

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

(U.S. dollars, thousands, unaudited)

	<b>October 31 2007</b>	April 30 2007
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 9,878	\$ 15,258
Accounts receivable, net of allowances for doubtful accounts of \$260 (April 30, 2007 – \$233)	9,581	6,118
Future income taxes	1,847	1,847
Income taxes receivable	127	–
Other	1,963	1,946
<b>Total current assets</b>	<b>23,396</b>	25,169
Capital assets (note 2)	4,674	4,709
Intangible assets (note 2)	198	240
Goodwill (note 2)	4,494	4,494
Future income taxes	2,273	2,964
<b>Total assets</b>	<b>\$ 35,035</b>	\$ 37,576
<b>Liabilities and shareholders' equity:</b>		
Current liabilities:		
Accounts payable	\$ 1,719	\$ 1,482
Accrued liabilities	3,434	2,722
Income taxes payable	–	70
Deferred revenue	12,263	13,783
<b>Total current liabilities</b>	<b>17,416</b>	18,057
Shareholders' equity:		
Share capital (note 3)	64,363	63,935
Accumulated other comprehensive loss	(906)	(726)
Accumulated deficit	(45,838)	(43,690)
<b>Total shareholders' equity</b>	<b>17,619</b>	19,519
<b>Total liabilities and shareholders' equity</b>	<b>\$ 35,035</b>	\$ 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 October 31		Six Months Ended October 31	
	2007	2006	2007	2006
Revenue:				
License	\$ 5,128	\$ 4,425	\$ 10,930	\$ 10,439
Maintenance	6,402	5,491	12,607	10,696
Service	2,098	1,593	3,698	2,993
	<b>13,628</b>	11,509	<b>27,235</b>	24,128
Operating expenses:				
Cost of product and support	983	992	1,986	2,031
Cost of service	1,435	1,146	2,754	2,267
Sales and marketing	5,612	5,637	11,783	11,932
Research and development (note 4)	3,016	2,565	6,385	5,330
General and administrative	1,761	1,718	3,667	3,489
Stock based compensation (note 3 (d))	187	269	303	466
	<b>12,994</b>	12,327	<b>26,878</b>	25,515
Income (loss) from operations	634	(818)	357	(1,387)
Interest income, net	92	120	211	271
Income (loss) before income taxes	726	(698)	568	(1,116)
Income tax provision (recovery):				
Future	529	(18)	691	3
Income tax provision (recovery)	529	(18)	691	3
Net income (loss)	\$ 197	\$ (680)	\$ (123)	\$ (1,119)
Earnings (loss) per share (note 5):				
Basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.02)
Basic weighted average number of shares outstanding	50,624	50,469	50,602	50,327
Diluted weighted average number of shares outstanding	51,030	50,469	50,602	50,327

See accompanying Notes to Consolidated Financial Statements

**MKS Inc.**  
**Consolidated Statements of Shareholders' Equity**

(U.S. 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	576	899	(129)	–	–	770
Stock-based compensation	–	–	466	–	–	466
Dividends paid	–	–	–	–	(2,018)	(2,018)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(167)	–	(167)
Net loss	–	–	–	–	(1,119)	(1,119)
Comprehensive loss	–	–	–	(167)	(1,119)	(1,286)
Balances at October 31, 2006	50,545	\$ 61,373	\$ 2,004	\$ (515)	\$ (40,004)	\$ 22,858

	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	102	125	–	–	–	125
Stock-based compensation	–	–	303	–	–	303
Dividends paid	–	–	–	–	(2,025)	(2,025)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(180)	–	(180)
Net loss	–	–	–	–	(123)	(123)
Comprehensive loss	–	–	–	(180)	(123)	(303)
Balances at October 31, 2007	50,672	\$ 61,543	\$ 2,820	\$ (906)	\$ (45,838)	\$ 17,619

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	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net income (loss)	\$ 197	\$ (680)	\$ (123)	\$ (1,119)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation of capital assets	333	213	626	421
Amortization of intangible assets	21	1	42	1
Stock based compensation	187	269	303	466
Future income taxes	530	(18)	691	3
Loss on disposal of capital assets	43	—	43	—
Change in operating assets and liabilities:				
Accounts receivable	(1,638)	1,689	(3,463)	3,404
Other	407	348	(17)	293
Accounts payable	68	(203)	237	(178)
Accrued liabilities	(78)	(306)	712	(244)
Income taxes payable	(146)	(150)	(197)	(188)
Deferred revenue	(685)	(288)	(1,520)	(1,198)
Net cash provided by operating activities	(761)	875	(2,666)	1,661
Cash flows used for investing activities:				
Purchase of capital assets	(157)	(599)	(602)	(970)
Purchase of intangible assets	—	(7)	—	(229)
Net cash used for investing activities	(157)	(606)	(602)	(1,199)
Cash flows provided by financing activities:				
Proceeds on issuance of common shares	87	151	125	770
Dividends paid	(1,014)	(1,010)	(2,025)	(2,018)
Net cash provided by (used for) financing activities	(927)	(859)	(1,900)	(1,248)
Effect of exchange rate changes on cash and cash equivalents	(184)	(59)	(212)	(186)
Change in cash and cash equivalents balances	(2,029)	(649)	(5,380)	(972)
Cash and cash equivalents, beginning of period	11,907	15,370	15,258	15,693
Cash and cash equivalents, end of period	\$ 9,878	\$ 14,721	\$ 9,878	\$ 14,721
Supplemental cash flow information:				
Interest received	\$ 92	\$ 119	\$ 211	\$ 269
Interest paid	—	—	—	—
Income taxes paid	1	—	3	—
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, 2007 and for the three and six month periods ended October 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 six months ended October 31, 2007.

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

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

2. Fixed assets, intangible assets and goodwill:

a. Fixed assets:

	<b>October 31 2007</b>	April 30 2007
Computer equipment	\$ 9,582	\$ 9,136
Applications software	2,808	2,724
Office furniture and equipment	2,031	1,970
Leasehold improvements	1,892	1,881
	<b>16,313</b>	15,711
Accumulated depreciation	<b>(11,639)</b>	(11,002)
	<b>\$ 4,674</b>	\$ 4,709

b. Intangible assets:

	<b>October 31 2007</b>	April 30 2007
Purchased software and technology, gross	\$ 6,712	\$ 6,712
Other intangible assets, gross	2,801	2,801
Accumulated amortization	<b>(9,315)</b>	(9,273)
Intangible assets, net	<b>\$ 198</b>	\$ 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	<b>\$ 4,494</b>

3. Shareholders' equity:

a. Share capital:

	<b>October 31 2007</b>	April 30 2007
Common shares:		
Authorized – unlimited		
Issued and outstanding – 50,672		
(April 30, 2007 – 50,570), no par value	\$ 61,543	\$ 61,418
Additional paid in capital	<b>2,820</b>	2,517
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	<b>\$ 64,363</b>	\$ 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)

b. Continuity of options issued under the Company's stock option plans:

A summary of the status of the plans as of the six months ended October 31, 2007 and the year ended April 30, 2007 is presented below:

	Six Months Ended October 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	793	1.55	795	2.69
Exercised	(83)	1.21	(601)	1.48
Forfeited	(191)	2.54	(167)	2.96
Outstanding, end of period	8,171	Cdn\$1.66	7,652	Cdn\$1.69
Options exercisable, end of period	6,431	Cdn\$1.58	6,187	Cdn\$1.55

c. Summary of the balances of options issued under the plans at October 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	3,950	1.8 years	\$ 1.28	3,821	\$ 1.28
1.45 – 2.07	3,090	3.3	1.80	2,067	1.89
2.20 – 2.75	1,131	5.2	2.58	543	2.48
	8,171	2.9 years	\$ 1.66	6,431	\$ 1.58

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

	Three months Ended October 31		Six months Ended October 31	
	2007	2006	2007	2006
Cost of product and support	\$ 2	\$ 6	\$ 6	\$ 11
Cost of service	7	11	10	19
Sales and marketing	57	78	93	125
Research and development	39	65	64	108
General and administrative	82	109	130	203
	\$ 187	\$ 269	\$ 303	\$ 466

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions for options granted in the six months ended October 31, 2007: risk free interest rate – 4.2% (October 31, 2007 - 5.0%), dividend yield – 6.0% (October 31, 2007 – 3.1%), expected lives of options – 5 years (October 31, 2007 - 5 years), expected volatility – 69% (October 31, 2007 - 76%) and expected forfeiture rate – 17.3% (October 31, 2007 – 17.3%). The fair value of options applicable to non-vested awards at October 31, 2007 was \$637 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 six months ended October 31, 2007, 19 shares (October 31, 2006 – nil) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$24. A stock based compensation charge of \$4 was charged related to the discount provided to ESPP participants during the six months ended October 31, 2007 (October 31, 2006 - \$nil).

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

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

4. Research and development expenditures:

	Three months Ended October 31		Six months Ended October 31	
	2007	2006	2007	2006
Gross research and development expenditures	\$ 3,163	\$ 2,895	\$ 6,581	\$ 5,660
Less: Investment tax credits realized	(147)	(330)	(196)	(330)
Net research and development expenditures	\$ 3,016	\$ 2,565	\$ 6,385	\$ 5,330

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 earnings (loss) per share are calculated as follows:

	Three months Ended October 31		Six months Ended October 31	
	2007	2006	2007	2006
Net income (loss)	\$ 197	\$ (680)	\$ (123)	\$ (1,119)
Basic weighted average number of shares outstanding	50,624	50,469	50,602	50,327
Incremental shares from assumed exercise of stock options	406	—	—	—
Diluted weighted average number of shares outstanding	51,030	50,469	50,602	50,327
Earnings (loss) per share:				
Basic	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.02)
Diluted	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.02)

For the three months ended October 31, 2006 and six months ended October 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 1,809 for the three months ended October 31, 2006 and 490 and 1,974 for the six months ended October 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)

The following schedule provides required segmented information disclosure.

	Three Months Ended October 31					
	2007			2006		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 6,939	\$ 1,407	\$ 8,346	\$ 6,437	\$ 1,506	\$ 7,943
Europe & Other	4,926	356	5,282	3,213	353	3,566
Total revenue	\$ 11,865	\$ 1,763	\$ 13,628	\$ 9,650	\$ 1,859	\$ 11,509
Revenue:						
License	\$ 4,158	\$ 970	\$ 5,128	\$ 3,372	\$ 1,053	\$ 4,425
Maintenance	5,609	793	6,402	4,695	796	5,491
Service	2,098	—	2,098	1,583	10	1,593
Total revenue	\$ 11,865	\$ 1,763	\$ 13,628	\$ 9,650	\$ 1,859	\$ 11,509
Income (loss):						
Operating income (loss)	\$ 239	\$ 395	\$ 634	\$ (1,272)	\$ 454	\$ (818)
Interest and income taxes			(437)			138
Net income (loss)			\$ 197			\$ (680)

	Six Months Ended October 31					
	2007			2006		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 13,504	\$ 2,905	\$ 16,409	\$ 12,630	\$ 3,158	\$ 15,788
Europe & Other	10,075	751	10,826	7,525	815	8,340
Total revenue	\$ 23,579	\$ 3,656	\$ 27,235	\$ 20,155	\$ 3,973	\$ 24,128
Revenue:						
License	\$ 8,865	\$ 2,065	\$ 10,930	\$ 8,075	\$ 2,364	\$ 10,439
Maintenance	11,016	1,591	12,607	9,097	1,599	10,696
Service	3,698	—	3,698	2,983	10	2,993
Total revenue	\$ 23,579	\$ 3,656	\$ 27,235	\$ 20,155	\$ 3,973	\$ 24,128
Income (loss):						
Operating income (loss)	\$ (545)	\$ 902	\$ 357	\$ (2,545)	\$ 1,158	\$ (1,387)
Interest and income taxes			(480)			268
Net loss			\$ (123)			\$ (1,119)
Purchase of fixed assets and intangible assets	\$ 602	\$ —	\$ 602	\$ 1,149	\$ 50	\$ 1,199
Depreciation and amortization of fixed assets and intangible assets	\$ 643	\$ 25	\$ 668	\$ 410	\$ 12	\$ 422

	October 31, 2007			April 30, 2007		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 11,731	\$ —	\$ 11,731	\$ 17,389	\$ —	\$ 17,389
Other	9,671	13,633	23,304	7,431	12,756	20,187
Total assets	\$ 21,402	\$ 13,633	\$ 35,035	\$ 24,820	\$ 12,756	\$ 37,576
Fixed assets, intangible assets and goodwill	\$ 7,122	\$ 2,244	\$ 9,366	\$ 7,174	\$ 2,269	\$ 9,443

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