

MKS Inc.
Consolidated Balance Sheets
(U.S. dollars, thousands, unaudited)

	October 31 2006	April 30 2006
Assets:		
Current assets:		
Cash and cash equivalents	\$ 14,721	\$ 15,693
Accounts receivable, net of allowances for doubtful accounts of \$168 (April 30, 2006 – \$223)	7,622	11,026
Future income taxes	2,569	2,572
Other	1,795	2,088
Total current assets	26,707	31,379
Capital assets	3,844	3,278
Intangible assets (note 2)	228	–
Goodwill (note 2)	4,494	4,494
Future income taxes	2,608	2,608
Total assets	\$ 37,881	\$ 41,759
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,272	\$ 1,451
Accrued liabilities	2,445	2,689
Income taxes payable	179	367
Deferred revenue	11,127	12,326
Total current liabilities	15,023	16,833
Shareholders' equity:		
Share capital	63,377	62,141
Cumulative translation adjustment	(515)	(348)
Accumulated deficit	(40,004)	(36,867)
Total shareholders' equity	22,858	24,926
Total liabilities and shareholders' equity	\$ 37,881	\$ 41,759

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 October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Revenue:				
License	\$ 4,425	\$ 5,431	\$ 10,439	\$ 10,676
Maintenance	5,491	4,704	10,696	9,059
Service	1,593	1,401	2,993	2,606
	11,509	11,536	24,128	22,341
Operating expenses:				
Cost of product and support	991	888	2,030	1,738
Cost of service	1,146	979	2,267	2,003
Sales and marketing	5,637	4,735	11,932	9,383
Research and development (note 3)	2,565	2,312	5,330	4,522
General and administrative	1,718	1,721	3,489	3,280
Stock based compensation	269	164	466	361
Amortization of intangibles	1	292	1	584
	12,327	11,091	25,515	21,871
Income (loss) from operations	(818)	445	(1,387)	470
Interest income, net	120	39	271	59
Income (loss) before income taxes	(698)	484	(1,116)	529
Income tax provision (recovery):				
Future	(18)	–	3	–
Income tax provision (recovery)	(18)	–	3	–
Net income (loss)	\$ (680)	\$ 484	\$ (1,119)	\$ 529
Earnings (loss) per share:				
Basic and diluted	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
Basic weighted average number of shares outstanding	50,469	42,916	50,327	42,645
Diluted weighted average number of shares outstanding	52,278	48,628	52,301	46,365

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Shareholders' Equity

(U.S. dollars, thousands, unaudited)

	Common Shares		Contributed	Warrants		Cumulative	Accumulated	Total
	Shares	Amount	Surplus	Warrants	Amount	Translation Adjustment	Deficit	
Balances at April 30, 2005	41,945	\$ 53,561	\$ 1,470	6,927	\$ 1,351	\$ (387)	\$ (44,433)	\$ 11,562
Exercise of warrants	6,927	5,125	–	(6,927)	(1,351)	–	–	3,774
Issuance of common shares	1,097	1,788	(512)	–	–	–	–	1,276
Stock based compensation	–	–	709	–	–	–	–	709
Foreign currency translation adjustment	–	–	–	–	–	39	–	39
Net income	–	–	–	–	–	–	7,566	7,566
Balances at April 30, 2006	49,969	\$ 60,474	\$ 1,667	–	\$ –	\$ (348)	\$ (36,867)	\$ 24,926
Issuance of common shares	576	899	(129)	–	–	–	–	770
Stock based compensation	–	–	466	–	–	–	–	466
Dividends paid	–	–	–	–	–	–	(2,018)	(2,018)
Foreign currency translation adjustment	–	–	–	–	–	(167)	–	(167)
Net loss	–	–	–	–	–	–	(1,119)	(1,119)
Balances at October 31, 2006	50,545	\$ 61,373	\$ 2,004	–	\$ –	\$ (515)	\$ (40,004)	\$ 22,858

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows

(U.S. dollars, thousands, unaudited)

	Three Months Ended October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income (loss)	\$ (680)	\$ 484	\$ (1,119)	\$ 529
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation of capital assets	213	494	421	972
Amortization of intangible assets	1	–	1	2
Stock based compensation	269	164	466	361
Future income taxes	(18)	–	3	–
Loss on disposal of capital assets	–	–	–	10
Change in operating assets and liabilities:				
Accounts receivable	1,689	(859)	3,404	708
Other	348	291	293	189
Accounts payable, net of deferred compensation	(203)	377	(178)	285
Accrued liabilities	(306)	139	(244)	(651)
Income taxes payable	(150)	–	(188)	69
Deferred revenue	(288)	347	(1,198)	(326)
Net cash provided by operating activities	875	1,437	1,661	2,148
Cash flows used for investing activities:				
Purchase of capital assets	(599)	(474)	(970)	(627)
Purchase of intangible assets	(7)	–	(229)	–
Net cash used for investing activities	(606)	(474)	(1,199)	(627)
Cash flows provided by financing activities:				
Proceeds on issuance of common shares	151	793	770	1,325
Dividends paid	(1,010)	–	(2,018)	–
Payments of deferred compensation	–	(145)	–	(335)
Net cash provided by (used for) financing activities	(859)	648	(1,248)	990
Effect of exchange rate changes on cash and cash equivalents	(59)	(39)	(186)	175
Change in cash and cash equivalents balances	(649)	1,572	(972)	2,686
Cash and cash equivalents, beginning of period	15,370	8,913	15,693	7,799
Cash and cash equivalents, end of period	\$ 14,721	\$ 10,485	\$ 14,721	\$ 10,485
Supplemental cash flow information:				
Interest received	\$ 119	\$ 42	\$ 269	\$ 64
Interest paid	–	3	–	5
Income taxes paid	–	–	–	22
Income tax refund received	178	–	178	–

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements

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

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 October 31, 2006 and for the three and six month periods ended October 31, 2006 and 2005 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, 2006 financial statements. Accordingly, they 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, 2006.

b) Stock based compensation:

The Company accounts for stock options granted under the provisions of the CICA Section 3870, "Stock-based Compensation and Other Stock-based Payments" for its employee stock based compensation plans. As permitted by this standard, the Company did not adopt the provisions in respect of the fair value method of accounting for all of its employee stock based compensation. Accordingly no stock based compensation expense was recorded during fiscal 2002 and fiscal 2003 on stock option grants to employees, as the exercise price of options granted under the Company's stock option plans was equal to the fair market value of the Company's Common Shares at the date of grant. In the event stock options were awarded to non-employees, the Company recorded compensation expense based on the fair value of the options.

During the current fiscal year, the fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 5.0% (October 31, 2005 – 4.2%), dividend yield of 3.1% (October 31, 2005 – nil%) and expected lives of options of five years and expected volatility as specified in the following table below.

In accordance with CICA recommendations, the following pro forma disclosures present the compensation cost for the Company's stock option plan had compensation cost been determined and recorded in the consolidated statement of operations during the periods ended October 31, 2006 and 2005, based on the fair value at the grant date of the options awarded on or after May 1, 2002.

MKS Inc.
Notes to Consolidated Financial Statements

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

	Three Months Ended October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Pro-forma net income (loss)				
Net income (loss), as reported	\$ (680)	\$ 484	\$ (1,119)	\$ 529
Stock based compensation expense recorded on employee options	269	164	466	361
Pro-forma compensation expense	(279)	(292)	(525)	(642)
Net (loss), pro-forma	\$ (690)	\$ 356	\$ (1,178)	\$ 248
Pro-forma basic and diluted income (loss) per share:				
As reported				
Basic	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
Diluted	(0.01)	0.01	(0.02)	0.01
Pro-forma				
Basic	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
Diluted	(0.01)	0.01	(0.02)	0.01
Weighted average grant date fair value of options granted during the period (Cdn\$)	\$ 1.26	\$ 1.91	\$ 1.45	\$ 1.86
Expected volatility	70%	61%	76%	63%

c) Stock option plans:

The Company's stock option plans are intended to encourage ownership of the Company by directors, officers and employees of the Company and its subsidiaries. The maximum number of Common Shares which may be set aside for issuance under the plans is 11,663 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. The maximum number of Common Shares that may be reserved for issuance to any one person under the plans is 5% of the Common Shares outstanding at the time of the grant. Generally, options issued under the plans vest annually over a four year period. Any option granted which, for any reason, is cancelled or terminated prior to its exercise, will again become available for grant under the plans. In accordance with the plans, the exercise price of options is determined based on the fair value of the Company's Common Shares at the date of grant.

Options granted under the plans may be exercised during a period not exceeding seven years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer or employee of the Company or any of its subsidiaries, as applicable. Options issued under the plans are non-transferable.

d) Continuity of options issued under the plans:

A summary of the status of the plans as of the six months ended October 31, 2006 and the year ended April 30, 2006 is presented below:

	Six Months Ended October 31, 2006		Year Ended April 30, 2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	7,625	Cdn\$1.59	8,435	Cdn\$1.59
Granted	775	2.71	731	2.07
Exercised	(576)	1.49	(1,097)	1.37
Forfeited	(120)	3.29	(444)	2.91
Outstanding, end of period	7,704	Cdn\$1.69	7,625	Cdn\$1.59
Options exercisable, end of period	5,840	Cdn\$1.54	5,970	Cdn\$1.56

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- e) Summary of the balances of options issued under the plans at October 31, 2006:

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	4,079	2.8 years	\$ 1.28	3,714	\$ 1.28
1.45 – 2.07	2,341	3.1	1.88	1,830	1.89
2.20 – 3.04	1,257	5.9	2.59	269	2.38
3.95 – 7.90	27	0.8	4.13	27	4.13
	7,704	3.4 years	\$ 1.69	5,840	\$ 1.54

- f) Impact of stock compensation:

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

	Three months Ended October 31		Six months Ended October 31	
	2006	2005	2006	2005
Cost of product and support	\$ 6	\$ 4	\$ 11	\$ 9
Cost of service	11	5	19	11
Sales and marketing	78	43	125	89
Research and development	65	42	108	88
General and administrative	109	70	203	164
	\$ 269	\$ 164	\$ 466	\$ 361

2. Intangible assets and Goodwill:

	October 31 2006	April 30 2006
Intangible assets:		
Purchased software and technology, gross	\$ 6,664	\$ 6,435
Other intangible assets, gross	\$ 2,801	\$ 2,801
Accumulated amortization	(9,237)	(9,236)
Intangible assets, net	\$ 228	\$ –
Goodwill, gross	\$ 6,264	\$ 6,264
Accumulated amortization	(1,770)	(1,770)
Goodwill, net	\$ 4,494	\$ 4,494

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

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

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

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3. Research and development expenditures:

	Three months Ended October 31		Six months Ended October 31	
	2006	2005	2006	2005
Gross research and development expenditures	\$ 2,895	\$ 2,312	\$ 5,660	\$ 4,522
Less: Investment tax credits realized	(330)	–	(330)	–
Net research and development expenditures	\$ 2,565	\$ 2,312	\$ 5,330	\$ 4,522

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.

4. 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.

The following schedule provides required segmented information disclosure.

	Three Months Ended October 31					
	2006			2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 6,437	\$ 1,506	\$ 7,943	\$ 5,703	\$ 1,704	\$ 7,407
Europe & Other	3,213	353	3,566	3,885	244	4,129
Total revenue	\$ 9,650	\$ 1,859	\$ 11,509	\$ 9,588	\$ 1,948	\$ 11,536
Revenue:						
License	\$ 3,372	\$ 1,053	\$ 4,425	\$ 4,324	\$ 1,107	\$ 5,431
Maintenance	4,695	796	5,491	3,863	841	4,704
Service	1,583	10	1,593	1,401	–	1,401
Total revenue	\$ 9,650	\$ 1,859	\$ 11,509	\$ 9,588	\$ 1,948	\$ 11,536
Income (loss):						
Operating income (loss)	\$ (1,272)	\$ 454	\$ (818)	\$ 235	\$ 210	\$ 445
Interest and income taxes			138			39
Net income (loss)			\$ (680)			\$ 484

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Six Months Ended October 31

	2006			2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 12,630	\$ 3,158	\$ 15,788	\$ 11,119	\$ 3,350	\$ 14,469
Europe & Other	7,525	815	8,340	7,293	579	7,872
Total revenue	\$ 20,155	\$ 3,973	\$ 24,128	\$ 18,412	\$ 3,929	\$ 22,341
Revenue:						
License	\$ 8,075	\$ 2,364	\$ 10,439	\$ 8,411	\$ 2,265	\$ 10,676
Maintenance	9,097	1,599	10,696	7,407	1,652	9,059
Service	2,983	10	2,993	2,594	12	2,606
Total revenue	\$ 20,155	\$ 3,973	\$ 24,128	\$ 18,412	\$ 3,929	\$ 22,341
Income (loss):						
Operating income (loss)	\$ (2,545)	\$ 1,158	\$ (1,387)	\$ 99	\$ 371	\$ 470
Interest and income taxes			268			59
Net income (loss)			\$ (1,119)			\$ 529

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