

**MKS Inc.**  
**Consolidated Balance Sheets**

(U.S. dollars, thousands, unaudited)

	July 31 2008	April 30 2008
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 11,509	\$ 12,933
Accounts receivable, net of allowances for doubtful accounts of \$217 (April 30, 2008 – \$243)	12,224	16,054
Future income taxes	2,496	2,496
Prepaid expenses and other assets	1,853	1,539
Total current assets	28,082	33,022
Fixed assets	4,390	4,530
Intangible assets (note 2)	133	155
Goodwill (note 2)	4,494	4,494
Future income taxes	1,859	2,133
Total assets	\$ 38,958	\$ 44,334
<b>Liabilities and shareholders' equity:</b>		
Current liabilities:		
Accounts payable	\$ 1,599	\$ 2,430
Accrued liabilities	3,557	5,149
Income taxes payable	904	656
Deferred revenue	13,343	15,460
Total current liabilities	19,403	23,695
Shareholders' equity (note 3):		
Share capital	65,104	65,506
Accumulated other comprehensive loss	(1,017)	(949)
Accumulated deficit	(44,532)	(43,918)
Total shareholders' equity	19,555	20,639
Total liabilities and shareholders' equity	\$ 38,958	\$ 44,334

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	
	2008	2007
Revenue:		
License	\$ 6,156	\$ 5,802
Maintenance	7,035	6,205
Service	2,174	1,600
	<b>15,365</b>	13,607
Operating expenses:		
Cost of product and support	1,240	1,003
Cost of service	1,788	1,319
Sales and marketing	5,862	5,940
Research and development	3,109	3,611
General and administrative	1,997	1,894
Stock based compensation (note 3 (d))	171	116
	<b>14,167</b>	13,884
Operating income (loss)	<b>1,198</b>	(277)
Interest income	32	119
Income (loss) before income taxes	<b>1,230</b>	(158)
Income tax provision (recovery):		
Current income taxes	286	-
Future income taxes	325	162
Income tax provision	<b>611</b>	162
Net income (loss)	<b>\$ 619</b>	\$ (320)
Earnings (loss) per share (note 6):		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)
Weighted average number of shares outstanding	<b>51,425</b>	50,581
Diluted weighted average number of shares outstanding	<b>52,427</b>	50,581

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, 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

	Common Shares		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balances at April 30, 2008	51,427	62,399	3,107	(949)	(43,918)	20,639
Issuance of common shares	250	283	–	–	–	283
Stock-based compensation	–	–	171	–	–	171
Shares repurchased for cancellation	(707)	(856)	–	–	(200)	(1,056)
Dividends paid	–	–	–	–	(1,033)	(1,033)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(46)	–	(46)
Unrealized gain (loss) on cash flow hedges	–	–	–	(22)	–	(22)
Net income	–	–	–	–	619	619
Comprehensive income	–	–	–	(68)	619	551
Balances at July 31, 2008	50,970	\$ 61,826	\$ 3,278	\$ (1,017)	\$ (44,532)	\$ 19,555

See accompanying Notes to Consolidated Financial Statements

**MKS Inc.**  
**Consolidated Statements of Cash Flows**

(U.S. dollars, thousands, unaudited)

	Three Months Ended July 31	
	2008	2007
Cash flows provided by (used for) operating activities:		
Net income (loss)	\$ 619	\$ (320)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation of fixed assets	316	293
Amortization of intangible assets	22	21
Stock based compensation	171	116
Deferred income taxes	325	161
Loss on disposal of fixed assets	25	-
Change in operating assets and liabilities:		
Accounts receivable	3,830	(1,825)
Prepaid expenses and other assets	(314)	(424)
Accounts payable	(831)	169
Accrued liabilities	(1,592)	790
Income taxes payable	248	(51)
Deferred revenue	(2,117)	(835)
Net cash provided by (used for) operating activities	702	(1,905)
Cash flows used for investing activities:		
Purchase of fixed assets	(203)	(445)
Net cash used for investing activities	(203)	(445)
Cash flows used for financing activities:		
Proceeds on issuance of common shares	283	38
Cash paid for shares purchased for cancellation	(1,056)	-
Dividends paid	(1,033)	(1,011)
Net cash used for financing activities	(1,806)	(973)
Effect of exchange rate changes on cash and cash equivalents	(117)	(28)
Change in cash and cash equivalents balances	(1,424)	(3,351)
Cash and cash equivalents, beginning of period	12,933	15,258
Cash and cash equivalents, end of period	\$ 11,509	\$ 11,907
Supplemental cash flow information:		
Interest received	\$ 32	\$ 119
Income taxes paid	30	2

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, 2008 and for the three month periods ended July 31, 2008 and 2007 are unaudited and have been prepared in accordance with generally accepted accounting principles in the Canada for interim financial information, using the same accounting policies and methods of application as used in the April 30, 2008 annual financial statements.

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, 2008.

##### b) Financial instruments

The Company has entered into cash flow hedges to purchase Canadian Dollars at times in the future to help mitigate foreign exchange fluctuations between the Canadian and United States dollars through January 2009. These hedges are accounted for as designated cash flow hedges. At July 31, 2008 these hedges were assessed as fully effective and the unrealized gain or loss on those hedges was reflected in the Company's Other Comprehensive Income. As at July 31, 2008 the Company has recorded an unrealized loss in Other Comprehensive Income of \$22. Any ineffective portion of the hedges would be reflected in net income for the applicable period.

#### 2. Fixed assets, intangibles and goodwill:

##### a) Fixed assets:

	July 31 2008	April 30 2008
Computer equipment	\$ 9,836	\$ 9,736
Applications software	2,929	2,901
Office furniture and equipment	2,052	2,053
Leasehold improvements	1,847	1,888
	<b>16,664</b>	16,578
Accumulated depreciation	<b>(12,274)</b>	(12,048)
	<b>\$ 4,390</b>	\$ 4,530

##### b) Intangible assets:

	July 31 2008	April 30 2008
Purchased software and technology, gross	\$ 6,712	\$ 6,712
Other intangible assets, gross	2,801	2,801
Accumulated amortization	<b>(9,380)</b>	(9,358)
Intangible assets, net	<b>\$ 133</b>	\$ 155

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

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**Notes to Consolidated Financial Statements**

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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		–
<b>Goodwill</b>	<b>\$</b>	<b>2,424</b>

3. Shareholders' equity:

a) Share capital:

	<b>July 31 2008</b>	April 30 2008
Common shares:		
Authorized – unlimited		
Issued and outstanding – 50,970		
(April 30, 2008 – 51,427), no par value	<b>\$ 61,826</b>	\$ 62,399
Additional paid in capital	<b>3,278</b>	3,107
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
<b>Total share capital</b>	<b>\$ 65,104</b>	<b>\$ 65,506</b>

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, 2008 and the year ended April 30, 2008 is presented below:

	<b>Three Months Ended July 31, 2008</b>		Year Ended April 30, 2008	
	<b>Options</b>	<b>Weighted Average Exercise Price</b>	Options	Weighted Average Exercise Price
Outstanding, beginning of period	<b>6,178</b>	<b>Cdn\$1.66</b>	7,652	Cdn\$1.69
Granted	<b>850</b>	<b>1.56</b>	823	1.54
Exercised	<b>(233)</b>	<b>1.36</b>	(775)	1.30
Forfeited	<b>(171)</b>	<b>2.01</b>	(1,522)	1.90
<b>Outstanding, end of period</b>	<b>6,624</b>	<b>Cdn\$1.65</b>	6,178	Cdn\$1.66
<b>Options exercisable, end of period</b>	<b>4,597</b>	<b>Cdn\$1.60</b>	4,833	Cdn\$1.59

c) Summary of the balances of options issued under the plans at July 31, 2008:

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 – 0.96	162	3.0 years	\$ 0.95	162	\$ 0.95
1.00 – 1.37	2,697	1.4	1.29	2,668	1.29
1.41 – 1.98	2,720	5.0	1.69	1,064	1.88
2.07 – 2.75	1,045	4.5	2.57	703	2.51
	<b>6,624</b>	<b>3.4 years</b>	<b>\$ 1.65</b>	<b>4,597</b>	<b>\$ 1.60</b>

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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	
	2008	2007
Cost of product and support	\$ 3	\$ 4
Cost of service	6	3
Sales and marketing	58	36
Research and development	38	25
General and administrative	66	48
	<b>\$ 171</b>	<b>\$ 116</b>

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, 2008: risk free interest rate – 4% (2007 – 4%), dividend yield – 6% (2007 – 3%), expected lives of options – 5 years (2007 – 5 years), expected volatility – 58% (2007 – 68%) and expected forfeiture rate – 17% (2007 – 17%). 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 \$160 and the weighted-average period over which those non-vested awards are expected to be recognized is 1.5 years.

e) Employee Share Purchase Plan:

During the three months ended July 31, 2008, 17 shares (2007 – 9) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$22 (2007 - \$12). A stock-based compensation charge of \$4 was charged related to the discount provided to ESPP participants during the three months ended July 31, 2008 (2007 - \$2).

4. Research and development expenditures:

	Three Months Ended July 31	
	2008	2007
Gross research and development expenditures	\$ 3,158	\$ 3,418
Less: Investment tax credits realized	(49)	(49)
Net research and development expenditures	<b>\$ 3,109</b>	<b>\$ 3,369</b>

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. Earnings (loss) per share:

Basic earnings (loss) per share and diluted loss per share are calculated as follows:

	Three months Ended July 31	
	2008	2007
Net income (loss)	\$ 619	\$ (320)
Basic weighted average number of shares outstanding	51,425	50,181
Incremental shares from assumed exercise of stock options	1,002	–
Diluted weighted average number of shares outstanding	<b>52,427</b>	50,181
Earnings (loss) per share:		
Basic	\$ 0.01	\$ (0.01)
Diluted	<b>\$ 0.01</b>	\$ (0.01)

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For the three months ended July 31, 2007, stock options outstanding were not included in the calculation of diluted loss per share because the Company had a loss for the period 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 528 at July 31, 2007.

**6. Financial Instruments:**

The Company has exposures to the following types of risks related to financial instruments: credit risk, market risk and liquidity risk.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company has a credit policy under which its customers are analyzed for creditworthiness. One customer of the Company accounted for 33% of accounts receivable at July 31, 2008. Also at July 31, 2008, 8% of accounts receivable was more than 90 days past due. The Company provided an allowance of \$217 for potential credit risk in accounts receivable at July 31, 2008, down \$26 from the balance at April 30, 2008.

The Company limits its exposure to credit risk arising from derivative financial instruments by transacting with counterparties that are stable and of high credit quality.

The carrying amount of the Company's financial assets (cash and cash equivalents and accounts receivable) represent the maximum credit exposure from those items.

Market risk is the risk that changes in market prices (such as foreign exchange rates) will impact the Company's net income or the value of the financial instruments it holds.

The Company operates internationally and is subject to market risk from changes in foreign exchange rates, primarily Canadian Dollars, UK Pounds and Euros. The Company has entered into forward foreign exchange contracts to fix, in US Dollars, a portion of its Canadian Dollar expenditures.

A 5% weakening of the US Dollar against the Canadian Dollar, UK Pound and Euro would have resulted in a decrease in net income for the three months ended July 31, 2008 of \$93 (2007 – \$138), assuming that all other variables remained constant. A 5% strengthening of the US Dollar would have an equal, but opposite effect.

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due.

The Company held cash and cash equivalents of \$11,509 and had positive working capital of \$8,679 at July 31, 2008. The Company believes that its current cash balances and cash flows from operations will be sufficient to meet its future working capital and capital expenditure requirements.

**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, 2008			July 31, 2007		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 7,516	\$ 1,469	\$ 8,985	\$6,565	\$ 1,498	\$ 8,063
Europe & Other	5,927	453	6,380	5,149	395	5,544
Total revenue	\$ 13,443	\$ 1,922	\$ 15,365	\$ 11,714	\$ 1,893	\$ 13,607
Revenue:						
License	\$ 4,969	\$ 1,187	\$ 6,156	\$ 4,707	\$ 1,095	\$ 5,802
Maintenance	6,300	735	7,035	5,407	798	6,205
Service	2,174	—	2,174	1,600	—	1,600
Total revenue	\$ 13,443	\$ 1,922	\$ 15,365	\$ 11,714	\$ 1,893	\$ 13,607
Income (loss):						
Operating income (loss)	\$ 687	\$ 511	\$ 1,198	\$ (784)	\$ 507	\$ (277)
Interest and income taxes expense (recovery)			579			(43)
Net income (loss)			\$ 619			\$ (320)
Purchase of fixed assets and intangible assets	\$ 199	\$ 4	\$ 203	\$ 445	\$ —	\$ 445
Depreciation and amortization of fixed assets and intangible assets	\$ 332	\$ 6	\$ 338	\$ 303	\$ 11	\$ 314
	July 31, 2008			April 30, 2008		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 11,689	\$ —	\$ 11,689	\$ 10,366	\$ —	\$ 10,366
Other	12,259	15,010	27,269	19,331	14,637	33,968
Total assets	\$ 23,948	\$ 15,010	\$ 38,958	\$ 29,697	\$ 14,637	\$ 44,334
Fixed assets, intangible assets and goodwill	\$ 6,795	\$ 2,222	\$ 9,017	\$ 6,954	\$ 2,225	\$ 9,179

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