common shares of the corporation issued and outstanding and 1,915,778 options issued.

While revenues increased by 36% over 2001, total costs increased by 35% as people and infrastructure were added to execute on the increasing backlog and to position the company to achieve its growth targets for fiscal 2003.

Revenue

Year Ended August 31 (000s)	2002		2001		% Change
	\$	%	\$	%	
Total Revenue	\$ 37,576	100	\$ 27,681	100	36
Consulting fees	27,780	74	22,364	81	24
Equipment sales	3,372	9	2,535	9	33
Total services and related	31,152	83	24,899	90	25
Software license fees	4,172	11	1,884	7	121
Extended software support	2,252	6	898	3	151
Total product and related	6,424	17	2,782	10	131

Total revenue in 2002 exceeded our revised target of \$35 to \$37 million (revised upward at the second quarter from our original target of \$32 to \$35 million).

Over the past three years, Matrikon has been transitioning from a services company to a company that also offers proprietary products. This is reflected in the increasing portion of revenue from software licenses and extended support. Over the course of fiscal year 2002, upgrades to each product in the Process Suite line of products were released. Revenue growth from product sales was better than expected, with a 121% increase over 2001. This included several corporate license agreements with clients such as The BOC Group, Exelon Generation Company LLC, and AmerenUE. The target of 15% revenue from software license fees and extended support set at the beginning of the year was exceeded by 2%. The target for 2003 is 20% to 25% revenue from license fees and extended support.

Extended support increased by 151% over 2001, but declined slightly in the last half of 2002. Management sees several reasons for this decrease: (a) the focus of the sales force has been selling new product rather than renewing support, (b) products are working well for users, therefore they find it difficult to justify the expense of continued support in a tight economy, and (c) the TigrSoft APS product has not had a significant upgrade in several years, therefore eliminating one of the major motivators for continuing support. This is a major contributor to the decrease, as APS support makes up the bulk of extended support. A new product suite, the Mx (Manufacturing eXcellence) Suite, will replace the TigrAPS product in the next few months. Matrikon's commitment to research and development and leading edge technology will encourage existing APS customers as well as new users to maintain support to benefit from technological advancements.

Equipment sales are ancillary to consulting engagements and fluctuate period by period, depending on both the type of project worked on and individual client needs. While equipment sales are not a primary focus for the company, multidisciplinary projects often include equipment sales as part of the total solution package. Equipment sales were unusually high in Q4 of 2001 and Q1 of 2002. Management notes that the decline in equipment sales since those quarters is likely linked to a weaker economy, as capital expenditures are usually the first to be put on hold until economic conditions improve.

Segment Revenues

Matrikon has six strategic business units: control and automation, industrial information services, advanced applications, drivers, product sales and implementation, and multidisciplinary projects. Matrikon evaluates each business unit's performance and reports segmented information according to this structure.

Year Ended August 31 (000s)	2002	2001	Change	% Change
Control & automation	\$ 8,159	\$ 6,692	\$ 1,467	22
Industrial IS	10,099	9,739	360	4
Advanced applications	4,808	3,751	1,057	28
Drivers	3,846	2,718	1,128	42
Product sales & implementation	10,858	4,713	6,145	130
Multidisciplinary projects	5,290	3,405	1,885	55
Corporate & eliminations	(5,484)	(3,337)	(2,147)	64
	37,576	27,681	9,895	36

As shown in the table above, strong growth in drivers, multidisciplinary projects and product sales and implementation contributed to revenue growth. Industrial IS under-performed the rest of the company, mainly due to downward pressure on rates resulting from the economic environment and competition in this area. In addition, Industrial IS personnel are often loaned to other groups (product implementation and multidisciplinary projects). Matrikon services groups are responsible for implementing Matrikon's products. As a result, as Matrikon product sales increase, the revenue generated by the service groups will also increase. (Refer to pages 12 and 13 for a description of each segment.)

Corporate and eliminations is primarily the elimination of intercompany revenue and expenses.

Gross Margin

Year Ended August 31 (000s)	2002	2001	Change	% Change	* Industry
Gross margin	\$ 18,573	\$ 11,454	\$ 7,119	62	-
% of revenue	49	41	8	-	52

In line with one of management's objectives, gross margins improved by 8% to 49%. Increasing revenue from license fees and extended support continue to have a positive impact on gross margin. As license fees and extended support grow as a percentage of revenue, gross margins should continue to improve. Matrikon implemented a new time and resource utilization system in the latter part of 2002. It is management's expectation that this system will improve tracking and utilization in all service business units.

The increase in gross margin is also the result of a changed business model. In 2001, the majority of senior management was involved in the direct execution of contracts and thus included in cost of sales. In the current year, these key managers were reassigned to roles of management and sales and marketing.

Operating Expenses

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

Consulting General & Administrative

Year Ended August 31 (000s)	2002	2001	Change	% Change
Consulting G & A	\$5,727	\$1,597	\$4,130	259
% of revenue	15	6	9	-

Consulting general and administrative (G&A) expense represents administration costs related to consulting projects, including related infrastructure costs. The increase in consulting expenses is a result of the increasing infrastructure needed to support company growth. In early fiscal 2002, office space was increased by 62% in Edmonton, St. Louis and Vancouver. Matrikon also added office space in Houston and Denver. A large portion of costs related to office space are allocated to consulting G&A, as consulting staff make up the largest portion of Matrikon's work force (63%). Future consulting G&A will be affected by continued expansion, including infrastructure in Australia added with the acquisition of Hunter Control. Consulting G&A expenses are expected to be between 13% and 15% of revenue for 2003.

Sales and Marketing

Year Ended August 31 (000s)	2002	2001	Change	% Change
S & M	\$4,032	\$2,226	\$1,806	81
% of revenue	11	8	3	-

The increase to sales and marketing (S&M) expense is in line with management's expectation and reflects the significant increase in the sales force and increased investment in marketing initiatives to support the company's drive to increase product to services revenue mix and average project value. S&M expenses are expected at between 11% and 14% of revenue for 2003.

One significant marketing program, Matrikon's Reseller/Distributor program, was formalized and significantly broadened in 2002, with four reseller's in the United States, one in Korea and one in the United Kingdom. The focus over the course of the year was identifying and educating preferred resellers and developing joint marketing initiatives such as users conferences and technical workshops. The focus for 2003 will be to expand resellers knowledge of Matrikon's full spectrum of services and solution capabilities. In addition, we will continue to screen potential resellers to expand geographic coverage. Plans for 2003 also include

developing a system integrator program to further extend Matrikon's reach. We expect our reseller channels to become increasingly important to our growth as they facilitate increased exposure, both in geographic markets and different industry segments.

Research and Development

Year Ended August 31 (000s)	2002	2001	Change	% Change
R & D	\$2,288	\$1,765	\$523	30
% of revenue	6	6	0	-

Research and development (R&D) expenses increased by 30% over 2001 but remained flat as a percentage of revenue. Matrikon has been able to keep R&D expenses low while developing next generation products embodying the latest technology through an efficient development process as well as maintaining close ties with academic institutions while continuing to invest in the NSERC-Matrikon-ASRA Industrial Research Chair at the University of Alberta. R&D expenses are expected to continue to grow over the next few years to approximately 7% to 9% of revenue.

New versions of each product in the Process Suite line of products were released over the year and a rebuilt Mx Suite (advanced planning and scheduling and supply chain collaboration) will be released in the first half of 2003.

General and Administrative

Year Ended August 31 (000s)	2002	2001	Change	% Change
G & A	\$3,135	\$2,918	\$217	7
% of revenue	8	11	(3)	-

The decrease in general and administrative expenses as a percentage of revenue is a result of controlling infrastructure costs while increasing the revenues of the company. G&A expenses are expected to be approximately 5% to 7% of revenue for 2003.

Net Income

Year Ended August 31 (000s except per share)	2002	2001	Change	% Change	* Industry
Net income	\$1,550	\$ 952	\$ 598	63	-
% of revenue	4	3	1	-	(56)
Earnings per share	0.07	0.05	0.02	40	-

Year Ended August 31 (000s)	2002	2001	Change	% Change	2002 % of revenue	Industry % of revenue*
Cash and cash equivalents	\$ 285	\$ 238	47	20	1	27
Accounts receivable	11,674	8,087	3,587	44	31	25
Average collection period	89 days	89 days	-	-	-	74 days
Bank indebtedness	2,273	938	1,335	142	6	11
Other Current Liabilities	6,186	6,702	(516)	(8)	16	24

The 63% increase in net income over 2001 was in the range of our target of 60% to 140% growth; however earnings per share was slightly off the \$0.08 to \$0.10 per share target.

Legal fees and related costs in settling a lawsuit over alleged copyright infringement resulted in a \$0.02 reduction to earnings per share (net of tax) in the second quarter. This was partially offset by the Scientific Research and Experimental Development credit received of \$0.44 million or \$0.01 per share. In addition, net income at the end of the year was affected by increased hiring in the third and fourth quarters and an increase in the effective tax rate (see Income Taxes).

Income Taxes

The effective income tax rate for fiscal year 2002 was 42.8% compared with 36.4% in fiscal 2001. This increase is due to the revaluation of the tax loss asset acquired in the TigrSoft purchase, triggered by a change in income tax rates in Canada and the United States. The majority of the losses carried forward (55%) are held in the United States, and therefore, are also affected by exchange rate fluctuations. Income taxes are estimated throughout the year using the tax rate that is expected to apply to total annual earnings and adjusted to actual at year-end.

Liquidity and Capital Resources

At year-end, accounts receivable were \$11.67 million compared to \$8.09 million at August 31, 2001, an increase of 44%. The increase in accounts receivable is attributable to the billing of some large projects near the end of the quarter. The average collection period in fiscal 2002 was 89 days compared to 89 days in 2001. Matrikon's client base consists primarily of Fortune 500 companies with strong credit ratings; hence bad debt expense has been very low at less than 0.5% per annum.

Contracts in progress increased by \$1.77 million in 2002 to \$2.91 million from \$1.14 million a year ago. This is a result of revenue recognized on large projects where milestones have not been reached and hence could not be billed.

Current liabilities, excluding bank indebtedness, decreased from \$6.70 million in 2001 to \$6.19 million at the end of the current fiscal year. This decrease is a result of the decrease in income taxes payable resulting from the utilization of tax losses acquired in the TigrSoft purchase.

As a result of higher accounts receivable and contracts in progress levels and the reduced accounts payable from a year ago, cash used in operating activities in fiscal 2002 was \$2.12 million.

Cash used in investing activities was \$0.86 million, including capital expenditures of \$0.48 million and proceeds from the sale of capital assets of \$0.20 million. In addition, \$0.57 million was used to acquire technology rights as part of settling a lawsuit over ownership of Matrikon-developed components included within a project. In fiscal 2001, cash used in investing activities was \$0.71 million, which included purchases of capital assets of \$0.34 million and capitalized expenses of \$0.67 million for development expenses pursuant to a contract to develop the SCADANet product. Also in the prior year, Matrikon completed the purchase of TigrSoft Inc. and acquired cash of \$0.59 million and capitalized \$0.29 million of expenses relating to this purchase.

Cash provided by financing activities was \$3.02 million compared to cash used for financing activities of \$1.14 million in the prior year. The primary financing activity was the private placement of 1.00 million shares on May 30, 2002 for gross proceeds of \$1.90 million. In addition, Matrikon also accessed its operating line of credit for \$1.34 million to fund working capital requirements. Matrikon has a \$6.00 million operating line of credit at a variable interest rate of the bank's prime plus 25 basis points.

Matrikon had cash on hand of \$0.29 million at the end of 2002 compared to \$0.24 million at August 31, 2001.

Subsequent Event

Acquisition. Matrikon completed the acquisition of Hunter Control on September 5, 2002 (subsequent to year-end). Hunter Control is one of Australia's largest independent automation and information system integration companies.

The Hunter Control acquisition holds significant synergies in each area of Matrikon's growth strategy:

- Extended geographic reach; immediate presence in Australian market and positioned for rapid entry to the growing Asian market
- Complementary advanced controller technology; enabling Matrikon to offer a complete advanced control enterprise solution
- Complementary service capability; Hunter Control's expertise in maintenance and reliability is a natural extension of Matrikon's existing services
- Expanded vertical industry expertise; Hunter Control has domain expertise and a significant presence in mining

Impact of Recently Issued Accounting Standards

Goodwill and Intangible Assets. In August 2001, the Canadian Institute of Chartered Accountants ("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 \$3.12 million from the acquisition of TigrSoft on April 1, 2002. In addition, balances disclosed as deferred charges at August 31, 2001, in the amount of \$0.58 million (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 \$0.56 million (\$0.33 million 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.

Stock-Based Compensation. In December 2001, the CICA issued Handbook Section 3870 to be applied for fiscal years beginning on or after January 1, 2002. This standard requires that certain types of stock-based compensation arrangements be accounted for at fair value, giving rise to compensation expense. The section sets out a fair value based method of accounting that is required for certain, but not all, stock-based transactions and applies to transactions in which shares of common stock, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments. The new standard permits companies to continue the policy that no compensation cost is recorded on the grant of stock options to employees. Disclosure of pro forma earnings and pro forma earnings per share as if the fair value based

accounting method had been used to account for employee stock options are required for options granted to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital and contributed surplus. Matrikon plans to adopt this standard in fiscal 2003 and does not expect a material impact on the consolidated financial position or results of operation.

Market Conditions

It was a difficult year for many technology providers in the industrial sector. The economic landscape prompted many manufacturers to cut costs wherever possible and focus on the areas that could bring the greatest return on investment. Manufacturers are looking for technology solutions that improve efficiency, productivity and profitability.

Despite these turbulent times, Matrikon was able to grow and prosper because of our continued focus on delivering products and services that manufacturers need to maintain a strong competitive edge.

The ARC Advisory Group, a leading advisor in Matrikon's market space, predicts that the market for automation products and services in the process industries, such as pulp and paper, pharmaceuticals, chemicals, food and beverage, and oil and gas will increase at a compound annual growth rate of over 5% in the next five years. The market for automation products and services is expected to reach \$57 billion by 2006. The ARC study mentions that the ability to provide a wide range of project services will be necessary for the survival of technology providers in this space.

Management believes that Matrikon is well positioned to capitalize on this growing market. Our diverse service offering and growing solution suites enable clients to realize value from their existing infrastructure, providing rapid return on investment.

Outlook

Although discretionary IT spending has been weak for some time, Matrikon is able to continue to close business and maintain growth, with the exception being a decrease in equipment sales, which are ancillary to the company's consulting business. It is management's belief that the nature of our solutions and the quick return on investment that clients realize with our technology helps to insulate the company from the cycles affecting the IT industry. Notwithstanding this, significant uncertainty continues to exist as a result of the current geopolitical environment.

Based on current contracts in progress and assuming Matrikon's ability to win new business continues at the current pace, management expects the company to achieve revenue growth of 20% to 40% and earnings growth of 10% to 30% during fiscal year 2003. Due to the Hunter Control acquisition and other infrastructure costs, the majority of the earnings growth is expected in the second half of the fiscal year.

Performance Measures

Year Ended August 31	2002	2001	Change	* Industry
Return on shareholders' equity (excludes goodwill)	13%	12%	3%	6%
Price-earnings ratio	28	38	(10)	-
Gross margin	49%	41%	8%	52%
Profit margin	4%	3%	1%	(56)%
Current ratio	1.8	1.4	0.4	1.7
Debt ratio (excludes goodwill)	73%	93%	(20)%	70%

Risks & Uncertainties

While management remains optimistic about Matrikon's long-term prospects, the following internal and external risks may affect our operations. We strive to mitigate these risks to the extent possible in order to optimize profits.

Market demand for products and services. We cannot assure you that our products will remain competitive, nor that they will respond to market demands, developments or new industry standards. If we are unable to identify a shift in market demand quickly enough, we may not be able to develop products to meet those new demands, or bring them to market in a timely manner.

This risk is mitigated through our ongoing commitment to research and development and to constantly improving our products based on industry feedback. In addition, Matrikon's service units provide insight into the business problems and trends occurring in a variety of industries. To date, Matrikon's products and enhancements have been developed through this insight and a continual feedback loop between industry, our 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. While client needs change based on the economic climate, Matrikon's products and services are currently able to meet those needs. In a growing economy, our clients' demand increased throughput and focus on optimization 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 any potential recession if needed.

Exchange rates. We operate internationally; accordingly, the majority of contracts outside of Canada are in United States currency.

Matrikon enters forward contracts to hedge exposure to currency fluctuations between the United States (US) and Canadian dollars. Approximately 70% 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. 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. Matrikon was named one of the top 100 employers in Canada in October, 2002.

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.

Management believes that our available line of credit is sufficient to meet our growth objectives for the next few years. In addition, reduced income taxes payable by utilizing our tax losses inherited in the acquisition of TigrSoft 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, which enables the company to ensure that our products comply with industry standards and helps to identify new trends.

Lengthy sales cycle. The lengthy sales cycle required to close larger projects makes it difficult to predict quarterly revenue levels and operating results. The sales process for our larger projects and solutions can be lengthy and can exceed one year. Moreover, to the extent that we succeed in shifting customer purchases toward corporate license agreements and larger solutions, our sales cycle may lengthen, which could increase the likelihood of delays. We have limited experience in forecasting the timing of sales of our integrated software and services solutions. Delays in sales could cause shortfalls in our revenues and operating results for any particular period.

Failure to integrate operations. If we fail to integrate the operations of the companies we acquire, we may not realize the anticipated benefits and our operating costs could increase. We intend to continue to pursue strategic acquisitions that will provide us with complementary products, services and technologies. The identification and pursuit of these acquisition opportunities and the integration of acquired personnel, products, technologies and businesses require a significant amount of management time and skill. There can be no assurance that we will identify suitable acquisition candidates, consummate any acquisition on acceptable terms or successfully integrate any acquired business into our operations.

Acquisitions also expose us to potential risks, including diversion of management's attention, failure to retain key acquired personnel, assumption of legal or other liabilities and contingencies, and the amortization of acquired intangible assets. Moreover, customer dissatisfaction with, or problems caused by, the performance of any acquired products or technologies could hurt our reputation.

Management attempts to mitigate these risks through a thorough due diligence process, which includes measuring a potential acquisition against our growth strategy.

Failure to address challenges of international operations. Our business may suffer if we fail to address the challenges associated with international operations. We derived approximately 70% of our total revenues from customers outside Canada in the past fiscal year. We anticipate that

revenues from customers outside Canada will continue to account for a significant portion of our total revenues for the foreseeable future. Our operations outside Canada are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers;
- political and economic instability;
- difficulties in staffing and managing foreign subsidiary operations;
- difficulties and delays in translating products and product documentation into foreign languages;
- difficulties and delays in negotiating software licenses compliant with Canadian accounting revenue recognition requirements; and
- potentially adverse tax consequences.

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