

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
Deferred 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)	2,424	2,424
Deferred income taxes	2,803	2,964
Total assets	\$ 34,378	\$ 35,506
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	54,991	54,837
Accumulated other comprehensive loss	(1,695)	(1,671)
Accumulated deficit	(37,048)	(35,717)
Total shareholders' equity	16,248	17,449
Total liabilities and shareholders' equity	\$ 34,378	\$ 35,506

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	3,418	2,765
General and administrative	1,906	1,771
Stock based compensation (note 3 (d))	116	246
	13,933	13,237
Operating loss	(326)	(618)
Interest income	119	151
Loss before income taxes	(207)	(467)
Income tax provision (recovery):		
Current (note 4)	(49)	–
Deferred	162	21
Income tax provision	113	21
Net loss	\$ (320)	\$ (488)
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 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)	\$ (488)
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	246
Deferred 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. 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 the United States for interim financial information, using the same accounting policies and methods of application as used in the April 30, 2007 annual financial statements, except for the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48") which in accordance with the transitional provisions was adopted on May 1, 2007.

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 consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended April 30, 2007.

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	\$ 958	\$ 958
Other intangible assets, gross	389	389
Accumulated amortization	(1,128)	(1,107)
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	–
Goodwill	\$ 2,424

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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	\$ 53,498	\$ 53,444
Additional paid in capital	1,493	1,393
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 54,991	\$ 54,837

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.

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

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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	\$ 6
Cost of service	3	9
Sales and marketing	36	59
Research and development	25	54
General and administrative	48	118
	\$ 116	\$ 246

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).

4. Income taxes

a) Current income tax provision (recovery):

	Three months Ended July 31	
	2007	2006
Gross current income tax provision (recovery)	\$ –	\$ –
Less: Investment tax credits realized	(49)	–
Net current income tax provision (recovery)	\$ (49)	\$ –

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

b) Uncertain tax positions:

Effective May 1, 2007, the Company adopted the provisions of FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. As a result of the implementation of FIN 48 there was no material impact to the Company's opening tax balances based on the tax positions taken.

Upon adoption of FIN 48, the Company's policy is to include interest and penalties related to gross unrecognized tax benefits within our income tax provision. Previously, interest paid related to income taxes was classified in the company's financial statements as interest expense. As of July 31, 2007, the Company had accrued \$nil related to the payment of such interest and penalties.

The Company is subject to income taxes in a number of jurisdictions due to its international operations. The Company is not currently under examinations by any tax authorities related to its income taxes. The major tax jurisdictions the Company operates within and open tax years in each of those jurisdictions is indicated in the following table:

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Major Tax Jurisdiction	Open Tax Years
Canada	2002 to 2007
United States	2004 to 2007
United Kingdom	2005 to 2007
Germany	2004 to 2007

5. Comprehensive loss:

	Three months Ended July 31	
	2007	2006
Net loss	\$ (320)	\$ (488)
Other comprehensive loss:		
Foreign currency translation, net of taxes of nil	(24)	(114)
Comprehensive loss	\$ (344)	\$ (602)

6. Loss per share:

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

	Three months Ended July 31	
	2007	2006
Net loss	\$ (320)	\$ (488)
Basic weighted average number of shares outstanding	50,581	50,182
Incremental shares from assumed exercise of stock options and warrants	—	—
Diluted weighted average number of shares outstanding	50,581	50,182
Loss per share:		
Basic	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.01)

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.

7. 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)	\$ (833)	\$ 507	\$ (326)	\$ (1,316)	\$ 698	\$ (618)
Interest and income taxes			6			130
Net loss			\$ (320)			\$ (488)
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	11,182	19,701	7,431	10,686	18,117
Total assets	\$ 23,196	\$ 11,182	\$ 34,378	\$ 24,820	\$ 10,686	\$ 35,506
Fixed assets, intangible assets and goodwill	\$ 7,320	\$ 188	\$ 7,508	\$ 7,174	\$ 199	\$ 7,373

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