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FIRST QUARTER RESULTS CONFERENCE CALL  
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REFERENCE: CNW GROUP  
LENGTH: APPROXIMATELY 29 MINUTES  
DATE: JANUARY 12, 2010

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OPERATOR: Good morning, my name is Amy and I will be your conference operator today. At this time, I'd like to welcome everyone to the Matrikon Incorporated First Quarter Results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you'd like to ask a question during this time, simply press star, and the number one on your telephone keypad. If you'd like to withdraw your question, please press the pound key.

Thank you. Nicole Saylor, you may begin your conference.

NICOLE SAYLER (Corporate Communications Director, Matrikon Inc.): Good morning and thank you for joining our conference call for the first quarter of fiscal year 2010. You will find a copy of the related news release, management's discussion and analysis and the financial statements in the Investor Relations section of our website at Matrikon.com if you don't already have them available.

On today's call our President and CEO, Nizar J. Somji, will provide an update on our strategy and progress over the course of the quarter, and Chief Financial Officer, Jonathan Chia, will discuss some of the key results

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and factors affecting our financial results for the quarter ended November 30<sup>th</sup>, 2009.

Before we begin, I'd like to point out that certain statements during the course of this call may be forward-looking. Actual events or results may differ materially from those expressed or implied and Matrikon disclaims any intent or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The assumptions behind the forward-looking statements that may be made during the course of this call include global economic and political stability at current levels, that the opportunities in our pipeline will continue to materialize as contracts, that our clients will continue to invest in initiatives that support efficiency and reduce costs and that we will be able to continue to inspire, motivate and maintain our employee base at a sufficient level to deliver on our objectives.

For a complete discussion of items that may cause actual results to differ, please refer to the risks related to our business, beginning on page 45 of our 2009 Annual Report.

We report our financial results in accordance with Canadian GAAP; however, we supplement our financial results with non-GAAP performance

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measures. Again, please refer to our MD&A for definitions of these non-GAAP numbers. I remind you that all figures are in Canadian dollars unless otherwise noted.

With that, I'll now turn the call over to Nizar.

NIZAR SOMJI (President and Chief Executive Officer, Matrikon Inc.):

Thanks, Nicole, and good morning, everyone.

Riding on the momentum from activities that started to pick up in late Q4 of '09, around July or so, our first quarter results, our first quarter of fiscal 2010 places us back on track. Industry application sales which were depressed throughout the later half of fiscal 2009, due to economic conditions, have begun to gain traction once again.

During the quarter, we received additional change orders totalling US \$2.13 million on the US 14.61 million contract to deliver network foundation for cyber security for a major US electricity producer. This now brings the total for this contract close to 17 million. We also entered a corporate licence agreement for our Control Performance Monitor and Alarm Manager with a major European chemicals company. The contract is worth approximately €1.36 million in software and services.

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Subsequent to the quarter, we won and announced a \$15.7 million US contract to build a remote oil field monitoring program for a Middle East-based oil company, as well—which will be based on Matrikon's Well Performance Monitor industry application. Also subsequent to the quarter, we announced a €4.2 million contract win with Statoil to deliver Well Performance Monitor to 35 offshore assets on the Norwegian Continental Shelf.

We expect that as we continue to execute these contracts and close other opportunities in our pipeline, we will continue to grow our top line and profitability throughout this fiscal year and beyond. These record results demonstrate the turning point we have reached as a company. We have built a sustainable business model based on high value consulting engagements and our integrated industry solutions. As a long-term business strategy, we expected to bear fruit in the last fiscal year. However, the global economic downturn set things back by a year and our results are now back on track. We expect projects of this magnitude we have announced recently to become the new norm, rather than one-off occurrences as we continue to execute on our strategy.

I will now turn the call over to Jon.

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JONATHAN CHIA (Chief Financial Officer, Matrikon Inc.): Thanks, Nizar, and good morning, everyone.

Revenue in the first quarter was 25.45 million, up from the 19.58 million in revenue we reported in Q1 of 2009, sorry Q1 fiscal 2009. Consulting revenue increased by 1.04 million over Q1 '09, and by 2.32 million compared to Q4 '09, as a result of our work on major projects won in Q4 2009, which led to improved utilization and a 6 percent increase in average daily rate compared to Q1 '09 and 18 percent compared to Q4 '09. Equipment revenue was a record 5.63 million in Q4 '10 as we delivered a significant portion of equipment, or third party hardware and software on our major industrial security project. We will continue to work on the consulting components of this project. With a lower margin at other revenue lines, this significant increase in equipment revenue has shifted our revenue mix and impacted both gross and net margins.

Total Solutions revenue, comprised of consulting and equipment revenue, increased by 5.65 million compared to Q1 '09 and by 6.96 million compared to Q4 '09. Products revenue, comprised of software licence and support revenue, increased 4 percent compared to Q1 '09 and 14 percent compared to Q4 '09.

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Off-the-shelf product sales grew 38 percent and support revenue increased 4 percent compared to Q1 '09. The corporate licence agreement with the major European chemicals company that Nizar mentioned made up the majority of this increase.

With record net income of 2.77 million, we achieved a strong net margin of 11 percent in Q1 '10, compared to 3 percent in Q4 '09 and 14 percent in Q1 '09.

Gross margin was 54 percent in Q1 '10, compared to 61 percent in Q1 '09 and 54 percent in Q4 '09. Gross margin was significantly impacted by elevated equipment revenue in Q1 '10, which has lower gross margins than other revenue lines. The impact of the higher equipment revenues was a 7 percentage point reduction to gross margin, compared to a typical gross margin impact of 1 to 2 percentage points.

Combined overhead expenses in Q1 '10 were 9.58 million, or 30 percent of revenue, compared to 9.32 million, 48 percent of revenue in Q1 '09, and 8.92 million, or 51 percent of revenue, in Q4 '09. With this higher revenue level, expenses are now in line with our expectations as a percentage of revenue and reflect the model that we have been building towards.

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Based on projects underway and our first quarter results, Matrikon's Board of Directors declared a dividend of \$0.03 per common share for the first quarter of fiscal year 2010. This dividend is payable on January 29<sup>th</sup>, 2010, to all shareholders of record on January 20<sup>th</sup>, 2010.

I would like now to open the line to questions.

OPERATOR: At this time, I'd like to remind everyone, in order to ask a question, please press star, and the number one on your telephone keypad. We'll pause for a moment to compile the Q&A roster.

Your first question comes from Tom. Your line is open.

TOM: Hi, good morning and congrats on the quarter. Nizar, can—those numbers—I mean there's obviously large contracts; it looks like the NIRC (inaudible) contract was upsized, obviously the Middle East contract, Statoil and others. Can you give us a sense on the quarters throughout the year, how—if there's any particular strength in some quarters versus others? In other words, the timing, if we blend those contracts together, can you give us a better sense of the timing on the seasonality there?

NIZAR SOMJI: Well I think the seasonality is probably muted to some extent, given the amount of work we have and work that needs to be executed and given sort of the global distribution of this work, so you know,

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I would expect that, you know, there is a lot of pressure to deliver on these projects and ones that we are still changing. So I expect that we'll have somewhat of a muted seasonality this year and continue to perform.

In the case of this cyber security project, you know, we had a lot of people working through Christmas in order to meet obligations for the end of the year for our clients so that they would be compliant to a certain level. So I expect that, you know, we'll continue to work on these projects as delivery times are tightened.

TOM: And am I correct that they're similar to the clients out there that perhaps did not recognize the deadline as strongly and is there some opportunity there as well?

NIZAR SOMJI: That's really our hope, right, that there will be—we'll continue to use this as a momentum to drive other clients and bring other business in this area as well so—and we continue to work on that.

TOM: Okay. And a related question, obviously, you talked about gross margin this quarter but, Jonathan, can you give us a sense on—with all these contracts in the pipe, you know, is the equipment also fairly linear? In other words, is this sort of a gross margin to expect throughout the year? Or there's going to be some give and take?

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JONATHAN CHIA: I think the equipment revenue was just on this particular project. I wouldn't extrapolate it as, you know, linear fashion.

TOM: So there's opportunity to increase that blended margin?

JONATHAN CHIA: The margin should increase, yes, based on our normal revenue mix.

TOM: Okay. And finally, I'll pass the line with the—just on sales and marketing, obviously there's a reasonably significant uptick there in terms of people and resources. What are you really targeting with those new— with that new investment?

JONATHAN CHIA: Sorry, the sales and marketing?

TOM: Yes. Overall, I think there's a decent uptick quarter-over-quarter in dollar value and in headcount so, you know, where are those people located, what are they focused on, that type of thing?

NIZAR SOMJI: Well I think they are located across all regions and the idea for the uptick in sales is really to bring in, you know, a new breed of hunters who will continue to push and identify new opportunities and clients. But we are also very much focused on making, on continuing to grow our business within our existing client base and that's really where a lot of our focus is.

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With respect to marketing, I don't think marketing changed that much. I think there is a—I don't know if you were—you watched the AGM yesterday?

TOM: No.

NIZAR SOMJI: But, you know, we released our two new videos for Matrikon and, you know, a new—we've been working on a new look for the last year and a bit, and we invested in some effort in branding the Company name and creating awareness and so on. But marketing hasn't, from a cost standpoint, hasn't changed dramatically.

TOM: Great. Okay, thanks. I'll pass the line.

OPERATOR: Your next question comes from the line Gabriel. Your line is open.

GABRIEL: Thanks and good morning. Nizar, just wondering if you can, I guess maybe rank your pipeline in terms of where you see the best or maybe the quickest opportunities? And secondly, what you think are really the biggest hurdles that you face right now in terms of closing some of these transactions in the pipeline?

NIZAR SOMJI: Well, you mean rank in terms of geography or rank in terms of (unintelligible)?

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GABRIEL: In terms of size and in terms of, you know, how quickly you can get some of these transactions done.

NIZAR SOMJI: Well, you know, (inaudible) rank, since I haven't told you what the pipeline looks like, I am not sure I can rank it and make any sense. But in general, you know, there is a lot of stuff that we are chasing at different locations, including existing client bases and continuing to grow that. As we have indicated in our press release as well as today, that, you know, we have turned the corner and we expect to continue to close some of this business and continue to grow the business. The pipeline is healthy and the opportunities that we are chasing are real and we expect to close many of them as we move forward through the year.

The pipeline is fairly distributed between all our regions so there is no one specific region where we have a lot. You know, it's—suffice to say that Middle East is an area that is spending money and we have invested heavily in trying to grow our business there, and we expect to see a lot more come out of there quickly.

GABRIEL: Okay. And then just, I guess moving over to margins, specifically operating margins. I mean obviously that was a huge improvement from last quarter and over the past few quarters. You know,

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do you think there's room for further operating leverage in the business model? And, you know, if you're comfortable talking about it, you know, can you highlight what level of consulting revenues you think you can generate with your current consulting headcount, which I think currently stands at around—I want to say 275 or so, 295 sorry?

NIZAR SOMJI: I think in Q1, the majority of the equipment revenue for our big project was taken in Q1 so we expect that Q2, Q3 on, the equipment revenue to be lower, much lower, and as such, the margins to be, you know, much higher. I think if you—when Jon talked about the fact that there was a 7 percent point reduction in gross margin as a result of the elevated equipment, if you go back to normal equipment revenue, which we are used to, then we should see improvement in gross margin in that kind of range, plus or minus change.

What was your second question?

GABRIEL: I was just asking, based on your current headcount within the consulting side, you know, what sort of levels—what level revenues on the consulting revenues do you think you can get based on your current consulting headcount?

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NIZAR SOMJI: Well I think we had 13 points change last quarter. Again, the consulting headcount kind of changes as the amounts change and our needs change and so on, so we will grow the headcount to meet obligations and drive what we need to do. I said that the current headcount and I'm just, you know, trying to extrapolate based on what our utilization was. The current headcount could probably do a little bit more than what we did last quarter, maybe closer to 15 million. But you have to know that the revenue is dependent on rates as well and our contracts rates change—range between different contracts so it's hard to kind of draw a linear line but that sort of number is what I would think.

GABRIEL: So it sounds like there is room for the consulting revenues to grow on, based on your current consulting headcount, all else being equal.

NIZAR SOMJI: Yes.

GABRIEL: Okay. Last question for you, Jonathan, just on the balance sheet. Can you talk about how successful you've been in terms of collecting some of the receivables that hit last quarter?

JONATHAN CHIA: We've been very successful in collecting accounts receivable and the days, obviously the days indicating, sorry, the

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days outstanding isn't really a very good indicator because it doesn't factor in the timing of when our invoicing and when the—when our work in progress gets converted to A/R. But a lot of the amount in—that you see in the accounts receivable line represents their S/R and E/D tax credits, which do make up a big portion. On our trade receivables, we've been fairly successful at collecting our amounts, especially with the amounts related to our solutions work and the projects that we have announced.

GABRIEL: Okay, that's great. Thanks, guys.

OPERATOR: Your next question comes from the line of Pardeep. Your line is open.

PARDEEP: Yes, thank you and good morning. With regards to the cyber security power generation contract and the European chemical company contract, I just wondering if you can give me a sense, Nizar, of sort of how far along are these contracts now, sort of how many more quarters are there to kind of go in these contracts, what percent is kind of done?

NIZAR SOMJI: In the cyber security contract, less than, less than half of that contract has been done and—but the majority of the hardware

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for that contract is already done, so there's a lot of consulting left of that contract to be done over this quarter and next quarter.

With respect to the European chemicals company, about half of that I think has been, has been done in Q1 in terms of software revenue being recognized and the bulk of the rest will be recognized through the next two or three quarters.

PARDEEP: Okay. And then the new contract that you got, the Middle East Statoil, can you give me sort of a sense of what percent might be sort of equipment-related revenues versus the consulting and others, like, can you just give us a bit of a breakdown, kind of how those new contracts kind of break out?

NIZAR SOMJI: The Statoil I don't think has any equipment revenue, none, all right, so most of it is—the Statoil is predominantly Matrikon's software and services. The Middle East one has some equipment, a bunch of third party local work that needs to be done, third party software, Matrikon software, Matrikon services, so it's a complex project.

PARDEEP: And can you give a bit more sense in terms of your strategy in the Middle East, kind of how you're—how you're build—it seems like a big opportunity there. You've mentioned that you are doing

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more work there. Just sort of, you know, are you looking at perhaps doing an acquisition there or (unintelligible)?

NIZAR SOMJI: No, I think what we have done is we have moved some key people down to our office Bahrain. Ian Brown, who is our MD for—and he spends half his time in the Middle East pursuing various opportunities and contracts and so on there. In fact, the two of us are headed out there this week for different opportunities. So there's a really high level push and building relationships. We also have joint ventures, if you like, or joint entities. In Kuwait in particular, we have Matrikon Kuwait, which we own part of and work with a local company there, as we do in other parts of the Middle East. So there's many pronged approach, one of partnership, one of direct sales and then—and through different agents so we pursue business across all those lines.

PARDEEP: Okay. Just a bit of a sort of high level, sort of sector in terms of what sectors you're seeing recovery in, oil and gas, mining, petro chemical (unintelligible).

NIZAR SOMJI: Well oil and gas has really never, never declined, just the big jobs were never there but they've all started coming back. Power was, has been a growth area and has continued to grow over the

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last six months, six to nine months. We are also seeing some recovery now in mining as coal prices and so on start to go up, and we expect that some time next year, but more so in the next fiscal year, that the budgets will be released for continued work in the mining business and that would kind of add to our Mobile Equipment Monitoring Solution and the Mine to Port Solutions and so on, right? So we anticipate—realistically, I'd say later part of this fiscal year or early part of next fiscal year for mining but oil and gas and power have been very good.

The chemicals and refining business, you know, to some extent has been—has seen a decline but for us it's been steady, if you like. It hasn't grown much but hasn't declined much either.

PARDEEP: Okay. Thanks a lot.

OPERATOR: Your next question comes from the line of Thanos. Your line is open.

THANOS: Hi, good morning and congratulations on the results. As far as the revenue recognition on the Middle Eastern deal and on the Statoil deal, what's the timeframe look like on those?

NIZAR SOMJI: On the Middle East deal, you know, we are expected to finish in the next nine months, or nine to 12 months. So you

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will see recognition in parts as milestones are accomplished over the next, likely the next three quarters so to the end of this fiscal year but there may be some residual stuff beyond. Part of this contract is also a three-year maintenance agreement so some of the revenue will be recognized over the next two to three years.

With respect to Statoil, I'll tell you I am really not sure. But it depends on how quickly we implement but I suspect over the—some this fiscal year and some next fiscal year as well.

THANOS: Okay. And as far as the current headcount that you have exiting Q1, is that sufficient to deliver on the projects that you have in hand currently or will you need to grow that by a bit?

NIZAR SOMJI: No, I think it's sufficient to deliver what we have in hand. But, you know, if we win a few more, you know, we will relook at it. We also have our Indian base where we can get resources to manage up, you know, peak, a peak work period, if you like, right? So—but we don't anticipate growing headcount much, you know, maybe a plus or minus a few and there but not much.

THANOS: Okay. And then on the oil well monitoring side, you've had a couple of good deals with the Statoil and the Middle Eastern deal.

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Can you speak to the competitive dynamic in that space as far as how competitive were those deal wins and perhaps some of the specific reasons as to why you were chosen for that business?

NIZAR SOMJI: Well I think Statoil was perhaps the most competitive of the lot and there were a large number of global competitors that we beat out. And I think it's sort of validation, if you like, of our next generation technology with, you know, where—and I don't know if you watched the presentation I gave yesterday at the AGM but we talked about how we contextualize data, create opportunities for collaboration and then drive action. And I think they were looking for that and we were, in my mind – and perhaps I'll find out more when I see their executives on Friday in Norway – that the whole area of collaboration was really where we excelled dramatically. And that's one area that we have worked hard to embed in our next generation technology and so this is, I think, a good validation of that.

But that was the most competitive of any projects we have been involved in, in a long time and, you know, we are excited to have won that because it really shows the leadership we have in the industry.

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THANOS: Was that also a key factor as well in winning the Middle Eastern deal?

NIZAR SOMJI: Not as—the technology wasn't as much as the ability to put together the complete solution and deliver the complete package for the client. It was more the edge we have in Kuwait and the Middle East.

THANOS: Okay, that's great. I'll pass the line. Thank you.

OPERATOR: Your next question comes from the line of Richard. Your line is open.

RICHARD: Hi, just a question here on one of your comments in your release. You said that you're going to see revenue tick up significantly this year. Can you give us a sense of how much of that is going to come from sort of new wins coming from your pipeline? Because obviously some of the big wins of late last year, we're obviously going to see a pickup in revenue from that, but maybe give us a gauge of, you know, the new business here that's driving that growth.

NIZAR SOMJI: Well I think the short-term revenue growth comes from the projects we've already won. The long-term prospects that we referred to are based on what's in our pipeline that we expect to win and

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that will drive that. So there's always a delay from pursuing business, to winning, to actually recognizing the revenue, right?

RICHARD: Right.

NIZAR SOMJI: So if you look at the short term – and I look at the short term as this fiscal year – then, you know, there is sufficient business that we have announced, plus others that we actually get on an ongoing basis, to project that there will be revenue growth over the next few quarters. Beyond that, you know, we are looking at a lot of the opportunities in our pipeline materializing to continue that growth beyond this fiscal year as well, right?

RICHARD: Right. But would you—if you sort of were to gauge your pipeline, would you say that half your pipeline is sort of near the end stage in negotiations and how you'd rank that relative to the periods here?

NIZAR SOMJI: I'm not sure really I can, you know, I can even hazard a guess on that or give you any meaningful stuff but it's a good question (inaudible) perhaps we'll have something like that looked at for next, for the next time, but...

RICHARD: Okay.

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NIZAR SOMJI: I can't, I can't quite give you the answer to that without being like a pure guess.

RICHARD: Okay, fair enough. Thanks.

OPERATOR: Again, if you'd like to ask a question, please press star, and the number one, on your telephone keypad.

There are no further questions at this time.

NICOLE SAYLER: I'd like to thank everybody for joining us on our Q1 conference call. We look forward to seeing you at our Investor Day on February the 20<sup>th</sup> and speaking to you in the future.

NIZAR SOMJI: That's it. I guess we are done.

OPERATOR: This concludes today's conference call. You may now disconnect.

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