

MKS Inc.
Consolidated Balance Sheets

(U.S. dollars, thousands, unaudited)

	July 31 2007	April 30 2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 11,907	\$ 15,258
Accounts receivable, net of allowances for doubtful accounts of \$234 (April 30, 2007 – \$233)	7,943	6,118
Future income taxes	1,847	1,847
Prepaid expenses and other assets	2,370	1,946
Total current assets	24,067	25,169
Fixed assets	4,865	4,709
Intangible assets (note 2)	219	240
Goodwill (note 2)	4,494	4,494
Future income taxes	2,803	2,964
Total assets	\$ 36,448	\$ 37,576
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,651	\$ 1,482
Accrued liabilities	3,512	2,722
Income taxes payable	19	70
Deferred revenue	12,948	13,783
Total current liabilities	18,130	18,057
Shareholders' equity (note 3):		
Share capital	64,089	63,935
Accumulated other comprehensive loss	(750)	(726)
Accumulated deficit	(45,021)	(43,690)
Total shareholders' equity	18,318	19,519
Total liabilities and shareholders' equity	\$ 36,448	\$ 37,576

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Operations
(U.S. dollars, thousands, except per share data, unaudited)

	Three Months Ended July 31	
	2007	2006
Revenue:		
License	\$ 5,802	\$ 6,014
Maintenance	6,205	5,205
Service	1,600	1,400
	13,607	12,619
Operating expenses:		
Cost of product and support	1,003	1,039
Cost of service	1,319	1,121
Sales and marketing	6,171	6,295
Research and development (note 4)	3,369	2,765
General and administrative	1,906	1,771
Stock based compensation (note 3 (d))	116	197
	13,884	13,188
Operating loss	(277)	(569)
Interest income	119	151
Loss before income taxes	(158)	(418)
Income tax provision:		
Future income taxes	162	21
Income tax provision	162	21
Net loss	\$ (320)	\$ (439)
Loss per share (note 6):		
Basic	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	50,581	50,182
Diluted weighted average number of shares outstanding	50,581	50,182

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Shareholders' Equity

(US dollars, thousands, unaudited)

	Common Shares		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balances at April 30, 2006	49,969	\$ 60,474	\$ 1,667	\$ (348)	\$ (36,867)	\$ 24,926
Issuance of common shares	462	704	(85)	–	–	619
Stock-based compensation	–	–	197	–	–	197
Dividends paid	–	–	–	–	(1,008)	(1,008)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(114)	–	(114)
Net loss	–	–	–	–	(439)	(439)
Comprehensive loss	–	–	–	(114)	(439)	(553)
Balances at July 31, 2006	50,431	\$ 61,178	\$ 1,779	\$ (462)	\$ (38,314)	\$ 24,181

	Common Shares		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balances at April 30, 2007	50,570	61,418	2,517	(726)	(43,690)	19,519
Issuance of common shares	29	60	(22)	–	–	38
Stock-based compensation	–	–	116	–	–	116
Dividends paid	–	–	–	–	(1,011)	(1,011)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(24)	–	(24)
Net loss	–	–	–	–	(320)	(320)
Comprehensive loss	–	–	–	(24)	(320)	(344)
Balances at July 31, 2007	50,599	\$ 61,478	\$ 2,611	\$ (750)	\$ (45,021)	\$ 18,318

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows

(U.S. dollars, thousands, unaudited)

	Three Months Ended July 31	
	2007	2006
Cash flows provided by (used for) operating activities:		
Net loss	\$ (320)	\$ (439)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation of fixed assets	293	208
Amortization of intangible assets	21	-
Stock based compensation	116	197
Future income taxes	161	21
Change in operating assets and liabilities:		
Accounts receivable	(1,825)	1,715
Prepaid expenses and other assets	(424)	(55)
Accounts payable	169	25
Accrued liabilities	790	62
Income taxes payable	(51)	(38)
Deferred revenue	(835)	(910)
Net cash provided by (used for) operating activities	(1,905)	786
Cash flows used for investing activities:		
Purchase of fixed assets	(445)	(371)
Purchase of intangibles	-	(222)
Net cash used for investing activities	(445)	(593)
Cash flows used for financing activities:		
Proceeds on issuance of common shares	38	619
Dividends paid	(1,011)	(1,008)
Net cash used for financing activities	(973)	(389)
Effect of exchange rate changes on cash and cash equivalents	(28)	(127)
Change in cash and cash equivalents balances	(3,351)	(323)
Cash and cash equivalents, beginning of period	15,258	15,693
Cash and cash equivalents, end of period	\$ 11,907	\$ 15,370
Supplemental cash flow information:		
Interest received	\$ 119	\$ 151
Interest paid	-	-
Income taxes paid	2	38

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data, unaudited)

MKS Inc. ("MKS" or the "Company") is a provider of software products and services in the application development and deployment (software "Application Lifecycle Management" or "ALM", formerly "Software Configuration Management") and cross-platform development and systems administration ("Interoperability" or "IO") markets. The Company's products are designed to increase development team productivity while improving the quality, reliability and availability of business critical software as it is developed and maintained, and to significantly cut development costs and time to market while enabling enhanced performance.

1. Significant accounting policies:**a) Basis of presentation:**

The accompanying consolidated financial statements of MKS Inc. ("MKS" or the "Company") as at July 31, 2007 and for the three month periods ended July 31, 2007 and 2006 are unaudited and have been prepared in accordance with generally accepted accounting principles in Canada for interim financial information, using the same accounting policies and methods of application as used in the April 30, 2007 annual financial statements, except as described in note 1 (b) below.

Accordingly, these consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. The following information should be read in conjunction with the Company's annual consolidated financial statements and notes thereto for the year ended April 30, 2007.

b) Changes in accounting policies:

Effective May 1, 2007, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges. These new Handbook Sections provide requirements for the recognition and measurement of financial instruments and for the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined to include changes in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not revised. Comparative figures have not been restated, except to reflect balances related to foreign currency translation of self-sustaining foreign operations in comprehensive loss and accumulated other comprehensive loss. The adoption of these Handbook Sections had no impact on opening accumulated deficit.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on the initial classification, as follows: held-for-trading financial assets are measured at fair value, and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value, and changes in fair value are recorded in other comprehensive income until the investment is no longer recognized or is impaired, at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the three months ended July 31, 2007.

MKS Inc.
Notes to Consolidated Financial Statements
(U.S. dollars, thousands, except per share data, unaudited)

2. Fixed assets, intangibles and goodwill:

a) Fixed assets:

	July 31 2007	April 30 2007
Computer equipment	\$ 9,482	\$ 9,136
Applications software	2,792	2,724
Office furniture and equipment	2,013	1,970
Leasehold improvements	1,883	1,881
	16,170	15,711
Accumulated depreciation	(11,305)	(11,002)
	\$ 4,865	\$ 4,709

b) Intangible assets:

	July 31 2007	April 30 2007
Purchased software and technology, gross	\$ 6,712	\$ 6,712
Other intangible assets, gross	2,801	2,801
Accumulated amortization	(9,294)	(9,273)
Intangible assets, net	\$ 219	\$ 240

Intangible assets are amortized on a straight-line basis over their expected life, over periods of 3 to 5 years.

c) Goodwill:

The Company's goodwill balances are assigned to reporting units that coincide with the Company's reportable operating segments as follows:

Application Lifecycle Management	\$ 2,424
Interoperability	2,070
Goodwill	\$ 4,494

3. Shareholders' equity:

a) Share capital:

	July 31 2007	April 30 2007
Common shares:		
Authorized – unlimited		
Issued and outstanding – 50,599 (April 30, 2007 – 50,570), no par value	\$ 61,478	\$ 61,418
Additional paid in capital	2,611	2,517
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 64,089	\$ 63,935

The Preferred Shares are non-voting, unless dividends are in arrears, and rank in priority to the Common Shares in respect of the payment of dividends and as to the distribution of assets in the event of liquidation, dissolution or wind-up of the Company.

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data, unaudited)

b) Continuity of options issued under the Company's stock option plans:

A summary of the status of the plans as of the three months ended July 31, 2007 and the year ended April 30, 2007 is presented below:

	Three Months Ended July 31, 2007		Year Ended April 30, 2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	7,652	Cdn\$1.69	7,625	Cdn\$1.59
Granted	—	—	795	2.69
Exercised	(20)	1.38	(601)	1.48
Forfeited	(40)	2.04	(167)	2.96
Outstanding, end of period	7,592	Cdn\$1.68	7,652	Cdn\$1.69
Options exercisable, end of period	6,455	Cdn\$1.59	6,187	Cdn\$1.55

c) Summary of the balances of options issued under the plans at July 31, 2007:

Range of Exercise Prices (Cdn\$)	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (Cdn\$)	Number Exercisable	Weighted Average Exercise Price (Cdn\$)
\$ 0.60 – 1.44	4,020	2.0 years	\$ 1.28	3,836	\$ 1.28
1.45 – 2.07	2,327	2.4	1.88	2,039	1.89
2.20 – 3.95	1,245	5.1	2.62	580	2.56
	7,592	2.6 years	\$ 1.68	6,455	\$ 1.59

d) Impact of stock compensation:

The impact of the stock compensation charge by financial statement line item would be as follows:

	Three months Ended July 31	
	2007	2006
Cost of product and support	\$ 4	\$ 5
Cost of service	3	6
Sales and marketing	36	46
Research and development	25	46
General and administrative	48	94
	\$ 116	\$ 197

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions for options granted in the three months ended July 31, 2006: risk free interest rate – 5.0%, dividend yield – 2.7%, expected lives of options – 5 years, expected volatility – 53% and expected forfeiture rate – 17.3%. No options were granted in the three months ended July 31, 2007. The fair value of options applicable to non-vested awards at July 31, 2007 was \$407 and the weighted-average period over which those non-vested awards are expected to be recognized is 1.2 years.

e) Employee Share Purchase Plan:

During the three months ended July 31, 2007, 9 shares (July 31, 2006 – nil) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$12. A stock-based compensation charge of \$2 was charged related to the discount provided to ESPP participants during the three months ended July 31, 2007 (July 31, 2006 - \$nil).

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4. Research and development expenditures:

	Three Months Ended July 31	
	2007	2006
Gross research and development expenditures	\$ 3,418	\$ 2,765
Less: Investment tax credits realized	(49)	-
<u>Net research and development expenditures</u>	<u>\$ 3,369</u>	<u>\$ 2,765</u>

The Company qualifies for certain refundable investment tax credits related to its research and development activities. As required under Canadian GAAP, these investment tax credits have been accounted for as a reduction of the Company's research and development expenditures.

5. Loss per share:

Basic loss per share and diluted loss per share are calculated as follows:

	Three Months Ended July 31	
	2007	2006
<u>Net loss</u>	<u>\$ (320)</u>	<u>\$ (439)</u>
Basic weighted average number of shares outstanding	50,581	50,182
<u>Incremental shares from assumed exercise of stock options and warrants</u>	<u>-</u>	<u>-</u>
<u>Diluted weighted average number of shares outstanding</u>	<u>50,581</u>	<u>50,182</u>
Loss per share:		
Basic	\$ (0.01)	\$ (0.01)
<u>Diluted</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

For the three months ended July 31, 2007 and 2006, stock options outstanding were not included in the calculation of diluted loss per share because the Company had a loss for those periods and to do so would have been anti-dilutive. The number of potentially dilutive stock options excluded from the calculation of diluted loss per share was 4,078 and 7,428 at July 31, 2007 and 2006, respectively.

6. Segmented information:

The Company evaluates operational performance based on two operating segments: software Application Lifecycle Management (ALM) and Interoperability (IO). The segments are managed separately because each requires unique marketing strategies and is exposed to different economic environments. The ALM segment develops and markets software solutions that assist programmers in the creation of traditional and Web-based software, and in the management of the software development process. The IO segment encompasses products that address the issues surrounding cross-platform development, application migration, systems administration and network management.

It is the Company's policy to price internal sales or transfer values for services on an equivalent basis as that used for external pricing.

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The following schedule provides required segmented information disclosure.

	Three Months Ended					
	July 31, 2007			July 31, 2006		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 6,565	\$ 1,498	\$ 8,063	\$ 6,193	\$ 1,652	\$ 7,845
Europe & Other	5,149	395	5,544	4,312	462	4,774
Total revenue	\$ 11,714	\$ 1,893	\$ 13,607	\$ 10,505	\$ 2,114	\$ 12,619
Revenue:						
License	\$ 4,707	\$ 1,095	\$ 5,802	\$ 4,703	\$ 1,311	\$ 6,014
Maintenance	5,407	798	6,205	4,402	803	5,205
Service	1,600	—	1,600	1,400	—	1,400
Total revenue	\$ 11,714	\$ 1,893	\$ 13,607	\$ 10,505	\$ 2,114	\$ 12,619
Income (loss):						
Operating income (loss)	\$ (784)	\$ 507	\$ (277)	\$ (1,273)	\$ 704	\$ (569)
Interest and income taxes			43			130
Net loss			\$ (320)			\$ (439)
Purchase of fixed assets and intangible assets	\$ 445	\$ —	\$ 445	\$ 543	\$ 50	\$ 593
Depreciation and amortization of fixed assets and intangible assets	\$ 303	\$ 11	\$ 314	\$ 199	\$ 9	\$ 208
	July 31, 2007			April 30, 2007		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 14,677	\$ —	\$ 14,677	\$ 17,389	\$ —	\$ 17,389
Other	8,519	13,252	21,771	7,431	12,756	20,187
Total assets	\$ 23,196	\$ 13,252	\$ 36,448	\$ 24,820	\$ 12,756	\$ 37,576
Fixed assets, intangible assets and goodwill	\$ 7,320	\$ 2,258	\$ 9,578	\$ 7,174	\$ 2,269	\$ 9,443

Geographic segmentation of revenue is determined based on the location of the customer.