

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

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.

MKS Inc.
Notes to Consolidated Financial Statements

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

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.