

**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
Deferred income taxes	1,384	1,384
Prepaid expenses and other assets	1,853	1,539
Total current assets	26,970	31,910
Fixed assets	4,390	4,530
Intangible assets (note 2)	133	155
Goodwill (note 2)	2,424	2,424
Deferred income taxes	2,971	3,245
Total assets	\$ 36,888	\$ 42,264
<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	56,112	56,408
Accumulated other comprehensive loss	(1,962)	(1,894)
Accumulated deficit	(36,665)	(35,945)
Total shareholders' equity	17,485	18,569
Total liabilities and shareholders' equity	\$ 36,888	\$ 42,264

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	1,004
Cost of service	1,788	1,319
Sales and marketing	5,862	5,940
Research and development	3,158	3,660
General and administrative	1,997	1,894
Stock based compensation (note 3 (d))	171	116
	<b>14,216</b>	13,933
Operating income (loss)	<b>1,149</b>	(326)
Interest income	32	119
Income (loss) before income taxes	<b>1,181</b>	(207)
Income tax provision (recovery):		
Current (note 4)	237	(49)
Deferred	325	162
Income tax provision	<b>562</b>	113
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 Cash Flows**  
(U.S. dollars, thousands, unaudited)

	Three Months Ended July 31	
	<b>2008</b>	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	162
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	<b>702</b>	(1,904)
Cash flows used for investing activities:		
Purchase of fixed assets	(203)	(445)
Net cash used for investing activities	<b>(203)</b>	(445)
Cash flows used for financing activities:		
Proceeds on issuance of common shares	283	38
Cash paid for shares repurchased for cancellation	(1,056)	—
Dividends paid	(1,033)	(1,011)
Net cash used for financing activities	<b>(1,806)</b>	(973)
Effect of exchange rate changes on cash and cash equivalents	<b>(117)</b>	(29)
Change in cash and cash equivalents balances	<b>(1,424)</b>	(3,351)
Cash and cash equivalents, beginning of period	<b>12,933</b>	15,258
Cash and cash equivalents, end of period	<b>\$ 11,509</b>	\$ 11,907
Supplemental cash flow information:		
Interest received	\$ 32	\$ 119
Income taxes paid	<b>30</b>	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 United States for interim financial information, using the same accounting policies and methods of application as used in the April 30, 2008 annual financial statements, except as noted in note 1 c).

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.

c) Fair value measurements

In September 2006, the Financial Standards Board released FASB 157, "Fair Value Measurements", which is effective for fiscal years beginning after November 15, 2007. FASB 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. There is no impact of this pronouncement on the Company's interim financial statements.

2. Fixed assets, intangibles and goodwill:

a) Fixed assets:

	<b>July 31 2008</b>	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

**MKS Inc.**  
**Notes to Consolidated Financial Statements**

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

b) Intangible assets:

	<b>July 31 2008</b>	April 30 2008
Purchased software and technology, gross	\$ 958	\$ 958
Other intangible assets, gross	389	389
Accumulated amortization	<b>(1,214)</b>	(1,192)
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.

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	<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>\$ 53,908</b>	\$ 54,375
Additional paid in capital	<b>2,204</b>	2,033
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	-	-
Total share capital	<b>\$ 56,112</b>	\$ 56,408

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
Outstanding, end of period	<b>6,624</b>	<b>Cdn\$1.65</b>	6,178	Cdn\$1.66
Options exercisable, end of period	<b>4,597</b>	<b>Cdn\$1.60</b>	4,833	Cdn\$1.59

**MKS Inc.**  
**Notes to Consolidated Financial Statements**

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

- 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
	6,624	3.4 years	\$ 1.65	4,597	\$ 1.60

- 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
	\$ 171	\$ 116

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. Income taxes

- a) Current income tax provision (recovery):

	Three months Ended July 31	
	2008	2007
Gross current income tax provision (recovery)	\$ 286	\$ –
Less: Investment tax credits realized	(49)	(49)
Net current income tax provision (recovery)	\$ 237	\$ (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:

The Company's policy is to include interest and penalties related to gross unrecognized tax benefits within the 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, 2008, the Company had accrued \$nil related to the payment of such interest and penalties.

**MKS Inc.**  
**Notes to Consolidated Financial Statements**

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

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:

Major Tax Jurisdiction	Open Tax Years
Canada	2003 to 2008
United States	2004 to 2008
United Kingdom	2005 to 2008
Germany	2004 to 2008

5. Comprehensive income (loss):

	Three months Ended July 31	
	2008	2007
Net income (loss)	\$ 619	\$ (320)
Other comprehensive income (loss):		
Foreign currency gain (loss) on hedged derivative contracts	(22)	-
Foreign currency translation, net of taxes of nil	(46)	(24)
Comprehensive income (loss)	\$ 551	\$ (344)

6. 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 and warrants	1,002	-
Diluted weighted average number of shares outstanding	52,427	50,181
Earnings (loss) per share:		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)

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.

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.

**MKS Inc.**  
**Notes to Consolidated Financial Statements**

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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)	\$ 638	\$ 511	\$ 1,149	\$ (833)	\$ 507	\$ (326)
Interest and income taxes expense (recovery)			530			(6)
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	12,940	25,199	19,331	12,567	31,898
Total assets	\$ 23,948	\$ 12,940	\$ 36,888	\$ 29,697	\$ 12,567	\$ 42,264
Fixed assets, intangible assets and goodwill	\$ 6,795	\$ 152	\$ 6,947	\$ 6,954	\$ 155	\$ 7,109

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