

## STATEMENTS OF RESPONSIBILITY

### Report of Management's Accountability

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.

Matrikon 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

Edmonton, Alberta  
October 24, 2003



Shafin U. Kanji  
Chief Financial Officer

## AUDITORS' REPORT

To the Shareholders of Matrikon Inc.

We have audited the consolidated balance sheets of Matrikon Inc. as at August 31, 2003 and 2002 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, 2003 and 2002 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 24, 2003

## FINANCIAL STATEMENTS

### Consolidated Balance Sheets

Thousands of Canadian dollars

As at August 31	2003	2002
<b>Assets</b>		
Current		
Cash	\$ 295	\$ 285
Accounts receivable	13,897	11,674
Contracts in progress	3,457	2,909
Future taxes (Note 5(a))	235	680
Prepaid expenses	361	328
	<b>\$ 18,245</b>	<b>\$ 15,876</b>
Future income taxes (Note 5 (a))	1,354	1,578
Capital assets (Note 6)	1,682	1,318
Intangible assets (Note 7)	665	1,256
Goodwill	5,442	3,695
	<b>\$ 27,388</b>	<b>\$ 23,723</b>
<b>Liabilities and Shareholders' Equity</b>		
Current		
Bank indebtedness (Note 8)	-	2,273
Accounts payable and accrued liabilities	4,994	2,801
Deferred revenue	3,038	3,300
Income taxes payable	82	85
Future income taxes (Note 5 (a))	398	-
	<b>\$ 8,512</b>	<b>\$ 8,459</b>
Commitment (Note 13)		
Subsequent event (Note 14)		
<b>Shareholders' Equity</b>		
Share capital (Note 9(a))	12,948	11,990
Contributed surplus (Note 9(c))	29	-
Retained earnings	5,899	3,274
	<b>\$ 18,876</b>	<b>\$ 15,264</b>
	<b>\$ 27,388</b>	<b>\$ 23,723</b>

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

## FINANCIAL STATEMENTS

### Consolidated Statements of Income & Retained Earnings

Thousands of Canadian dollars except share and per share data

Years ended August 31	2003	2002
<b>Revenue</b>		
Consulting fees	\$ 32,662	\$ 27,780
Software license fees	8,572	4,172
Equipment sales	3,737	3,372
Extended support	2,897	2,252
	<b>\$ 47,868</b>	<b>\$ 37,576</b>
Cost of sales	23,701	19,003
Gross profit	<b>\$ 24,167</b>	<b>\$ 18,573</b>
<b>Expenses</b>		
Consulting	7,537	5,727
Sales and marketing	4,800	4,032
Research and development	2,465	2,288
General and administrative	4,442	3,135
Amortization	1,368	1,062
<b>Total expenses</b>	<b>\$ 20,612</b>	<b>\$ 16,244</b>
Income before the undernoted	<b>\$ 3,555</b>	<b>\$ 2,329</b>
Other income (Note 12)	829	380
Income before income taxes	<b>\$ 4,384</b>	<b>\$ 2,709</b>
<b>Income tax expense</b>		
Current	576	141
Future	1,183	1,018
	<b>\$ 1,759</b>	<b>\$ 1,159</b>
<b>Net income</b>	<b>\$ 2,625</b>	<b>\$ 1,550</b>
Retained earnings, beginning of year	\$ 3,274	\$ 1,724
Net income	2,625	1,550
Retained earnings, end of year	<b>\$ 5,899</b>	<b>\$ 3,274</b>
Earnings per share (Note 9(e))		
Basic earnings per share	0.11	0.07
Diluted earnings per share	0.11	0.07
Weighted average number of common shares outstanding (000s) (Note 9(e))		
Basic	24,221	22,982
Diluted	24,317	23,057

See accompanying notes to the consolidated financial statements

## FINANCIAL STATEMENTS

### Consolidated Statements of Cash Flows

Thousands of Canadian dollars

Years ended August 31	2003	2002
<b>Operating Activities</b>		
Net income	\$ 2,625	\$ 1,550
Items not affecting cash:		
Compensation expense	29	-
Future income taxes	1,183	1,018
Gain on sale of assets	(70)	-
Amortization	1,368	1,062
	<b>\$ 5,135</b>	<b>\$ 3,630</b>
Changes in non-cash working capital	(2,194)	(5,749)
Cash provided by (used in) operating activities	<b>\$ 2,941</b>	<b>\$ (2,119)</b>
<b>Investing Activities</b>		
Purchase of intangible assets	-	(574)
Cash consideration for business acquisition (Note 4)	(124)	-
Proceeds from sale of capital assets	253	200
Purchase of capital assets	(786)	(483)
Cash used in investing activities	<b>\$ (657)</b>	<b>\$ (857)</b>
<b>Financing Activities</b>		
Proceeds (repayment) of bank indebtedness	(2,273)	1,335
Proceeds of share issue, net of share issue cost	(1)	1,688
Cash provided by (used in) financing activities	<b>\$ (2,274)</b>	<b>\$ 3,023</b>
Cash increase	10	47
Cash, beginning of year	285	238
Cash, end of year	<b>\$ 295</b>	<b>\$ 285</b>
Supplementary cash flow disclosure:		
Income taxes paid	667	505
Interest paid	235	68

See accompanying notes to the consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended August 31, 2003 & August 31, 2002  
Thousands of Dollars except share and per share amounts  
Canadian dollars unless otherwise noted.

### 1. Nature Of Operations

Matrikon Inc., (the "Corporation"), was incorporated on May 27, 1999 under the Alberta Business Corporations Act and is the continuing operation of Matrikon Consulting Inc., a privately held Corporation which was incorporated on September 21, 1988. The Corporation is engaged in industrial information technology professional services and the development of software related to these activities. 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, Newcastle, and Saudi Arabia with sales in the international marketplace.

### 2. Summary Of Significant Accounting Policies

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

#### (a) Basis of Consolidation

The consolidated financial statements for August 31, 2003 include the accounts of Matrikon Inc., and its wholly-owned subsidiaries: Matrikon International, Inc., Matrikon (Australia) Pty Ltd., TigrSoft (India) Private Ltd., a 99.7% owned subsidiary and Matrikon Business Systems Inc., a 51% owned subsidiary until November 30, 2002, when Matrikon Inc. purchased the remaining 49% for a nominal amount.

The consolidated financial statements for August 31, 2002 include the accounts of Matrikon Inc., and its wholly-owned subsidiary, Matrikon International, 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.

Eight corporate software license agreements for various Matrikon products signed with leaders from a variety of industries

#### (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. Revenue for multi-element arrangements is recognized when there is evidence that an arrangement exists, delivery has occurred, the fees are fixed or determinable and collectability is probable. The fees are allocated on the basis of vendor specific objective evidence for the fair market value of each element. Revenue is then recognized for each element in the same manner as noted above for the respective single element agreements.

#### (d) 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	15% - 33%
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.*

#### (e) 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. Scientific Research and Experimental Development (SR&ED) tax credits receivable in relation to these costs are recorded using the cost reduction method. Changes to the estimated quantity of tax credits receivable for prior periods are recorded as other income or expenses.

(f) 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%

(g) Translation of Foreign Currencies

The Corporation's foreign operations are integrated. Accordingly, the method used in translating the financial statements of its foreign operations are consistent with the method 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.

Revenue includes foreign exchange losses of \$1,011 for the year ended August 31, 2003 and foreign exchange gains of \$239 for the year ended August 31, 2002.

(h) 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.

Accounts receivable are derived 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 Corporation enters into forward contracts to manage its exposure to changes in exchange rates.

(i) 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.

(j) 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 temporary 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.

(k) Stock Based Compensation

The Corporation accounts for all stock based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after September 1, 2002, using the fair value based method. No compensation cost is recorded for all other stock based employee compensation awards, which are accounted for using the intrinsic value based method. Consideration paid by employees on the exercise

of stock options is recorded as share capital. The Corporation discloses the pro forma effect of accounting for these awards under the fair value based method (see Note 9(d)).

Under the fair value based method, compensation cost attributable to employees that are direct awards of stock, or stock appreciation rights that call for settlement by the issuance of equity instruments, is measured at fair value at the grant date and recognized over the vesting period. For awards that vest at the end of the period, compensation cost is recognized on a straight line basis.

(l) 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 not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

(m) Guarantees

A guarantee is a contract or an indemnification agreement that contingently requires the Corporation to make payments (either in cash, financial instruments, other assets, shares of our stock or provision of services) to a third party based on a) changes in an underlying interest rate, foreign exchange rate, equity price or commodity price, index or other variable, that is related to an asset, a liability or an equity security of the guaranteed party, b) failure of another party to perform under an obligating agreement or c) failure of a third party to pay its indebtedness when due.

### 3. Changes In Accounting Policies

(a) Stock Based Compensation

Effective September 1, 2002, the Corporation adopted the new Recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for stock based compensation and other stock based payments. The new Recommendations are applied prospectively to all stock based payments to non-employees, and to employee awards that are direct awards of stock, call for settlement in cash and other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after September 1, 2002.

(b) Guarantees

Effective March 1, 2003, the Corporation adopted the new Recommendations of the Canadian Institute of Chartered Accountants with respect to Accounting Guideline 14 ("AcG-14"), Disclosure of Guarantees, which requires that certain disclosures be made by a guarantor about its obligations under guarantees in its interim and annual consolidated financial statements for interim periods beginning on or after January 1, 2003.

### 4. Business Acquisition

On September 5, 2002 Matrikon Inc. reached an agreement with the shareholders of Hunter Control Pty. Ltd. ("Hunter Control"). Hunter Control, a privately-owned company, was an independent automation and information system integration company with 60 employees and offices in Newcastle, Brisbane and Singleton. As at September 5, 2002, under the terms of the acquisition agreement, Matrikon Inc. issued 479,830 common shares, to purchase all the issued and outstanding shares of Hunter Control for \$958, as well as a cash payment of \$42 for a total of \$1,000 CDN. The results of Hunter Control are included in these financial statements for the period since the acquisition.

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

Common shares issued by Matrikon upon acquisition of Hunter Control (000s)	480
Market price of common shares, per share	\$ 1.997
Total share consideration	958
Cash consideration	42
Acquisition costs	94
Total purchase consideration	1,094
Fair value of net asset deficiency acquired (see below)	653
Value ascribed to goodwill	1,747

#### Fair value of net asset deficiency acquired <sup>1</sup>

Cash	\$ 12
Other current assets	1,135
Non-current assets	654
Current liabilities	(2,127)
Capital leases	(230)
Other non-current liabilities	(97)
Fair value of net asset deficiency acquired	\$ (653)

<sup>1</sup> Market value was determined based on the current trading price at the time of the acquisition.

First product advisory board meetings held

## 5. Income taxes

### (a) Future taxes

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

Future tax assets:	2003	2002
Non-capital loss carry forwards	\$ 1,280	\$ 2,605
Capital assets principally due to differences in cost and depreciation	9	59
Intangible assets principally due to differences in cost and depreciation	183	116
Unrealized foreign exchange losses	283	-
Other payables	284	17
<b>Total gross future tax assets</b>	<b>2,039</b>	<b>2,797</b>
<b>Future tax liability:</b>		
Contracts in progress	(370)	(359)
Deferred charges	(478)	(148)
Unrealized foreign exchange gains	-	(32)
<b>Total future tax liability</b>	<b>(848)</b>	<b>(539)</b>
<b>Net future tax asset</b>	<b>\$ 1,191</b>	<b>\$ 2,258</b>

Presented in the balance sheet as follows:

	2003	2002
Current assets	\$ 235	\$ 680
Non-current assets	1,354	1,578
Current liabilities	398	-
	\$ 1,191	\$ 2,258

### (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 36.80% to fiscal 2003 (40.42% in 2002) pre-tax income as a result of the following:

	2003	2002
Income before income taxes	\$ 4,384	\$ 2,709
Computed "expected" tax expense	1,613	1,095
Increase in income taxes resulting from:		
Adjustment to future assets and liabilities for enacted changes in tax laws and rates	108	11
Large corporation tax, other capital taxes and state taxes	23	21
Impact of foreign exchange rate changes on foreign loss carry forwards	86	-
Permanent differences and other	(71)	32
<b>Recorded tax expense</b>	<b>\$ 1,759</b>	<b>\$ 1,159</b>

### (c) Losses Carried Forward

At August 31, 2003 the Corporation had non-capital losses of approximately \$3,301 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
2019	\$ 1,281
2020	1,378
2021	261
No expiry	381
	<b>\$ 3,301</b>

### (d) Scientific Research and Experimental Development Tax Credits

Research and development expense includes a reduction of \$482 (nil 2002) for investment tax credits related to the Corporation's research and development. Other income includes \$669 (\$438 in 2002) for investment tax credits related to the difference between the previous years estimate and the actual amount.

## 6. Capital Assets

	Cost	Accumulated Amortization	2003 Net Book Value
Computer hardware	\$ 2,122	\$ 1,536	\$ 586
Computer software	1,063	911	152
Furniture and equipment	1,861	1,237	624
Leasehold improvements	493	229	264
Leased assets	96	43	53
Automotive	21	18	3
	\$ 5,656	\$ 3,974	\$ 1,682

	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

Amortization provided for in the current period totals \$698 (\$490 in 2002).

Capital lease obligations of \$65 are included in accounts payable and accrued liabilities. Interest expense related to this obligation for the year was \$5 (nil for 2002).

## 7. Intangible Assets

	Cost	Accumulated Amortization	2003 Net Book Value
Technology rights	\$ 1,138	\$ 600	\$ 538
Development costs	668	668	-
Drivers and software technology	92	37	55
Customer lists	153	81	72
	\$ 2,051	\$ 1,386	\$ 665

	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

Amortization of \$670 has been provided for in 2003 (\$572 in 2002) and is based on management's estimate of the economic life of the assets.

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.

## 8. Bank Indebtedness

The Corporation has an authorized line of credit of \$7,000 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.

Total-InSite developed to deliver Matrikon products via ASP platform

2003

## 9. Share Capital

(a) Issued shares

	Number of Shares	\$ 000s
Authorized in unlimited numbers		
Common shares		
<b>Issued</b>		
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	-
<b>Balance, August 31, 2002</b>	<b>23,721,985</b>	<b>\$ 11,990</b>
Issued for Hunter Control	479,830	958
Stock options exercised	1,500	-
Cancelled shares	(26,618)	-
Employee purchase plan	47,609	-
<b>Balance, August 31, 2003</b>	<b>24,224,306</b>	<b>\$ 12,948</b>

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.

(b) Stock 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. Options are granted to all new employees at the first Board of Directors meeting subsequent to the expiration of the probationary employment period (generally three months) and vest at the end of one year. Current options granted expire five years after the vesting date, however prior options issued were valid for 10 year periods. Common shares reserved for exercise of these options may not exceed 10% of the number of common shares then outstanding. At August 31, 2003 the maximum number of options which may be issued under the Option Plan is 3,497,000. The following stock options, with expiry dates up to September 2009, remain outstanding:

	Number of Shares	Weighted Average Exercise Price
Balance, August 31, 2002	1,629,190	\$ 1.86
Granted	840,500	1.82
Exercised	(1,500)	1.36
Expired	(60,000)	8.50
Cancelled	(280,508)	1.84
<b>Balance, August 31, 2003</b>	<b>2,127,682</b>	<b>\$ 1.90</b>

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

The following table summarizes information about stock options outstanding at August 31, 2003:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
2.00 - 2.49	819,454	4.06	2.04	751,954	2.02
1.40 - 1.99	1,248,228	4.58	1.83	578,728	1.89
1.36	60,000	4.66	1.36	38,500	1.36
	2,127,682	4.38	\$ 1.90	1,369,182	\$ 1.95

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 Price	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

#### (c) Employee Stock Ownership Plan

The Corporation also has an employee share ownership program, whereby the Corporation will issue one common share from Treasury at no cost to the employee for every two shares that are purchased in the market by the employee and held for 16 months. Common shares valued to a maximum of 10% of the employee's earnings in the prior calendar year may be registered for participation in the program at the end of every quarter.

During fiscal 2003, 20,991 common shares were issued to eligible participants. Based on the shares registered under this program by August 31 2003, compensation expense of \$29 has been recorded in the current year with a corresponding credit to contributed surplus. 44,527 common shares remain eligible, under the program, for issuance on August 31, 2004 for shares registered prior to April 30, 2003, 6,339 common shares registered in May 2003 remain eligible for issuance in September 2004, and 3,337 common shares registered in August 2003 remain eligible for issuance in December 2004.

#### (d) Stock Compensation Plans

When the Corporation awards stock options to employees, no compensation cost is recognized in the consolidated statement of income and retained earnings for common share options granted. Had compensation cost been determined based on the fair values at the grant dates for those options, the Corporation's net income and earnings per share would have been reduced to the amounts below:

2003		12 Months
(\$ 000s except per share amounts)		
Compensation costs		\$ 572
<b>Net earnings:</b>		
As reported		\$ 2,625
Pro forma		\$ 2,053
<b>Basic earnings per share:</b>		
As reported		\$ 0.11
Pro forma		\$ 0.08
<b>Diluted earnings per share:</b>		
As reported		\$ 0.11
Pro forma		\$ 0.08

The above pro forma disclosure does not include the effects of awards granted before September 1, 2002. The fair value of common share options is estimated at the grant date using the Black-Scholes pricing model based on the following assumptions:

Risk free interest rate	4.7%
Expected life	5 years
Expected volatility	80%
Expected dividends	-

(e) Earnings per share

For fiscal 2003, the weighted average number of shares outstanding for the purposes of calculating basic earnings per share was 24,220,797 (23,981,676 in 2002).

In calculating diluted earnings per share, the weighted average number of shares outstanding (denominator), has been increased by 42,217 (15,832 in 2002) in respect of stock options using the treasury stock method and by 54,203 (59,641 in 2002) in respect of the Corporation's employee share ownership program. Thus, for fiscal 2003, the weighted average number of shares outstanding for the purposes of calculating the diluted earnings per share was 24,317,217 (23,057,149 in 2002). There are no items that impact the numerator for both fiscal 2003 and 2002 in calculating diluted earnings per share.

### 10. Related Party Transactions

The Corporation leases facilities in India from an individual related to 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 31, 2003 lease payments amounted to \$36 (\$37 in 2002). The terms and conditions of the lease reflected prevailing market conditions at the time the lease commenced.

### 11. 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, 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. Intercompany consulting work is charged to the segments at rates equivalent to the amount recovered from the client, which varies based on the nature of the project. The distribution of revenue and expenses by business unit is as follows:

\$10 million private placement completed to strengthen balance sheet and enable more institutional investors to take a position in Matrikon

2003

12 MONTHS ENDED August 31, 2003	Control & Automation	Industrial IS	Advanced Applications	Products Sales & Implementation	Multidisciplinary Projects	Corporate and Eliminations	Total
(5 000s)							
Revenue	9,107	11,101	5,955	17,496	5,618	(1,409)	47,868
Intercompany consulting revenue	1,592	3,219	2,516	1,264	1,111	(9,702)	-
<b>Total revenue</b>	<b>10,699</b>	<b>14,320</b>	<b>8,471</b>	<b>18,760</b>	<b>6,729</b>	<b>(11,111)</b>	<b>47,868</b>
Operating expenses	8,948	11,256	5,962	12,385	6,331	(1,937)	42,945
Amortization	-	-	-	-	-	1,368	1,368
<b>Total operating expenses</b>	<b>8,948</b>	<b>11,256</b>	<b>5,962</b>	<b>12,385</b>	<b>6,331</b>	<b>(569)</b>	<b>44,313</b>
Other income (expenses)	-	-	-	-	-	829	829
<b>Income before income taxes</b>	<b>1,751</b>	<b>3,064</b>	<b>2,509</b>	<b>6,375</b>	<b>398</b>	<b>(9,713)</b>	<b>4,384</b>
Goodwill	-	-	-	5,442	-	-	5,442

12 MONTHS ENDED August 31, 2002	Control & Automation	Industrial IS	Advanced Applications	Products Sales & Implementation	Multidisciplinary Projects	Corporate and Eliminations	Total
(5 000s)							
Revenue	7,458	8,841	4,169	12,364	4,479	265	37,576
Intercompany consulting revenue	701	1,258	639	2,340	811	(5,749)	-
<b>Total revenue</b>	<b>8,159</b>	<b>10,099</b>	<b>4,808</b>	<b>14,704</b>	<b>5,290</b>	<b>(5,484)</b>	<b>37,576</b>
Operating expenses	6,056	7,458	4,190	11,589	4,420	472	34,185
Amortization	-	-	-	-	-	1,062	1,062
<b>Total operating expenses</b>	<b>6,056</b>	<b>7,458</b>	<b>4,190</b>	<b>11,589</b>	<b>4,420</b>	<b>1,534</b>	<b>35,247</b>
Other income (expenses)	-	-	-	-	-	380	380
<b>Income before income taxes</b>	<b>2,103</b>	<b>2,641</b>	<b>618</b>	<b>3,115</b>	<b>870</b>	<b>(6,638)</b>	<b>2,709</b>
Goodwill	-	-	-	3,695	-	-	3,695

Driver development and product sales and implementation were previously disclosed as separate segments. Management has decided to combine these segments due to the similarities of these segments. The figures for the year ending August 31, 2003 and for the year ending August 31, 2002 have been combined to conform with the current disclosure.

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

	2003	2002
Canada	\$ 1,088	\$ 1,040
United States	175	278
Australia	419	-
	\$ 1,682	\$ 1,318

Revenue of the Corporation and its subsidiaries are attributed to geographical locations based on the location of the customer and are distributed as follows:

	2003	2002
Canada	\$ 16,275	\$ 11,557
United States	17,232	20,740
Australia	7,659	-
Other	6,702	5,279
	\$ 47,868	\$ 37,576

## 12. Other income

	2003	2002
Scientific research and development (Note 5 (d))	\$669	\$438
Interest income (expense)	98	(27)
Gain on sale on capital assets	70	-
Sundry expense recoveries	47	23
Compensation expense (Note 9(c))	(29)	-
Non controlling interest	(26)	(54)
	\$ 829	\$ 380

## 13. Commitments

### (a) Leases

The Corporation has a number of lease commitments relating to office space and equipment. Lease terms range from 60 to 63 months expiring between September 2003 and June 2008. Remaining lease payments are as follows:

	Amount
2004	\$ 3,054
2005	2,194
2006	1,531
2007	1,103
2008	224
	\$ 8,106

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 \$6 in 2004.

### (b) Forward Contracts

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 risk management activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. Unrealized gains on foreign exchange contracts are \$49 at August 31, 2003 and nil at August 31, 2002. At August 31, 2003 the Corporation was committed to the following monthly forward exchange contract:

Start Date	Expiry Date	Amount Contracted U.S. \$	Rate
September 8, 2003	October 8, 2003	\$ 500	1.4847

### (c) Performance Guarantees

A performance guarantee is an irrevocable assurance that the Corporation will make payments under the terms of an obligating agreement. Matrikon currently has two performance guarantees outstanding. The maximum potential exposure under these guarantees represent a cumulative amount of approximately \$125. However, based on the Corporation's experience, the Corporation believes that any potential payment will not be significant.

### (d) Legal Claims

The Corporation and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate unrecorded liability of the Corporation arising from these claims is immaterial. The financial impact of defending the lawsuits may become material.

## 14. Subsequent Event

On September 10, 2003 the Corporation announced that it had entered into an underwritten private placement agreement. Under the agreement, the Underwriters purchased 4,545,455 common shares issued and sold by the Corporation at a price of \$ 2.20 per Common share. The offering closed on September 24, 2003 for estimated net proceeds of \$9,400.