

**MKS**

**MKS INC.**

**ANNUAL INFORMATION FORM**

**July 18, 2008**

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*All currency amounts in this Annual Information Form are stated in US dollars, unless otherwise indicated.*

*The financial information derived from the consolidated financial statements of MKS Inc. has been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) unless reference is otherwise made to United States generally accepted accounting principles (“US GAAP”).*

*MKS®, Implementer®, MKS Federated Server®, MKS Toolkit® and AlertCentre® are registered trademarks of MKS Inc. This Annual Information Form may also contain trademarks of other companies.*

## NOTE REGARDING FORWARD LOOKING STATEMENTS

In addition to the historical information contained herein, this Annual Information Form contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, strategies, expectations and intentions. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify such forward-looking statements. Such statements reflect the Company's views at July 18, 2008 with respect to future events and are subject to certain risks, uncertainties and assumptions.

Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include, but are not limited to, development of the ALM market, fluctuations in quarterly results, currency exchange rate fluctuations, intense competition, management of growth, rapid technological change, dependence on and retention of management and key employees, international sales, importance of maintenance contracts, economic uncertainty, dependence on a limited number of products, acquisitions, distribution channels in the interoperability market, potential for undetected errors in software, protection of intellectual property, reliance on third party relationships, use of open source software, limited financial resources, litigation, concentration of ownership and market maturity in the interoperability market. See the "Risk Factors" section of this Annual Information Form for more detailed information regarding these risks and uncertainties. Although the Company believes the expectations represented by such forward looking statements are reasonable, there can be no assurance that those expectations will prove to be correct. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.

## CORPORATE STRUCTURE

### Name and Incorporation

MKS Inc. ("MKS" or the "Company") is the successor to Mortice Kern Systems Inc., which was incorporated on April 24, 1984 under the *Business Corporations Act* (Ontario) (the "OBCA"). Mortice Kern Systems Inc. amalgamated with Mortice Kern Group Inc., 667964 Ontario Inc. and 933365 Ontario Inc. pursuant to articles of amalgamation filed on May 1, 1994, and continued as Mortice Kern Systems Inc. Mortice Kern Systems Inc. amalgamated with KJR Software Inc. pursuant to articles of amalgamation filed on May 1, 1998, and continued as Mortice Kern Systems Inc. Pursuant to articles of amendment filed on October 11, 2001, Mortice Kern Systems Inc. changed its name to MKS Inc. MKS Inc. amalgamated with Vertical Sky Canada Inc. pursuant to articles of amalgamation filed on May 1, 2002, and continues as the Company.

The Company's principal executive and head office is located at 410 Albert Street, Waterloo, Ontario, Canada, N2L 3V3, and its telephone number is (519) 884-2251.

### Intercorporate Relationships

The Company has four material subsidiaries, each of which is wholly owned by MKS Inc., directly or indirectly. The name and jurisdiction of incorporation of each of these subsidiaries is as follows:

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation</b>
MKS Software Inc.	Delaware, USA
MKS Systems Limited	England
MKS GmbH	Germany
MKS Software K.K.	Japan

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

MKS develops, markets, sells and supports software products and services that enable engineering and IT organizations to better manage global software development activity, achieve higher levels of process maturity and safeguard their most critical business applications and software assets. MKS complements its software product offerings with a full range of services and support, including training, implementation, and process and application methodology consulting, which are designed to optimize enterprise customer deployment of the Company's products.

MKS evaluates operational performance based on two operating segments: software application lifecycle management ("ALM") and systems administration ("Interoperability" or "IO"). The segments are managed separately because each requires unique selling and marketing strategies and is exposed to different competitive and market conditions.

The Company's primary focus is the ALM segment. Application Lifecycle Management encompasses the management of all of the activities and the artifacts that relate to or impact custom or packaged software applications including Requirements Management, System Design, Software Configuration Management, Change Management, Test Management and Release Management and the integration and control over a diverse array of software design, modeling and testing tools.

The Company's principal ALM offering is MKS Integrity. MKS Integrity is an enterprise application lifecycle management platform that coordinates and manages all activities and artifacts associated with software development including Requirements Management, System Design, Software Configuration Management, Change Management, Test Management, Defect Management, Release Management and Portfolio Management for custom built and packaged applications.

MKS Integrity provides consistent capabilities across all disciplines of the application lifecycle by defining hierarchies, relationships and change management processes for numerous user defined application artifacts. Unlike other ALM offerings that have been assembled by acquisition, the unified platform offered by MKS Integrity provides enterprise class scalability and multi-platform capability to support large scale software reuse initiatives, workflow-based collaboration and rich mining of application activity data to deliver higher team productivity, visibility and compliance for software engineering and IT organizations.

The Interoperability segment encompasses products, namely *MKS Toolkit*, that address the issues surrounding UNIX-Windows operating system co-existence, cross-platform development, application migration, systems administration and network management.

In its 2006 fiscal year MKS expanded its operations by establishing a wholly-owned subsidiary in Singapore, and in May of 2007 established a wholly owned subsidiary in Japan, through which it is developing sales opportunities in the Asia Pacific region.

## NARRATIVE DESCRIPTION OF THE BUSINESS

### General

#### Select Segmented Revenue

The consolidated license revenue, maintenance revenue, service revenue and total revenue for the Company's ALM and Interoperability business units for the two most recently completed fiscal years is set forth in the following table:

	2008			2007		
	<u>ALM</u>	<u>Interoperability</u>	<u>Total</u>	<u>ALM</u>	<u>Interoperability</u>	<u>Total</u>
License	\$ 22,857	\$ 4,321	\$ 27,178	\$ 15,248	\$ 4,986	\$ 20,234
Maintenance	22,726	3,111	25,837	18,934	3,158	22,092
Service	<u>8,170</u>	<u>-</u>	<u>8,170</u>	<u>5,988</u>	<u>10</u>	<u>5,998</u>
Total	\$ 53,753	\$ 7,432	\$ 61,185	\$ 40,170	\$ 8,154	\$ 48,324

### Products

MKS provides tools that enable software development teams to increase staff productivity, to improve software quality and to meet compliance requirements.

The Company's products are broadly divided into two main product lines: ALM products and Interoperability products.

#### ALM Products

##### *MKS Integrity*

MKS Integrity enables application lifecycle management within large engineering and IT organizations that require enterprise class scalability and multi-platform capability. MKS offers unrivalled support for geographically dispersed teams, artifact reuse, reporting, security, audit-ability, traceability and metrics automation.

Unlike other ALM offerings that have been assembled by acquisition, MKS Integrity provides consistent capabilities across all disciplines of the application lifecycle including Requirements Management, System Design, Software Configuration Management, Change Management, Test Management, Defect Management, Release Management and Portfolio Management for custom built and packaged applications, such as SAP and PeopleSoft.

MKS Integrity establishes a single application data framework that defines hierarchies, relationships and change management processes for numerous user defined application artifacts types such as Requirements, Design Specifications, Source Code, Test Plans, Test Cases, Change Requests, Defects, Portfolios and Deploy Requests. The single data framework ensures consistent artifact management and integrity across numerous development disciplines, processes and projects.

By constructing a unified application data framework, MKS Integrity enables large scale collaboration across users from many geographical locations and disciplines, supports large scale software reuse initiatives, such as SOA (Services oriented architectures) or SPL (Software Product Lines), facilitates Application Portfolio Management strategies and automates compliance efforts such as FDA 21-CFR Part 11, CoBIT or CMMI. Through its unified data framework, MKS Integrity also enables rich mining of application activity data to automatically collect the metrics that support key performance indicators or manage application and project portfolios. The single architecture also reduces total cost of ownership by lowering implementation and training time and administration costs. Highly flexible workflow automates a broad range of processes and methodologies across distributed, System i and mainframe environments and more recently packaged applications.

MKS Integrity features an open application programming interface (“API”) which integrates into other application life cycle tools and repositories, development environments and help desk environments.

MKS Integrity’s powerful process and workflow layer is fundamental to its single platform approach to ALM. Unified process and control spans each stage of the application lifecycle, encompassing all major enterprise applications, platforms, locations and roles. Powerful workflow supports many processes and methodologies and contains configurable templates, forms, fields, charts and reports. MKS Integrity’s transparent, multi-tier architecture ensures process control, scalability, security and easy administration across distributed, System i and mainframe platforms.

### ***Implementer***

Implementer is the Company’s ALM product for System i (AS/400), with built-in developer’s workbench, user and design change request management (via MKS Integrity’s process and workflow engine) and electronic software distribution. Implementer provides development change control by automating and tracking the movement of source code and objects between development, testing and production while providing full on-line visibility of changes made on the user’s system. Implementer is tightly integrated with MKS Integrity to provide seamless process control, enforcement and visibility across platforms.

### **Interoperability Products**

The Company’s Interoperability products enable cross-platform development and systems administration. The Company’s products and services are designed to work on and across most major hardware and software platforms, enabling an organization to preserve existing information technology investments while allowing simultaneous adoption of, or migration to, new Web-based architectures.

### ***Developer Products***

The Company has four *MKS Toolkit* development products: *MKS Toolkit* for Developers, Interoperability, Professional Developers, and Enterprise Developers. These products provide solutions in the following areas:

- User Compatibility – providing users with a variety of command shells and hundreds of command-line utilities that help make software engineers more productive on Windows machines.
- Platform Interoperability – providing users with secure interactive access to both remote Windows servers and workstations and remote UNIX and Linux systems.
- Application Portability – offering developers the ability to recompile and relink UNIX and Linux source code (C, C++, and FORTRAN) to produce native Windows executables that look like, act like, and interact with other Win32 applications.

### ***System Administration Products***

*MKS Toolkit* system administration products contain tools and engines that have been optimized for building leading system administration solutions.

*MKS Toolkit for System Administrators* is a powerful administration suite that gives the user the ability to move data and files between machines, remotely administer systems, and perform backups across multiple platforms.

*MKS X/Server* provides secure, seamless access to character and X-based UNIX applications from the Windows desktop. This allows users to leverage the benefits of new desktop platforms while connecting to UNIX applications throughout the enterprise. Because MKS X/Server contains a rich feature set that is easy to use, users can optimize their personal computing environments while minimizing their overall cost of ownership over time. When bundled with MKS Toolkit, MKS X/Server provides powerful scripting capability that allows users to automate tasks, customize terminal sessions, and develop solutions configured to the needs of the organization.

## **Service and Support**

The Company offers a full range of services in addition to support and software upgrades, including training, implementation and process and application methodology consulting that are designed to optimize enterprise deployment of the Company's products. Customer support and upgrades are offered together on an annual subscription fee basis. The Company offers customer support through electronic mail, the Web, and by fax and telephone, and makes global support available 24 hours a day, seven days a week. With respect to the Company's Interoperability products, original equipment manufacturers ("OEMs") typically offer first-level customer support to their end-user customers, and rely on the Company for any additional support as needed.

## **Sales and Marketing**

The Company has a separate sales and marketing strategy for each of the ALM and Interoperability business units.

For the ALM business unit, the Company continues to build an enterprise sales team to address those customers who are replacing their mid-tier systems with a single, enterprise-wide development and change management system. In addition to selling ALM products, the Company's direct sales force sells process consulting, training, implementation and maintenance services. The sales force is supported by pre-sales application engineers who have technical familiarity with the Company's ALM platform, competing products and in solving customer problems, and by field services personnel in geographic territories throughout the United States, Canada, the United Kingdom, Germany, Singapore and Japan.

For the Interoperability business unit, the Company employs a multi-channel sales and marketing strategy, using direct sales, strategic relationships with Web service organizations, OEMs, distributors and other resellers to address its target markets. The Company sells its products directly and through resellers in North America, the United Kingdom, France, Japan, Germany and other countries.

For both its ALM and Interoperability products, the Company has a strategy to build relationships with vendors of leading complimentary products to facilitate the integration of the Company's products with such other vendors' products. In addition, the Company has established relationships involving co-marketing arrangements with other software companies. In support of its sales efforts, the Company also conducts marketing programs, which may include direct mail, partnership relations, advertising, seminars, trade shows, and ongoing customer communications programs.

## **Customers**

The Company's customers span a variety of industries and range from small firms to large multinational corporations, the majority of whom are located in the United States. For each of the fiscal years ended April 30, 2008 and 2007, revenues from customers in North America accounted for approximately 53% and 65% of total revenue, respectively. All of the Company's revenues are derived from products and services related to its participation in the software applications development market. In fiscal 2007, no single customer of the Company accounted for 10% or more of total revenue. In fiscal 2008 one customer accounted for 11% of total revenue.

## **Research and Development**

The Company's research and development organization is divided into product development teams for the ALM and Interoperability markets. The development teams, supported by quality assurance and documentation specialists, develop new functional enhancements and maintain software for the ALM and Interoperability product lines. The development group also utilizes dedicated teams for strategic and tactical projects. The strategic team is responsible for designing major product revisions to meet developing customer needs while the tactical team is responsible for maintaining the existing code base and adding customer specific enhancements. The Company's research and development expenses were approximately \$13.1 million in fiscal 2008 and \$12.1 million in its 2007 fiscal year, net of investment tax credits.

## **Competition**

The Company currently has a number of established direct competitors in the ALM market including, Borland Software Corporation, CA, Inc., IBM Corporation (Rational), Hewlett-Packard, Microsoft Corporation, Serena Software, Inc. and

Telelogic North America, Inc. The Company's competition in the Interoperability market includes Global Technologies, Ltd., Microsoft Corporation, and Red Hat, Inc. The Company also faces competition from the internal development efforts of many of the Company's current and potential customers.

The markets in which the Company competes are highly competitive, subject to rapid technological change, and significantly affected by new product introductions and the market activities of industry participants. The Company expects competition to further increase and intensify in the future due to the activities of existing competitors, new entrants, and software industry consolidation. Increased competition may result in price reductions, reduced profit margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition. See "Risk Factors – Risks Related to the Industry – Intense Competition".

### **Intellectual Property and Other Proprietary Rights**

The Company relies primarily on a combination of copyright, trademark and trade secrets laws, confidentiality procedures and contractual provisions to protect its proprietary rights. In addition, the Company may apply for patents to protect its intellectual property rights when it considers protection appropriate.

### **Employees**

As of April 30, 2008, the Company and its subsidiaries had approximately 308 full time employees, of whom 94 were in research and development, 100 were in sales and marketing, 75 were in services and support and 44 were in human resources, administration, finance and information technology services. None of such employees are covered by a collective bargaining agreement.

### **Operations**

Development and distribution of the Company's products and services requires specialized skills and knowledge in product development, marketing, sales and related support activities. These skills and knowledge are available to the Company through both internal and external means; internally via its highly skilled workforce and externally via a number of third-party relationships such as relational database management systems, applications and development tool vendors, software and hardware vendors and consultants. The Company's intent in entering into these relationships is to keep pace with the technological and marketing developments of major software vendors, to acquire technical assistance for the Company's product development efforts and to leverage the Company's sales and marketing capabilities.

The Company's production operations consist primarily of final packaging, CD burning, functional testing, quality control and shipping. The Company assembles and packages its products internally, and certain of the Company's products are also shipped in electronic format via the Internet.

The Company's business is neither cyclical nor seasonal; however it is affected by a variety of factors, including general economic conditions. See "Risk Factors".

The principal geographic segments in which the Company conducts business are North America, Europe and Asia Pacific.

### **Facilities**

The Company's corporate headquarters are located at leased premises totalling approximately 75,000 square feet at 410 Albert Street, Waterloo, Ontario. The lease expires in August 2010, with an option to extend the term for two consecutive periods of three years followed by one period of four years. The Company has a lease for approximately 14,400 square feet of office space in Oakbrook Terrace, Illinois that will expire in February 2010 with an option to extend the term for a period of five years; a lease for approximately 7,400 square feet of office space in Fairfax, Virginia that will expire in October 2010; a lease for approximately 3,200 square feet of office space in Toronto, Ontario that will expire in September 2011 with an option to extend the term for two consecutive periods of five years; a lease for approximately 10,200 square feet of office space in Esslingen, Germany that will expire in September 2010; a lease for

approximately 4,500 square feet of office space in Woking, the United Kingdom that will expire in December 2012. In fiscal 2008, the Company's rent expense (net of sub-lease income) for all of its leased facilities was \$1.8 million (fiscal 2007 - \$1.6 million).

### **Risk Factors**

An investment in the securities of the Company involves risks. In addition to the other information contained in this Annual Information Form, investors should carefully consider the risks described below before investing in the Company's securities. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company or that the Company currently believes are immaterial may also impair the business, results of operations, financial condition and liquidity of the Company.

### ***Development of the ALM Market***

The Company's strategy is to focus its sales and marketing efforts on the enterprise segment of the ALM market, a segment that the Company believes is comprised of large corporations that have a need to improve the productivity, processes and governance over internally developed software in large, dispersed IT departments. This segment of the market is currently estimated to be 10% of the total ALM market of approximately \$1 billion annually. The Company believes that the enterprise segment of the ALM market will grow faster than the traditional desktop segment that has been in decline in recent years due to high levels of competition.

As part of its strategy, over the past few quarters, MKS has released technology upgrades that extend the applicability of its platform across a significantly broader user base within its target enterprise customers. While this has generated significant interest among new large enterprise customers, increasing the value of the Company's solution and promising to establish much deeper adoption of the platform by them, it has added to the complexity of sales initiatives and lengthened sales cycles.

The Company has focused its ALM strategy on penetrating Global 1000 companies. This strategy has had, and may continue to have, an effect on the size and timing of license transactions and has increased and may continue to increase the Company's operating expenses (which may adversely affect the Company's operating income and net income if revenues do not increase proportionately) and the variability of the length of the sales cycle for the Company's enterprise ALM products.

There is no assurance that the Company's strategy will be successful or that the Company will develop a profitable business from selling its products and services into this segment of the market. The Company's future financial performance will depend in large part on the continued growth in the number of businesses adopting ALM products and the expansion of the products' use on a company-wide basis.

### ***Fluctuation in Quarterly Results***

The Company's quarterly revenues and operating results have fluctuated significantly in the past and are likely to fluctuate substantially from quarter to quarter in the future. Such fluctuations may result in volatility in the price of the Company's common shares ("Common Shares"). Quarterly revenues and operating results may fluctuate as a result of a variety of factors, including demand for the Company's products, the proportion of revenues attributable to license versus maintenance and service revenues, the introduction of new products and product enhancements by the Company or its competitors, changes in the Company's pricing policies or those of its competitors, the geographical mix of the Company's sales, currency exchange rate fluctuations, unanticipated product discontinuation or deferrals by the Company's OEM customers, the fixed nature of a significant portion of the Company's operating expenses, particularly personnel, research and development and leases, general economic conditions, and competitive conditions in the ALM and Interoperability markets. In the ALM segment of its business, the Company has focused its strategy on penetrating Global 1000 companies. This strategy has had, and may continue to have, an effect on the size and timing of license transactions and has increased and may continue to increase the Company's operating expenses (which may adversely affect the Company's operating income and net income if revenues do not increase proportionately) and the variability of the length of the sales cycle for the Company's enterprise ALM products.

The Company has historically operated with little license revenue backlog because its software products are generally shipped as orders are received. In addition, the Company has often recognized a substantial portion of its revenues in the last month of a quarter and often in the last week or days of that month. As a result, license fees in any quarter are substantially dependent on orders booked and shipped in the last month or last week of that quarter. Accordingly, a small variation in the timing of recognition of revenues for specific transactions can adversely and disproportionately affect the Company's business, results of operations, liquidity and financial condition because the Company establishes its expenditure levels on the basis of its expected future revenues and only a small portion of the Company's expenses varies with its revenues in the short term.

Due to all of the foregoing factors, the Company's revenues and operating results are difficult to predict and may not meet the expectations of market analysts and investors. In such an event, the trading price of the Common Shares would likely be materially adversely affected. Accordingly, the Company believes that period to period comparisons of results of operations are not necessarily meaningful and should not be relied upon as indicative of future performance.

### ***Currency Exchange Rate Fluctuations***

The Company's financial results are reported in US dollars. Recent changes in the exchange rate between the United States dollar and the Canadian dollar, Pound Sterling and the Euro have had the effect of decreasing revenues and operating income earned and decreasing reported expenses incurred in Europe, while increasing reported expenses incurred in Canada, as a significant portion of the Company's expenses are incurred in non-US currencies. Future fluctuations in those exchange rates could continue to have an effect on the Company's business and results of operations. In particular, a further decline in the value of the United States dollar relative to the Canadian dollar could have a material adverse effect on the Company's results of operations and cash flows. The Company does not currently undertake any exchange rate hedging activities.

A portion of the Company's sales outside of Canada and the United States are denominated in local currencies such as Pound Sterling and Euros. Fluctuations in the value of the United States dollar in relation to foreign currencies may adversely affect the ability of the Company to compete with respect to sales to foreign customers, or compel the Company to maintain price levels in local currencies, which could reduce the realized price in US dollars, thereby negatively impacting revenue and profitability of foreign operations.

### ***Intense Competition***

The markets for the Company's products and services are intensely competitive and rapidly changing and a number of companies offer products and services similar to the Company's products and services and target the same customers as the Company. The Company believes its ability to compete depends upon many factors within and outside its control, including the timely development and introduction of new products and product enhancements, product functionality, performance, price, reliability, customer service and support, sales and marketing efforts, product distribution, and product releases by competitors.

Many of the Company's competitors and potential competitors are substantially larger than the Company and have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Company.

In addition, the Company anticipates that the quality, functionality and breadth of the Company's competitors' product offerings will improve, and there can be no assurance that the Company will be able to compete effectively with such product offerings. The Company expects that additional competition will develop, both from existing businesses in the ALM and Interoperability markets and from new entrants. Moreover, as competition increases, the prices that the Company charges for its products may decline. In addition, the Company could be materially adversely affected if there were a significant movement towards the acceptance of open source solutions or other alternative technologies that compete with the Company's products. If the Company is not able to compete successfully, the Company's business, financial condition, liquidity and operating results could be materially adversely affected. The Company's most significant direct competitors in the ALM market include IBM Corporation, Serena Software Inc., Telelogic North America, Inc., Computer Associates International, Inc. and Borland Software Corporation, and in the Interoperability market include Microsoft Corporation and Red Hat, Inc.

### ***Management of Growth***

The Company has in the past experienced significant growth in its business, including an expansion in the Company's staff and customer base, the establishment of new distribution channels and the expansion of its product lines. Such growth placed, and may continue to place, a significant strain on the Company's management and operations. The Company's ability to manage growth effectively in the future will require it to further develop and improve its operational, financial and other internal systems, and to hire, train and manage employees. If the Company is unable to manage its growth effectively, the Company's business, results of operations, liquidity and financial condition could be materially and adversely affected.

### ***Rapid Technological Change***

The markets for the Company's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The introduction of products embodying new technologies and the emergence of new industry standards could render the Company's existing products, and products currently under development, obsolete and unmarketable. The Company's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance. The development of such new products or enhanced versions of existing products entails significant technological risks. There can be no assurance that the Company will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements on a timely basis, or that the Company will not experience significant delays in development in the future, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

### ***Dependence on and Retention of Management and Key Employees***

The Company's success will depend to a very significant extent on the performance and continued services of its senior management and certain other key employees, the loss of any of whom could have a material adverse effect upon the Company. In addition, the Company may continue to expand its management team in the future.

The Company believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for such personnel is intense and the Company has experienced difficulties in recruiting qualified personnel and may continue to experience such difficulties in the future. There can be no assurance that the Company will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business. The Company does not have key person life insurance for any of its management team.

### ***International Sales***

The Company believes that its future revenue and operating results will depend in part upon its ability to increase sales in international markets outside North America. Approximately 47% of the Company's revenue is derived from sales outside of North America, primarily Europe. Recently, the Company has expanded its Asia-Pacific sales force in order to expand its operations in that region. International sales are subject to various risks, including exposure to currency

fluctuations, political and economic instability, increased difficulty of administering business and the need to comply with a wide variety of international and domestic export laws and regulatory requirements. There are a number of risks inherent in the Company's international activities, including unexpected changes in Canadian or other governmental policies concerning the import and export of goods, services and technology and other regulatory requirements, tariffs and other trade barriers, costs and risks of localizing products for foreign languages, longer accounts receivable payment cycles, limits on repatriation of earnings and the burdens of complying with a wide variety of foreign laws. The financial stability of foreign markets could also affect the Company's international sales. There can be no assurance that such factors will not have a material adverse affect on revenues and expenses of the Company related to international sales and, consequently, the Company's business, results of operations, liquidity and financial condition. In addition, international income may be subject to taxation by more than one jurisdiction, which could also materially adversely affect the Company's results of operations.

### ***Importance of Maintenance Contracts***

Under the Company's annual maintenance contracts, customers are provided with telephone support to assist them in solving technical issues that arise from time to time in deploying and using the Company's software products and are supplied upgrades and patches for the Company's products for the duration of the maintenance period. The upgrades and patches provide new features and functionality as well as fixes to technical problems encountered by the customer installed base. The Company has historically experienced a high rate of renewal of customer contracts and relies on the cash flow generated from these renewals to fund operations and provide liquidity as the maintenance fees are paid at the beginning of the contract period. Deterioration in the renewal rate of maintenance contracts could materially adversely impact the business, results from operations, liquidity and financial condition of the Company.

### ***Economic Uncertainty***

The majority of the Company's revenue has been, and is expected to continue to be, derived from customers in North America. Trends in general economic activity in the United States impact spending by corporations in the area of information technology, which includes the ALM and Interoperability markets.

### ***Dependence on a Limited Number of Products***

Substantially all of the Company's revenues are currently derived from a limited number of products and services offered by the Company in the ALM and Interoperability markets. Accordingly, the Company's future results of operations will depend, in part, on maintaining and increasing market acceptance of these products and services, as well as on the Company's ability to continue to enhance these products and services to meet the evolving needs of its customers. A reduction in demand or increase in competition in the market for ALM or Interoperability solutions, or a decline in sales of such products and related services, could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

### ***Acquisitions***

The Company may in the future further expand its operations or product offerings through the acquisition of additional businesses, products or technologies. There can be no assurances that the Company will be able to identify, acquire or profitably manage additional businesses without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions also entail numerous risks, including: difficulties in assimilating acquired operations, products and personnel; unanticipated costs, events and legal liabilities; diversion of management's attention from other business concerns; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which the Company has limited or no prior experience; and potential loss of key employees from either the Company's pre-existing business or the acquired organization. Some or all of these risks could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income.

Acquisitions could also use a substantial portion of the Company's available cash; may result in the Company incurring substantial debt, which may not be available on favourable terms and may adversely affect the liquidity of the Common Shares; may result in the Company assuming contingent liabilities and taking substantial charges in connection with the

impairment of goodwill and amortization of other intangible assets; and may result in the issuance of equity securities that would dilute existing shareholders. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

### ***Distribution Channels in the Interoperability Market***

The Company employs a multi-channel sales and marketing strategy, using direct sales, OEMs, distributors and other resellers to address its global market for its Interoperability products. The Company expects that its Interoperability division will remain dependent upon these parties to distribute its products. In addition, the performance of OEMs, distributors and other resellers is outside the control of the Company, and the Company is unable to predict the extent to which these organizations will be successful in marketing and selling the Company's Interoperability products. The Company's failure to attract and retain sufficient direct sales personnel or to maintain its existing third-party relationships or to establish new relationships with OEMs, distributors and other resellers could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

### ***Potential for Undetected Errors in Software***

Software products, as complex as those offered by the Company, often encounter development delays and may contain undetected defects when introduced or when new versions are released. The Company has encountered delays and discovered previously undetected defects in the introduction of new products and product enhancements. There can be no assurance that the Company will not encounter product development delays in the future or that, despite testing by the Company, errors will not be found in new products or product enhancements after commencement of commercial shipments, resulting in damage to the Company's reputation, loss of revenue, loss of market share, delay in market acceptance or warranty claims, any of which could have a material adverse effect upon the Company's business, results of operations, liquidity and financial condition. This risk is amplified for the Company because a portion of its sales have been derived, and are expected in the future to be derived, from arrangements under which third parties embed the Company's products in their own products.

Any significant errors in the Company's products, or in the products of third parties which embed the Company's products, might discourage such third parties or other customers from utilizing the Company's products, which could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition. Although the Company generally attempts to limit by contract its exposure to incidental and consequential damages, if a court failed to enforce the liability limiting provisions of the Company's contracts for any reason, or if liabilities arose which were not effectively limited, the Company's business, results of operations, liquidity and financial condition could be materially and adversely affected.

### ***Protection of Intellectual Property***

The Company relies primarily on a combination of copyright, trademark and trade secrets laws, confidentiality procedures and contractual provisions to protect its proprietary rights. Substantial portions of the Company's sales are derived from the licensing of the Company's products under shrink-wrap license agreements that are not signed by licensees and therefore may be unenforceable under the laws of certain jurisdictions. The Company generally enters into confidentiality agreements with its other licensees, employees and third-party distributors. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Company.

In addition, the laws of some foreign countries do not protect the Company's proprietary rights to as great an extent as do the laws of Canada or the United States. There can be no assurance that the Company's competitors will not independently develop similar technology or that the Company's means of protecting its proprietary rights will be adequate, and consequently the Company's business, results of operations, liquidity and financial condition could be materially adversely affected.

The Company is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Company with respect to current or future

products. The Company expects that software product developers will increasingly be subject to infringement claims as the number of products and competitors in the ALM and Interoperability markets grow and the functionality of products in these markets overlaps. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, either of which could have a material adverse effect upon the Company's business, results of operations, liquidity and financial condition.

### ***Reliance on Third Party Relationships***

The Company has a number of third-party relationships that are significant to its marketing, sales and related support activities and product development efforts. The Company relies upon relational database management systems applications, and development tool vendors, software and hardware vendors to strengthen its product offerings through integration with industry-standard tools and utilities. The Company's intent in entering into these relationships is to keep pace with the technological and marketing developments of major software vendors, to acquire technical assistance for the Company's product development efforts and to leverage the Company's sales and marketing capabilities. There can be no assurance that these companies, many of which have significantly greater financial and marketing resources than the Company, will not develop or market software products that compete with the Company's products in the future or will not otherwise discontinue their relationships with or support of the Company. The failure of the Company to maintain its existing relationships, or to establish new relationships in the future, for any reason, could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

### ***Use of Open Source Software***

The Company uses a variety of "open source" and "free-ware" software products in its products that are not maintained or supported by the original developers of such products. The Company has not conducted any independent investigations to determine if the sources of these third party software products have the rights necessary to permit the Company to use these products free of infringement claims by third parties. The Company could possibly be required to replace these third party software products with internally developed or commercially licensed components, which could delay the Company's product development plans or require it to pay licensing fees to third parties.

### ***Limited Financial Resources***

The Company believes that expected cash flow from operations combined with existing cash and cash equivalents will be sufficient to meet the Company's cash requirements for the next twelve months. The Company does not currently have any specific plans for external investments, but may make modest strategic investments in related products or acquire customer bases, which could result in a utilization of cash balances or create a need for external financing. The Company may utilize a portion of its cash balances or issue additional share capital or debt to finance such investments. Failure to obtain such financing could result in the delay or abandonment of some or all of the Company's business plans, which could have a material adverse effect on its business, results of operations, liquidity and financial condition.

### ***Litigation***

The nature of the Company's business subjects the Company to regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of the Company's business. The results of these legal proceedings cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on the Company's results of operations in any future period, depending partly on the results for that period, and a substantial judgment could have a material adverse impact on the Company's results from operations, liquidity and financial condition.

From time to time, the Company may be required to enforce its rights under contractual arrangements with its customers, including for non-payment of amounts owing. There can be no assurance that the Company will be successful in any such action or that the Company will not incur significant expenses in the course of the litigation or be required to devote a material portion of the Company's management resources to any such action.

### ***Concentration of Ownership***

The directors and executive officers of the Company as a group beneficially own, directly or indirectly, approximately 26% of the Common Shares outstanding. As a result, these shareholders, if acting together, could have significant influence over matters requiring the approval of the shareholders of the Company, including the election of the Company's Board of Directors and significant transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of the Company or otherwise cause the Company to take action that may not be in the best interests of all shareholders, either of which in turn could reduce the market price per share of the Common Shares.

### ***Market Maturity in the Interoperability Market***

The Company has, in the past, derived significant growth from its products and services targeted at the Interoperability market. The Interoperability market is now considered by the Company to be mature relative to the other markets that it addresses, and is expected to undergo limited growth. The Company's license revenue from the IO segment has declined in each of the past three fiscal years and the Company expects to experience a continuing decline in license revenue from this segment. The market for Interoperability products and services generally is subject to aggressive competition, resulting in increasing downward pressure on product licensing fees and gross margins. As a result of the relative maturity of the Interoperability market and increasing competition in that market, the Company may be unable to maintain or increase its current level of revenues from its Interoperability products and services, or to achieve the same level of gross margins as it has achieved on the licensing of Interoperability products in the past, each of which may have a material adverse impact on the Company's business, results of operations and financial condition.

## **DIVIDENDS**

On June 7, 2006 the Company adopted a dividend policy to pay a quarterly dividend, in such amount as the Company's Board of Directors may from time to time determine, so long as the payment of the dividend does not impair the Company's financial position. The dividend policy will be reviewed from time to time by the Company's Board of Directors in the context of the Company's earnings, financial condition and other relevant factors. The Company did not pay any dividends on its Common Shares during fiscal 2006. During fiscal 2007 and fiscal 2008, the Company declared and paid the following cash dividends on its Common Shares:

<b>Date of Payment</b>	<b>Amount of Dividend (per Common Share)</b>	<b>Record Date for Payment</b>
July 17, 2006	US\$0.02	June 30, 2006
October 16, 2006	US\$0.02	September 29, 2006
January 15, 2007	US\$0.02	December 29, 2006
April 13, 2007	US\$0.02	March 30, 2007
July 16, 2007	US \$0.02	June 29, 2007
October 15, 2007	US \$0.02	September 28, 2007
January 15, 2008	US \$0.02	December 31, 2007
April 15, 2008	US \$0.02	March 31, 2008

The Company also paid a cash dividend in the amount of US\$0.02 per Common share during the first quarter of fiscal 2009. The dividend was payable on July 15, 2008 to shareholders of record on June 30, 2008. Although the Company intends to pay dividends in the future, there may be circumstances where the Company may change its position on paying dividends. There is no guarantee that dividends will continue to be paid in the future.

## CAPITAL STRUCTURE

The authorized capital of the Company consists of an unlimited number of Common shares and an unlimited number of preferred shares issuable in series.

The holders of the Common Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company, except class meetings of other classes of shareholders, and to one vote in respect of each Common Share held at all such meetings. The holders of the Common Shares are entitled, subject to the rights of the holders of preferred shares, to receive any dividend declared by the Company in respect of the Common Shares and to receive the remaining property of the Company upon the liquidation, dissolution or winding-up of the Company.

The preferred shares of the Company may be issued at any time in one or more series. The holders of the preferred shares are not entitled to receive notice of or to attend any meeting of shareholders of the Company or to vote at any such meeting, except in the case of (i) a meeting called for the purpose of authorizing the dissolution of the Company or the sale, lease or exchange of all or substantially all the property of the Company, or (ii) the failure by the Company, for a period of 18 consecutive months, to pay dividends at the prescribed rate on the preferred shares, as applicable. The preferred shares are entitled to preference over the Common Shares with respect to priority in the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company or other distribution of its assets among its shareholders for the purpose of winding up its affairs.

## MARKET FOR SECURITIES

### Market for Securities

The Common Shares of the Company are listed on the Toronto Stock Exchange. The monthly high and low prices and monthly volume for the Common Shares for the fiscal year ended April 30, 2008 are as follows:

<u>Month</u>	<u>High</u> (CAD\$ per Common Share)	<u>Low</u> (CAD\$ per Common Share)	<u>Monthly Volume</u> (in shares)
May 2007	1.83	1.43	752,695
June 2007	1.73	1.50	1,070,164
July 2007	1.75	1.52	508,717
August 2007	1.61	1.32	494,534
September 2007	1.74	1.38	619,572
October 2007	1.67	1.44	632,036
November 2007	1.57	1.36	518,061
December 2007	1.40	1.27	897,712
January 2008	1.39	1.03	852,782
February 2008	1.28	1.15	253,032
March 2008	1.68	1.18	2,779,213
April 2008	1.90	1.38	610,194

## DIRECTORS AND OFFICERS

### Directors

The directors of the Company are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders of the Company.

As of July 18, 2008, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, a total of 13,146,382 Common Shares, representing approximately 26% of the Company's total outstanding Common Shares.

The following table sets forth the names, municipality of residence and principal occupation of each of the directors of the Company:

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Philip Deck Toronto, Ontario, Canada	Chairman and Chief Executive Officer of the Company	January 22, 2001
Robert Gibb <sup>(1)</sup> Toronto, Ontario, Canada	President of Cypress Group Inc.	May 1, 1994
J. (Ian) Giffen <sup>(1)(2)</sup> Toronto, Ontario, Canada	Technology Company Consultant and Adviser	October 9, 2001
Howard Gwin <sup>(2)</sup> Shanty Bay, Ontario, Canada	Executive Management Consultant	September 28, 2004
Christopher Hoffmann <sup>(1)(2)</sup> Toronto, Ontario, Canada	Executive Vice-President, Brompton Limited	September 23, 2003
Gerald Hurlow Toronto, Ontario, Canada	Managing Partner, HSD Partners Inc.	January 22, 2001
Alex White Waterloo, Ontario, Canada	Chief Architect of the Company	October 20, 2000

Notes:

- (1) Member, Compensation and Corporate Governance Committee.  
(2) Member, Audit Committee.

The principal occupation of each member of the Corporation's Board of Directors for the past five years preceding the date hereof and additional biographical information is described below:

Philip Deck was appointed a Director and Chief Executive Officer of the Corporation in January 2001, and was appointed Chairman in October 2001. From 1994 to January 2000, Mr. Deck served as Chairman of the Board of Directors and/or Chief Executive Officer of Certicom Corp., a cryptography and information security company located in Mississauga, Ontario.

Robert Gibb has served as an outside member of the Corporation's Board of Directors since May 1994 and was appointed Chairman of the Board of Directors and Interim Chief Executive Officer of the Corporation in November 2000. Mr. Gibb served as Interim Chief Executive Officer until January 2001 and as Chairman until October 2001. In October 2001, Mr. Gibb was appointed Vice-Chairman of the Corporation and continues in that capacity as Lead Director. Mr. Gibb is President of The Cypress Group Inc., a strategic, operational and financial consulting firm, founded by him in October 1996. He is President and director of Carriff Engineered Fabrics Corporation, a private Delaware corporation specializing in the manufacturing and marketing of engineered textiles for the industrial, retail and medical markets in North America, Europe and Asia. Mr. Gibb was Chief Operating Officer of The Coinamatic Group of Companies from October 2002 until November 2003. Since 1996 he has been a Director of Agrico Canada Ltd. Canada's largest privately held fertilizer distribution and marketing company. In May 2000 Mr. Gibb was elected Chairman of Prism Medical Ltd., a publicly traded medical devices company, a position he held until March, 2005. Mr. Gibb is currently a director of Prism Medical Ltd. and a member of the audit committee. Mr. Gibb is a founding partner and director of Summitt Energy Marketing LLP, a private company providing electricity and natural gas services across Canada.

J. (Ian) Giffen has served as an outside member of the Corporation's Board of Directors since October 2001 and previously served as an outside member of the Corporation's board of directors in the period April 1996 to September 1999. Since 1996, Mr. Giffen has been an advisor/director to software companies and technology investment funds. From January 1992 to January 1996, Mr. Giffen was Vice President and Chief Financial Officer at Alias Research, a developer of 3D graphics software. Mr. Giffen is currently Chairman of Descartes Systems Inc. and a director of Corel

Corporation Inc. and RuggedCom Inc. as well as a director/advisor to a number of other private companies. Mr. Giffen is a Chartered Accountant and has a Bachelor of Arts degree in business administration from the University of Strathclyde in Glasgow.

Howard Gwin has served as an outside member of the Corporation's Board of Directors since September 2004. Mr. Gwin is currently an executive management consultant, advising chief executive officers in the technology industry. Prior to being an executive management consultant, Mr. Gwin served as a Consultant at Solect Technology Group, a provider of billing, customer care and service management software from May 2000 to December 2000 and as President and Chief Executive Officer of Solect Technology Group from February 2000 to April 2000. Prior to Solect, Mr. Gwin served as Executive Vice President, Worldwide Operations at Peoplesoft, Inc. from February 1999 to January 2000, as Senior Vice President, International from January 1998 to January 1999, as Vice President, Europe from May 1996 to December 1997 and as Vice President, Canada from September 1994 to May 1996. Mr. Gwin is currently a director of Taleo Corporation. Mr. Gwin holds a Bachelor of Business Administration degree from Simon Fraser University, of Burnaby, British Columbia.

Christopher Hoffmann has served as an outside member of the Corporation's Board of Directors since September, 2003. Mr. Hoffmann has been Executive Vice President of Brompton Group, a provider of specialized financial products and services, and President of Brompton Financial Ltd., a merchant banking firm, since October, 2004. Prior to that, Mr. Hoffmann was a partner with the law firm McCarthy Tétrault LLP in Toronto. Mr. Hoffmann has been a director of numerous publicly traded and private companies. Currently he is a director of Brompton Corp. and The Northern Trust Company, Canada.

Gerald Hurlow has served as an outside member of the Corporation's Board of Directors since January 2001. Since 1987 Mr. Hurlow has been a managing partner of HSD Partners Inc. (and predecessor entities). Mr. Hurlow is also Chairman of Super Electric Co. a private company that markets home comfort appliances.

Alex White is a founder of the Corporation and has served on the Corporation's Board of Directors from May 1994 until September 2000 and from October 2000 to the present. Mr. White is currently Chief Architect of the Corporation and was also Vice President, Product Development from January 1995 until March 2001. From January 1991 until January 1995, Mr. White served as Vice President, Special Projects of the Corporation.

The Board of Directors currently has two committees: the Audit Committee, as required by the *Business Corporations Act* (Ontario), the Corporation's governing statute, and the Compensation and Corporate Governance Committee.

### **Audit Committee**

The Audit Committee oversees the quality and integrity of the Corporation's interim and annual consolidated financial statements; involves management and outside auditors in assessing the Corporation's financial reporting procedures and its internal control systems; reviews the scope of examinations by independent auditors; and meets with management and independently with the auditors to review audit findings and recommendations. The members of the Audit Committee are Messrs. Giffen, Gwin and Hoffmann.

### ***Audit Committee Charter***

The Company's Audit Committee operates under a written charter that sets out its responsibilities and composition requirements. A copy of this charter is attached at Schedule "A" to this Annual Information Form.

### ***Relevant Education and Experience***

All members of the Audit Committee meet the independence criteria set out in Multilateral Instrument 52-110 – Audit Committees ("MI 52-110"). The following sets out the relevant education and experience of each director relevant to the performance of his duties as a member of the Audit Committee:

Mr. Giffen is a Chartered Accountant and holds a Bachelor of Arts in business administration from the University of Strathclyde in Glasgow. He has acted as a senior advisor and board member to a variety of public software companies and technology investment funds. Mr. Giffen is, and has been in the past, a member of the audit committee of a number of public and private companies.

Mr. Gwin holds a Bachelor of Business Administration from Simon Fraser University. Mr. Gwin is, and has been in the past, a member of the audit committee of a number of private companies.

Mr. Hoffmann is, and has been in the past, a member of the audit committee of a number of public and private companies.

Based on the above information provided by each director, the Company believes that all members of the Audit Committee are “financially literate” as that term is defined in MI 52-110.

### ***Pre-Approval Policies and Procedures***

The Company’s Audit Committee has adopted a specific policy for the engagement of non-audit services from its independent auditor.

Pursuant to this policy, the Audit Committee has pre-approved the following non-audit services (“Pre-Approved Services”) to be performed by the external independent auditor:

- Accounting issue research and technical assistance, including current update sessions
- Specified audit procedures beyond the scope of the consolidated audit
- Advisory services with respect to compliance with Canadian investor confidence rules
- Routine corporate tax advisory services, including transfer pricing, general corporate tax advice, research, tax authority audit support and advice with respect to government incentives
- Compilation of corporate tax returns
- International tax planning
- Compliance and advisory services related to international employee transfers
- Indirect tax recovery, compliance and advisory services (VAT, PST, GST, payroll tax and other commodity taxes) including compliance advice, audit support and recovery services

The Audit Committee will periodically review and update the list of Pre-Approved Services to include other services that are recurring or otherwise reasonably expected to be required. The Audit Committee will be informed on a quarterly basis as to the services for which the external independent auditor has been actually engaged, and the total fees charged for those services.

For non-audit services other than those included in the list of Pre-Approved Services, the CFO of the Company will submit a request, which must include a description of the service, the estimated fee, and the reason the service is required, to the Audit Committee Chair for approval. Any service approved by the Audit Committee Chair will be reported to the full Audit Committee at its next meeting.

### ***External Auditor Service Fees***

The aggregate fees billed by KPMG LLP, MKS Inc.’s auditor, in the years ended April 30, 2008 and 2007 for professional services are set out below (all amounts stated in US dollars):

Services Rendered	Fiscal 2008	Fiscal 2007
Audit Fees <sup>(1)</sup>	\$ 133,300	\$ 83,400
Audit Related Fees <sup>(2)</sup>	71,000	47,300
Tax Fees <sup>(3)</sup>	73,100	-
All Other Fees <sup>(4)</sup>	8,200	-

<sup>(1)</sup> For the audit of the Company's financial statements and for services normally provided by the auditor in connection with statutory and regulatory filings. Audit fees for these services for fiscal years 2008 and 2007 were \$118,100 and \$125,700, respectively. Differences from the amounts above are the result of the timing of actual billing for services rendered.

<sup>(2)</sup> For assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported in (1), including review of quarterly financial statements. Fees for these services for fiscal years 2008 and 2007 were \$64,700 and \$51,100, respectively. Differences from the amounts above are the result of the timing of actual billing for services rendered.

<sup>(3)</sup> For tax related services, other than the fees reported in as Audit Fees or Audit Related fees, including preparation of tax returns and tax consultancy services. Fees for these services for fiscal years 2008 and 2007 were nil and \$34,700, respectively. Differences from the amounts above are the result of the timing of actual billing for services rendered.

<sup>(4)</sup> For services other than the fees reported as Audit Fees, Audit Related Fees or Tax Fees.

### **Compensation and Corporate Governance Committee**

The Compensation and Corporate Governance Committee acts on behalf of and subject to the direction of the Board in all matters pertaining to the appointment, compensation, benefits and termination of the Chief Executive Officer, the Chief Financial Officer and the three most highly paid executive officers. The Committee may provide advice and supervision in respect of the appointment, compensation, benefits and termination of such other executives of the Corporation, as it deems appropriate from time to time. The Committee also makes recommendations with respect to the remuneration of the Board of Directors of the Corporation and its affiliates. The Committee also has responsibility for overseeing the operations of the Board in discharging its mandate and responsibilities and reporting annually to the Board on the effectiveness of the performance of the Board as a whole. The members of the Compensation and Corporate Governance Committee are Messrs. Giffen, Gibb and Hoffmann.

### **Executive Officers**

The following table sets forth the names, municipality of residence and position with the Company of each of the executive officers of the Company:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position and Office Held</u></b>
PHILIP DECK Toronto, Ontario, Canada	Director, Chairman and Chief Executive Officer
DOUGLAS SAWATZKY Waterloo, Ontario, Canada	Chief Financial Officer
MICHAEL HARRIS Toronto, Ontario, Canada	President and Chief Operating Officer
THOMAS BOSANKO Haymarket, Virginia, USA	President and Chief Operating Officer Interoperability Business Unit
ROB MACKIN Surrey, United Kingdom	Managing Director, Northern Europe Region
THOMAS HORNEK	Managing Director, Central and Southern

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position and Office Held</u></b>
Nuertingen, Germany	Europe Region
DAVID JONES Ngee Ann City, Singapore	Managing Director, Asia-Pacific Region
ARNOLD OZOLS Oak Park, Illinois, USA	Vice-President, North American Customer Operations
DAVID WIGG Kitchener, Ontario, Canada	Vice-President, Research and Development

Except as described below and in the sub-section above entitled “Directors”, each of the officers of the Company has been an officer of, or has served in another capacity with the Company for the past five years.

Douglas Sawatzky is Chief Financial Officer. Mr. Sawatzky joined the Company in October 2001 and has held positions with the Company as Corporate Controller and Vice President, Finance. Mr. Sawatzky was appointed Chief Financial Officer in December 2005. Prior to joining MKS, Mr. Sawatzky held various financial positions at United Rentals of Canada and ATS Automation Tooling Systems Inc. Mr. Sawatzky is a Chartered Accountant and a Chartered Business Valuator.

Michael Harris is President and Chief Operating Officer for MKS. Mr. Harris was appointed Chief Operating Officer effective July 22, 2002 and was appointed President in November 2005. Mr. Harris was the former President of Industry Specific Applications (ISA) as well as CEO of the Interealty division of Geac Computer Corporation. Prior to his experience at Geac, Mr. Harris held executive positions of increasing responsibility at SunGard Data Systems, based out of London, England and New York, including Managing Director of North America. Mr. Harris holds a Bachelor of Science degree from the University of British Columbia and an MBA from York University.

Thomas Bosanko is President of the Company’s Interoperability business unit, a position he has held since 1999. From 1995 to 1999 Mr. Bosanko served as President and COO of DataFocus Incorporated, which was acquired by the Company in 1999. Prior to 1995, Mr. Bosanko co-founded and was CEO of Convergent Solutions, Inc. (CSI), a software company publicly-traded on NASDAQ. Mr. Bosanko served on the Board of Directors of CSI from 1987 until 1995. From 1994 to 1995, Mr. Bosanko also served on the Board of Directors of KTI, an energy company publicly-traded on NASDAQ. Mr. Bosanko is currently a general partner in Monumental Venture Partners (MVP) and has served as an advisor to MVP’s Board of Directors, as well as advisor to the Board of Directors of SonoMedica, Inc., one of MVP’s portfolio companies.

Rob Mackin is Managing Director, Northern Europe Region and is responsible for all sales and service activities in the United Kingdom and Northern Europe. Mr. Mackin joined MKS in 2003 and has held the position of Managing Director since January 2005. Mr. Mackin was Director of Sales at i4i, Inc. from June 1998 to October 2003. i4i, Inc. is a world leader in the design and development of collaborative content solutions and technologies. Mr. Mackin holds an Economics and Finance degree from the University of Western Ontario, Canada.

Thomas Hornek is Managing Director of Central and Southern Europe Region and is responsible for all sales and service activities in Central and South Europe. Mr. Hornek joined MKS in November 1995 and has held the position of Managing Director since 2001. Mr. Hornek holds a degree of business administration from the University of Applied Sciences, Esslingen, Germany.

David Jones is Managing Director of Asia-Pacific Region and is responsible for all sales and service activities in Asia-Pacific. Mr. Jones joined MKS in December 2005. Prior to joining MKS, Mr. Jones was employed by Eontec Ltd as Managing Director, Asia Pacific & Japan until its acquisition by Siebel Systems where Mr. Jones was employed as General Manager and Vice President, Financial Services, Asia Pacific & Japan. Prior to that, Mr. Jones launched several software businesses in Japan and Asia, after receiving a scholarship from the Irish government in 1986 to study Japanese and Japanese business practices.

Arnold Ozols is Vice-President, North American Customer Operations. Mr. Ozols joined MKS in January 2003 as Vice-President of North American Customer Operations. Prior to joining MKS, Mr. Ozols was the Vice President of Customer Operations for Interealty, a leading provider of MLS and real estate agent productivity tools. Mr. Ozols was with Interealty from April, 2000 to January, 2003.

David Wigg is Vice-President of Technology. Mr. Wigg joined MKS in 1998 and was previously the Director of Strategic Development where he was responsible for the evolution of the company's core technology. Prior to joining MKS, Mr. Wigg was employed by technology companies HumanCAD and Virtek Vision Corp.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is CIBC Mellon Trust Company at its principal transfer office in Toronto, Ontario.

## **INTERESTS OF EXPERTS**

### **Names of Experts**

The financial statements of the Company for the year ended April 30, 2008 have been audited by KPMG LLP.

### **Interests of Experts**

KPMG LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of Ontario.

## **MATERIAL CONTRACTS**

The only material contract to which the Company is a party, is the shareholder rights plan agreement dated as of June 23, 2008 between the Company and CIBC Mellon Trust Company. For a summary of the key terms of the plan, please refer to the material change report of the Company dated June 26, 2008 which is available at [www.sedar.com](http://www.sedar.com) and is incorporated by reference herein.

## **ADDITIONAL INFORMATION**

Additional information concerning the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information including directors' and officers' remuneration and indebtedness, options to purchase securities, interests of insiders in material transactions and principal holders of the Company's securities, where applicable, is contained in the Company's management information circular in respect of the Company's most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the audited comparative consolidated financial statements of the Company for fiscal 2008 and the notes thereto and also in management's discussion and analysis for the same period.

## **SCHEDULE "A"**

### **AUDIT COMMITTEE CHARTER**

#### **A. Name**

There will be an Audit Committee ("Audit Committee") of the board of directors (the "Board") of MKS Inc. (the "Company").

#### **B. Purpose**

The purpose of the Audit Committee, as delegated by the Board, is to provide oversight and make recommendations to the Board with respect to the Company's compliance with all financial disclosure and legal and regulatory requirements relating thereto and provide oversight of accounting systems and internal controls, the quality and integrity of the financial reports and the independence, qualification and performance of the Company's external auditors ("External Auditors").

In exercise of its oversight, it is not the duty or responsibility of the Audit Committee or its members to: (1) plan or conduct audits; or (2) determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles.

Management of the Company ("Management") is responsible for: (1) the preparation, presentation and integrity of the Company's financial statements; (2) maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported in accordance with accounting standards and applicable laws and regulations.

#### **C. Composition of Committee, Constitution and Frequency of Meetings**

The Audit Committee will consist of not less than 3 members, one of whom is the Chair, all as determined by the Board. At an Audit Committee meeting a quorum will be not less than a majority of its members. New Audit Committee members will participate in such training and orientation as may be deemed by the Board or the Compensation and Corporate Governance Committee to be necessary or appropriate in the circumstances.

The Audit Committee members will satisfy the independence and financial literacy requirements of applicable legislation and stock exchange rules.

At least one member of the Audit Committee must have accounting or related financial expertise, which must involve: (1) an understanding of the accounting principles used by the Company to prepare its financial statements; (2) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (3) experience in the preparation, auditing, analyzing or evaluating financial statements that present a breadth and complexity of issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities; (4) experience with internal controls and procedures for financial reporting; and (5) an understanding of Audit Committee functions.

The Audit Committee will meet at least quarterly and more frequently as the Audit Committee, in its discretion, deems desirable. The Audit Committee can, in its discretion, invite others to attend its meetings. The Audit Committee will meet separately with Management and the External Auditors periodically, as it deems necessary, but not less than annually.

The Audit Committee will have the authority to: (1) engage independent counsel and other advisors, as it determines necessary to carry out its duties; and (2) set and pay the compensation for any advisors employed by the Audit Committee.

The Chair of the Audit Committee will, on behalf of the Audit Committee, report to the Board on matters considered by the Audit Committee, its activities and compliance with this Charter.

At least annually the Audit Committee will perform a self-evaluation to: (1) determine the Committee's effectiveness; (2) evaluate Committee succession plans related to Committee membership; and (3) review and assess the adequacy of this Charter and, if required, recommend changes to the Board.

## **D. Responsibilities**

### **1. Duties with Respect of the Appointment and Work of the External Auditors**

- The External Auditors will both report to, and be ultimately accountable to, the Audit Committee and the Board as the representatives of the shareholders and be responsible for planning and carrying out the audit of the annual financial statements of the Company.
- The Audit Committee will recommend to the Board: (1) the External Auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; and (2) the compensation of the External Auditor.
- The Audit Committee will be directly responsible for the oversight of the work of the External Auditors which will include the following:
  - (i) review of the mandate of the External Auditors;
  - (ii) review of the independence of the External Auditors including the rotation of the partners assigned in accordance with applicable laws and professional standards, the internal quality control findings of the External Auditors' firm and peer reviews, and both the nature of and amount of non-audit fees;
  - (iii) review of the performance of the External Auditors including the relationship between the External Auditors and Management and the evaluation of the lead partner of the External Auditors, taking into account the opinions of Management;
  - (iv) removal of the External Auditors if circumstances warrant, after due inquiry and discussion with the External Auditor;
  - (v) review analyses prepared by Management or the External Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements;
  - (vi) resolution of any disagreements with Management; and
  - (vii) review of any audit problems or difficulties with Management's response.
- The Audit Committee will discuss with the External Auditors the critical accounting policies and practices and be advised of alternative accounting treatments of financial information and the treatment preferred by the External Auditor.
- The Audit Committee will also receive all material written communications between the External Auditors and Management including the Management letter and schedule of unadjusted differences.
- The Audit Committee will discuss with the External Auditors and then approve the audit plan, scope, responsibilities, budget, staffing, the objectives, coordination, reliance upon Management, general audit approach, audit and related fees, the responsibilities of Management and the External Auditors and timing.

- The Audit Committee will pre-approve all review or attest engagements and non-audit services, which the External Auditors may perform for the Company or its subsidiaries in each case including fees, all in accordance with the Company’s “MKS Services Provided by KPMG Pre-Approval Policy”. In such instances, the items approved will be reported to the Audit Committee at its next scheduled meeting following such pre-approval.
- The Audit Committee will review the practices related to the hiring of partners, employees or former partners and employees of the present and former External Auditors to ensure compliance with the rules of any applicable regulatory authority or stock exchange.

## **2. Financial Reporting and Compliance**

- The Audit Committee will review and discuss with Management and the External Auditors where appropriate, the following financial documents and reports prior to public disclosure:
  - (i) annual audited financial statements including the report of the External Auditors to shareholders of the Company and quarterly financial statements, including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations;
  - (ii) all press releases discussing earning results or prospective earnings results, including pro forma or adjusted non-GAAP information;
  - (iii) all certifications that may be made by the Chief Executive and Chief Financial Officer on the annual or quarterly financial results, disclosure controls and procedures and internal controls over financial reporting;
  - (iv) any legal, tax or regulatory matters that may have a material impact on the Company's operations and financial statements; and
  - (v) any financial information contained in any prospectus, information circular or other disclosure documents or regulatory filings containing financial information of the Company.
- The Audit Committee will ensure that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements and will periodically assess the adequacy of those procedures.
- The Audit Committee will oversee any auditing or accounting reviews or similar procedures or investigations.
- The Audit Committee will review, as appropriate, any report required by the appropriate regulatory authority to be included in the annual management information circular related to the matters covered by this Charter including the disclosure of the External Auditors' services and fees, Audit Committee members and their qualifications and activities of the Audit Committee.
- The Audit Committee will, if necessary launch special investigations with full access to books, records, facilities and personnel of the Company.
- The Audit Committee will review and approve any report to shareholders and others required by applicable laws or regulations or stock exchange requirements stating whether it has:
  - (vi) reviewed and discussed the audited financial statements with Management and the External Auditors, as appropriate;

- (vii) received from the public accountants all reports and disclosures required under legal, listing and regulatory requirements and this Charter and have discussed such reports with the External Auditors, including reports with respect to the independence of the External Auditors; and
- (viii) based on the reviews and discussions referred to in clauses (i) and (ii) above, recommend to the Board that the audited financial statements be included in the annual report.

### **3. Financial Reporting Processes, Accounting Policies and Standards**

- The Audit Committee will review with Management major issues regarding accounting principles and financial statement presentations, including any significant changes in the selection or application of accounting principles and use of material estimates and judgement in preparing the financial statements. This will also include a review of analyses prepared by Management setting forth the impact of alternative GAAP methods and their impact on the financial statements.
- The Audit Committee will review all related party transactions entered into by the Company.
- The Audit Committee will also review the use of material special purpose entities and the business purpose and economic effect of material off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Company; the treatment for financial reporting purposes of any significant transactions which are not a normal part of operations, including any material off-balance sheet financing; legal including unasserted claims, tax or regulatory matters that may have a material impact on the operations and financial statements including the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles.

### **4. Internal Controls**

- Management is responsible for designing an effective system of internal control. The Audit Committee will oversee the activities of Management in implementing policies and procedures that ensure the material risks are identified and that controls are adequate, in place and functioning properly.
- The Audit Committee will review any major issues regarding the adequacy of the internal controls and the actions being taken in light of any material control deficiencies. This will include a review of internal control findings made by Management and the External Auditors. The Audit Committee will also discuss with the External Auditors the major accounting risk exposures and the steps Management has undertaken to control them.
- The Audit Committee will endeavour to ensure that the Company maintains an appropriate level of testing of its system of internal controls. Management is responsible for reviewing, subject to Audit Committee oversight, the adequacy and effectiveness of the system of internal controls.
- The Audit Committee will review expenses incurred and guidelines for reimbursement from the Chief Executive Officer of the Company.
- The Audit Committee will participate in the appointment, promotion or dismissal of the Chief Financial Officer and help determine his or her qualifications, access and compensation.

**5. Other**

- The Audit Committee will have procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Management will report to the Audit Committee on a timely basis all discovered incidents of fraud within the Company, regardless of monetary value.
- The Audit Committee will at least annually provide oversight of the Company's risk management policies including environmental risks, disaster recovery and business continuity plans, investment policies and insurance coverage.
- The Audit Committee will review the quarterly Compliance Certificates to be provided by management of the Company.