

**EDMONTON**

Suite 1800  
 10405 Jasper Avenue  
 Edmonton, Alberta  
 T5J 3N4  
 CANADA

780-448-1010  
 780-448-9191 fax

**CALGARY, AB**
**VANCOUVER, BC**
**TORONTO, ON**
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[www.matrikon.com](http://www.matrikon.com)

**Management's Discussion & Analysis**

The following Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements and accompanying notes for the third quarter of 2002, and with the Management's Discussion and Analysis and notes to the consolidated financial statements appearing in the Annual Report for the fiscal year ended August 31, 2001.

**Overview**

Matrikon is a provider of industrial IT solutions that optimize and streamline 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 technologies. Headquartered in Edmonton, Alberta, Matrikon employed 321 people at May 31, 2002 compared to 312 people at May 31, 2001. Matrikon hired 27 additional employees during the third quarter and 18 employees subsequent to quarter end to execute on project backlog and an increasing sales pipeline. It is expected that an additional 20 employees will be hired in the fourth quarter. As at July 7, 2002, there were 23,737,524 common shares of the corporation issued and outstanding and 744,500 options exercisable.

**Revenue**

	3 Months Ended May 31		2001		2002 vs 2001
	<i>(in thousands)</i>		%	%	% Change
<b>Total Revenue</b>	<b>\$ 9,470</b>	<b>100</b>	<b>\$ 6,827</b>	<b>100</b>	<b>39</b>
Consulting fees	7,159	76	5,690	83	26
Equipment sales	426	4	260	4	64
<b>Total services and related</b>	<b>7,585</b>	<b>80</b>	<b>5,950</b>	<b>87</b>	<b>27</b>
Software license fees	1,336	14	465	7	187
Extended support	549	6	412	6	33
<b>Total product and related</b>	<b>1,885</b>	<b>20</b>	<b>877</b>	<b>13</b>	<b>115</b>
	<b>9 Months Ended May 31</b>		<b>2001</b>		<b>2002 vs 2001</b>
	<i>(in thousands)</i>		%	%	% Change
<b>Total Revenue</b>	<b>\$ 28,537</b>	<b>100</b>	<b>\$ 19,192</b>	<b>100</b>	<b>49</b>
Consulting fees	20,581	72	16,589	87	24
Equipment sales	3,154	11	649	3	386
<b>Total services and related</b>	<b>23,735</b>	<b>83</b>	<b>17,238</b>	<b>90</b>	<b>38</b>
Software license fees	3,033	11	1,271	7	139
Extended support	1,769	6	683	3	159
<b>Total product and related</b>	<b>4,802</b>	<b>17</b>	<b>1,954</b>	<b>10</b>	<b>146</b>

Matrikon has developed a strong sales force over the past two years, including the addition of four sales professionals in the third quarter. This sales force, enhanced by a growing network of distribution channels across the United States, is continuing to drive Matrikon's growth, particularly in product sales and multidisciplinary projects.

In addition, Matrikon's products have reached maturity with the recent upgrades of three products. Both quarterly and year-to-date results exceed Matrikon's target of

achieving 15% of revenue from sales of its own products and related extended support for fiscal year 2002.

Equipment sales are ancillary to consulting engagements and may 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.

Management has noted the following seasonal trends in sales over the past several years. The second quarter is traditionally Matrikon's weakest quarter due to a company-wide week long shut-down in December and the start of a new IT budget year in January for many clients. Sales begin to pick up in the third quarter, with this increase being offset by increased hiring activity. The fourth quarter is historically Matrikon's strongest quarter, followed by a strong first quarter.

### Segment Revenues

As shown in the table below, strong growth in the multidisciplinary projects, product sales and implementation, control and automation and advanced control segments contributed to revenue growth in both the quarter and the year-to-date periods.

<b>3 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Control & automation	\$ 2,548	\$ 1,624	\$ 924	57
Industrial IS	2,484	2,029	455	22
Advanced controls	1,565	864	701	81
Systems (drivers)	963	779	184	24
Products sales & implementation	2,297	1,343	954	71
Multidisciplinary projects	1,497	647	850	131
Corporate & eliminations	(1,884)	(459)	(1,425)	310
<b>TOTAL</b>	<b>9,470</b>	<b>6,827</b>	<b>2,643</b>	<b>39</b>
<b>9 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Control & automation	\$ 5,876	\$ 3,604	\$ 2,272	63
Industrial IS	7,722	6,319	1,403	22
Advanced controls	3,993	2,555	1,438	56
Systems (drivers)	2,759	2,733	26	1
Products sales & implementation	8,451	3,586	4,865	136
Multidisciplinary projects	4,159	2,539	1,620	64
Corporate & eliminations	(4,423)	(2,144)	(2,279)	106
<b>TOTAL</b>	<b>28,537</b>	<b>19,192</b>	<b>9,345</b>	<b>49</b>

### Gross Margin

<b>3 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Gross profit	\$ 4,949	\$ 2,261	\$ 2,688	119
Gross margin	52%	33%	19%	

<b>9 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Gross profit	\$ 14,161	\$ 7,627	\$ 6,534	86
Gross margin	50%	40%	10%	

Gross profit increased substantially in the third quarter and year-to-date. Increases in license fees and extended support revenue 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. In addition, cost allocation methods improved when the company became publicly traded. Prior to becoming a public company, consulting general and administrative expenses were often included in cost of sales or general and administrative expenses.

### Net Income

<b>3 Months Ended May 31</b> <i>(in thousands except per share amounts)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Net income	\$ 562	\$ 3	\$ 559	18,633
Earnings per share	0.03	0.00	0.03	24,600

<b>9 Months Ended May 31</b> <i>(in thousands except per share amounts)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Net income	\$ 1,415	\$ 542	\$ 873	161
Earnings per share	0.06	0.03	0.03	123

Factors affecting results in the third quarter of 2001 include costs related to the TigrSoft acquisition completed on April 1, 2001.

### Operating Expenses

#### Consulting Expenses

<b>3 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Consulting expense	\$ 1,388	\$ 268	\$ 1,120	418
As a percentage of revenue	15%	4%	11%	

<b>9 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Consulting expense	\$ 4,161	\$ 1,092	\$ 3,069	281
As a percentage of revenue	15%	6%	9%	

Consulting general and administrative expense represents the non-billable portion of project expenses, including all related infrastructure costs. The increase in consulting expenses is a result of the increasing infrastructure needed to support company growth, and improved cost allocation methods when the company became publicly traded. Prior to becoming a public company, consulting general and administrative expenses were often included in cost of sales or general and administrative expenses.

### Sales and Marketing

<b>3 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Sales and marketing	\$ 943	\$ 388	\$ 555	143
As a percentage of revenue	10%	6%	4%	
<b>9 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Sales and marketing	\$ 3,036	\$ 1,279	\$ 1,757	137
As a percentage of revenue	11%	7%	4%	

The increase to sales and marketing (S&M) expense is in line with management's expectations 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.

### Product Development

<b>3 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Research and development	\$ 638	\$ 578	\$ 60	10
As a percentage of revenue	7%	8%	(1%)	
<b>9 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
Research and development	\$ 1,699	\$ 1,303	\$ 396	30
As a percentage of revenue	6%	7%	(1%)	

Matrikon has kept research and development (R&D) cost low while developing next generation core products embodying the latest technology through an efficient development process as well as close ties with academic institutions and investment in the NSERC-Matrikon-ASRA Industrial Research Chair at the University of Alberta. New versions of ProcessNet (a web-based data access and visualization solution) and ProcessDoctor (a condition based monitoring product) were released during the quarter. A new version of ProcessGuard (an alarm and event management solution) was released subsequent to the quarter.

### General and Administrative

<b>3 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
General and administrative	\$ 695	\$ 707	\$ (12)	(2)
As a percentage of revenue	7%	10%	(3%)	
<b>9 Months Ended May 31</b> <i>(in thousands)</i>	<b>2002</b>	<b>2001</b>	<b>Change</b>	<b>% Change</b>
General and administrative	\$ 2,519	\$ 1,930	\$ 589	31
As a percentage of revenue	9%	10%	(1%)	

The decrease in general and administrative (G&A) expense is a result of improved cost allocation tracking when the company became publicly traded. Prior to becoming a public company, consulting expenses were often included with G&A expenses.

Year-to-date G&A is impacted by one-time legal fees related to the previously announced lawsuit recorded in the second quarter. Legal fees and related costs incurred by the company amounted to \$0.62 million, or \$0.02 per share net of tax. Year-to-date G&A expenses are 7% of revenue when the one-time legal expenses are excluded.

### **Liquidity and Capital Resources**

At the end of the third quarter Matrikon had cash on hand of \$0.16 million compared to \$0.26 million at the end of the second quarter and \$0.24 million at August 31, 2001. At the end of the third quarter, accounts receivable were \$7.36 million compared to \$8.19 million at the end of the previous quarter and \$7.97 million at August 31, 2001. The average collection period in the third quarter was 79 days compared to 82 days in the second quarter and 85 days in the third quarter of 2001.

The amount drawn on the operating line of credit at the end of the third quarter was \$0.57 million compared to \$1.52 million, which had been advanced at the end of the second quarter, and \$0.94 million as at August 31, 2001. During the quarter, Matrikon completed the private placement of 1 million shares to a group of institutional investors at \$1.90 for gross proceeds of \$1.9 million and net proceeds of \$1.72 million. A portion of the proceeds were used to decrease the amount drawn on the operating line of credit.

Cash flow from operations for the third quarter was \$(0.69) million compared to \$(1.29) million in the same period a year ago. Fiscal year-to-date cash flow from operations remained constant at \$(0.33) compared to the nine-month period a year ago. Cash from non-cash working capital in the quarter was \$(2.04) million compared to \$(1.22) million a year ago. This decrease is a result of semi-annual sales commissions paid out in the quarter and the repayment of liabilities.

### **Quarter Highlights**

- During the quarter, Matrikon released enhanced versions of two of its products, ProcessNet and ProcessDoctor Online. An enhanced version of ProcessGuard was completed subsequent to quarter-end. These upgrades employ the latest technology and, in combination with each other and Matrikon's service offerings, position the company as a leader in complete process control solutions.
- Matrikon added four sales professionals with extensive industry experience to the sales team. These strategic additions will improve Matrikon's presence in Western Canada and the Western United States, consolidate the company's Manufacturing Execution System (MES) offering, and expand the value chain solution to the manufacturing industry. Matrikon has sales offices in Edmonton, Calgary, Vancouver, Toronto, Fort McMurray, Chicago, Cleveland, Pittsburgh, New York, Denver and Saudi Arabia.
- Matrikon completed the private placement of 1 million shares to a group of institutional investors at \$1.90 for gross proceeds of \$1.9 million. The proceeds were used to fund growth and for general working capital purposes.
- AmerenUE selected Matrikon as its preferred plant automation and optimization partner. The partnership includes corporate licenses of Matrikon's ProcessNet, ProcessGuard and ProcessDoctor as well as comprehensive services for four power plants in Missouri.
- Subsequent to the end of the quarter, Matrikon announced that it had reached an agreement in principle to purchase all issued and outstanding shares of Hunter Control Pty. Ltd. This acquisition will enable Matrikon to accelerate

penetration of the Australian market and leverage Hunter Control's mining expertise to develop a world-class mining solution suite.

### **Outlook**

Although the downturn in the global economy has affected some sectors, management reports that the company has not observed a change in its sales cycle or ability to win new business. This reflects the value proposition of Matrikon's products and services – improved efficiency and profitability are as important to industrial clients in an economic downturn as the ability to increase production and throughput is in a booming economy.

Based on Matrikon's results for the first three quarters of 2002 management believes that revenue for the fiscal year will be at the mid to upper end of the forecast range of \$35 to \$37 million. It is expected that earnings will meet the lower end of the earnings target, coming in at between \$0.08 and \$0.10 per share due to the impact of one-time legal fees incurred in the first nine months (\$0.62 million or \$0.02 per share net of tax).

### **Forward-Looking Statements**

This press release contains forward-looking statements. When used in a press release, the words "anticipates", "designed to", "plans", "believes", "expects", "will", "are confident that" and similar expressions are intended to identify such forward looking statements. These forward looking statements are made in light of the company's experience, its perception and assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. The material assumptions which underlie management's expectations for revenue and earnings per share include, but are not limited to, continued ability to close business at the same rate achieved in the past, continued market demand for Matrikon's products and service solutions, continued ability to retain and attract qualified employees, and continued availability of its existing line of credit. Readers should note that some assumptions, although considered reasonable at the date of the preparation of the forward-looking statement, might not materialize.

These forward looking statements are not guarantees of future performance and actual results could differ materially as a result of changes to Matrikon's plans and the impact of factors, risks and uncertainties, known and unknown, to which Matrikon's business is subject. The forward-looking statements in this press release speak only as of the date hereof. The factors which could cause actual results to differ materially from this level of revenue and earnings include, but are not limited to, changes to intensity of competition and a change in payroll costs (due to the service nature of the company, payroll is a significant component of costs). Readers are also referred to risk factors described in filings made by Matrikon from time to time with the securities regulators.