

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

	<b>October 31 2008</b>	April 30 2008
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents (note 2)	<b>\$ 10,615</b>	\$ 12,933
Accounts receivable, net of allowances for doubtful accounts of \$169 (April 30, 2008 – \$217)	<b>11,621</b>	16,054
Future income taxes	<b>2,496</b>	2,496
Other	<b>1,281</b>	1,539
Total current assets	<b>26,013</b>	33,022
Capital assets (note 3)	<b>4,431</b>	4,530
Intangible assets (note 3)	<b>112</b>	155
Goodwill (note 3)	<b>4,494</b>	4,494
Future income taxes	<b>871</b>	2,133
Total assets	<b>\$ 35,921</b>	\$ 44,334
<b>Liabilities and shareholders' equity:</b>		
Current liabilities:		
Accounts payable	<b>\$ 3,459</b>	\$ 2,430
Accrued liabilities	<b>3,096</b>	5,149
Income taxes payable	<b>498</b>	656
Deferred revenue	<b>12,739</b>	15,460
Total current liabilities	<b>19,792</b>	23,695
Shareholders' equity:		
Share capital (note 4)	<b>63,901</b>	65,506
Accumulated other comprehensive loss	<b>(2,879)</b>	(949)
Accumulated deficit	<b>(44,893)</b>	(43,918)
Total shareholders' equity	<b>16,129</b>	20,639
Total liabilities and shareholders' equity	<b>\$ 35,921</b>	\$ 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 October 31		Six Months Ended October 31	
	2008	2007	2008	2007
Revenue:				
License	\$ 6,425	\$ 5,128	\$ 12,581	\$ 10,930
Maintenance	7,051	6,402	14,086	12,607
Service	2,792	2,098	4,966	3,698
	<b>16,268</b>	13,628	<b>31,633</b>	27,235
Operating expenses:				
Cost of product and support	1,197	983	2,437	1,986
Cost of service	1,955	1,435	3,743	2,754
Sales and marketing	5,394	5,471	11,256	11,411
Research and development (note 5)	2,927	3,158	6,036	6,770
General and administrative	1,867	2,070	3,830	3,957
Foreign exchange loss (gain)	519	(310)	553	(303)
Stock based compensation (note 4 (d))	408	187	579	303
	<b>14,267</b>	12,994	<b>28,434</b>	26,878
Income from operations	2,001	634	3,199	357
Interest income, net	29	92	61	211
Income before income taxes	2,030	726	3,260	568
Income tax provision (recovery):				
Current	(160)	–	126	–
Future	837	529	1,162	691
Income tax provision (recovery)	677	529	1,288	691
Net income (loss)	\$ 1,353	\$ 197	\$ 1,972	\$ (123)
Earnings (loss) per share (note 7):				
Basic and diluted	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.00)
Basic weighted average number of shares outstanding	50,730	50,624	50,955	50,602
Diluted weighted average number of shares outstanding	51,272	51,030	51,517	50,602

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, 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

	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	380	443	–	–	–	443
Stock-based compensation	–	–	579	–	–	579
Shares repurchased for cancellation	(2,172)	(2,627)	–	–	(907)	(3,534)
Dividends paid	–	–	–	–	(2,040)	(2,040)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(389)	–	(389)
Unrealized gain (loss) on cash flow hedges	–	–	–	(1,541)	–	(1,541)
Net income	–	–	–	–	1,972	1,972
Comprehensive income	–	–	–	(1,930)	1,972	42
Balances at October 31, 2008	49,635	\$ 60,215	\$ 3,686	\$ (2,879)	\$ (44,893)	\$ 16,129

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	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income (loss)	\$ 1,353	\$ 197	\$ 1,972	\$ (123)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation of capital assets	345	333	661	626
Amortization of intangible assets	21	21	43	42
Stock based compensation	408	187	579	303
Future income taxes	837	530	1,162	691
Loss on disposal of capital assets	16	43	41	43
Change in operating assets and liabilities:				
Accounts receivable	603	(1,638)	4,433	(3,463)
Other	572	407	258	(17)
Accounts payable	1,860	68	1,029	237
Accrued liabilities	(461)	(78)	(2,053)	712
Income taxes payable	(406)	(146)	(158)	(197)
Deferred revenue	(604)	(685)	(2,721)	(1,520)
Net cash provided by (used for) operating activities	4,544	(761)	5,246	(2,666)
Cash flows used for investing activities:				
Purchase of capital assets	(497)	(157)	(700)	(602)
Net cash used for investing activities	(497)	(157)	(700)	(602)
Cash flows used for financing activities:				
Proceeds on issuance of common shares	160	87	443	125
Cash paid for shares repurchased for cancellation	(2,478)	–	(3,534)	–
Dividends paid	(1,007)	(1,014)	(2,040)	(2,025)
Net cash used for financing activities	(3,325)	(927)	(5,131)	(1,900)
Effect of exchange rate changes on cash and cash equivalents	(1,616)	(184)	(1,733)	(212)
Change in cash and cash equivalents balances	(894)	(2,029)	(2,318)	(5,380)
Cash and cash equivalents, beginning of period	11,509	11,907	12,933	15,258
Cash and cash equivalents, end of period	\$ 10,615	\$ 9,878	\$ 10,615	\$ 9,878
Supplemental cash flow information:				
Interest received	\$ 29	\$ 92	\$ 61	\$ 211
Income taxes paid	–	1	–	3

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, 2008 and for the three and six month periods ended October 31, 2008 and 2007 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, 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 Company's annual consolidated financial statements and notes thereto 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 October 2009. These hedges are accounted for as designated cash flow hedges. At October 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 (Loss). As at October 31, 2008 the Company has recorded an unrealized loss in Other Comprehensive Income (Loss) of \$1,541. Any ineffective portion of the hedges would be reflected in net income for the applicable period.

#### c. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

### 2. Cash and cash equivalents:

Included in the balance of cash and cash equivalents at October 31, 2008 is \$2,084 (April 30, 2008 - \$nil) of cash and cash equivalents held as a security deposit by the counterparty to forward foreign exchange contracts entered into by the Company.

### 3. Fixed assets, intangible assets and goodwill:

#### a. Fixed assets:

	<b>October 31 2008</b>	April 30 2008
Computer equipment	\$ 9,742	\$ 9,736
Applications software	3,167	2,901
Office furniture and equipment	1,983	2,053
Leasehold improvements	1,828	1,888
	<b>16,720</b>	16,578
Accumulated depreciation	<b>(12,289)</b>	(12,048)
	<b>\$ 4,431</b>	\$ 4,530

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

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

b. Intangible assets:

	<b>October 31 2008</b>	April 30 2008
Purchased software and technology, gross	\$ 6,712	\$ 6,712
Other intangible assets, gross	2,801	2,801
Accumulated amortization	<b>(9,401)</b>	(9,358)
<b>Intangible assets, net</b>	<b>\$ 112</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	2,070
<b>Goodwill</b>	<b>\$ 4,494</b>

4. Shareholders' equity:

a. Share capital:

	<b>October 31 2008</b>	April 30 2008
Common shares:		
Authorized – unlimited		
Issued and outstanding – 49.635		
(April 30, 2008 – 51,427), no par value	\$ 60,215	\$ 62,399
Additional paid in capital	<b>3,686</b>	3,107
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
<b>Total share capital</b>	<b>\$ 63,901</b>	\$ 65,506

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.

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

	Six Months Ended October 31, 2008		Year Ended April 30, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	6,178	Cdn\$1.66	7,652	Cdn\$1.69
Granted	1,020	1.60	823	1.54
Exercised	(348)	1.33	(775)	1.30
Forfeited	(213)	2.02	(1,522)	1.90
Outstanding, end of period	6,637	Cdn\$1.66	6,178	Cdn\$1.66
Options exercisable, end of period	4,692	Cdn\$1.62	4,833	Cdn\$1.59

c. Summary of the balances of options issued under the plans at October 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 – 0.98	162	2.8 years	\$ 0.95	162	\$0.95
1.00 – 1.37	2,591	2.6	1.29	2,562	1.29
1.41 – 1.98	2,853	4.9	1.70	1,229	1.83
2.07 – 2.75	1,031	4.2	2.57	739	2.52
	6,637	3.3 years	\$ 1.66	4,962	\$ 1.62

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	
	2008	2007	2008	2007
Cost of product and support	\$ 4	\$ 2	\$ 7	\$ 6
Cost of service	9	7	15	10
Sales and marketing	83	57	141	93
Research and development	52	39	90	64
General and administrative	260	82	326	130
	\$ 408	\$ 187	\$ 579	\$ 303

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, 2008: risk free interest rate – 3% (October 31, 2007 - 4%), dividend yield – 6% (October 31, 2007 – 6%), expected lives of options – 5 years (October 31, 2007 - 5 years), expected volatility – 59% (October 31, 2007 - 69%) and expected forfeiture rate – 17% (October 31, 2007 – 17%). The fair value of options applicable to non-vested awards at October 31, 2008 was \$384 and the weighted-average period over which those non-vested awards are expected to be recognized is 1.4 years.

e. Employee Share Purchase Plan:

During the six months ended October 31, 2008, 32 shares (October 31, 2007 – 19 shares) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$44 (October 31, 2007 - \$24). A stock-based compensation charge of \$7 was charged related to the discount provided to ESPP participants during the six months ended October 31, 2008 (October 31, 2007 - \$4).

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

5. Research and development expenditures:

	Three months Ended October 31		Six months Ended October 31	
	2008	2007	2008	2007
Gross research and development expenditures	\$ 2,970	\$ 3,305	\$ 6,128	\$ 6,966
Less: Investment tax credits realized	(43)	(147)	(92)	(196)
Net research and development expenditures	\$ 2,927	\$ 3,158	\$ 6,036	\$ 6,770

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.

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 14% of accounts receivable at October 31, 2008. Also at October 31, 2008, 6% of accounts receivable was more than 90 days past due. The Company provided an allowance of \$169 for potential credit risk in accounts receivable at October 31, 2008, down \$48 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 six months ended October 31, 2008 of \$12 (2007 – \$273), 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 \$10,615 and had positive working capital of \$5,109 at October 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.

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**Notes to Consolidated Financial Statements**

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7. 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	
	2008	2007	2008	2007
Net income (loss)	\$ 1,353	\$ 197	\$ 1,972	\$ (123)
Basic weighted average number of shares outstanding	50,730	50,624	50,955	50,602
Incremental shares from assumed exercise of stock options	542	406	562	—
Diluted weighted average number of shares outstanding	51,272	51,030	51,517	50,602
Earnings (loss) per share:				
Basic	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.00)
Diluted	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.00)

For the six months ended October 31, 2007, 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 1,974 for the six months ended October 31, 2007.

8. 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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**Notes to Consolidated Financial Statements**

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

The following schedule provides required segmented information disclosure.

	<b>Three Months Ended October 31, 2008</b>			<b>Three Months Ended October 31, 2007</b>		
	<b>ALM</b>	<b>IO</b>	<b>Total</b>	<b>ALM</b>	<b>IO</b>	<b>Total</b>
Revenue:						
North America	\$ 8,562	\$ 1,541	\$ 10,103	\$ 6,939	\$ 1,407	\$ 8,346
Europe & Other	5,643	522	6,165	4,926	356	5,282
<b>Total revenue</b>	<b>\$ 14,205</b>	<b>\$ 2,063</b>	<b>\$ 16,268</b>	<b>\$ 11,865</b>	<b>\$ 1,763</b>	<b>\$ 13,628</b>
Revenue:						
License	\$ 5,057	\$ 1,368	\$ 6,425	\$ 4,158	\$ 970	\$ 5,128
Maintenance	6,356	695	7,051	5,609	793	6,402
Service	2,792	—	2,792	2,098	—	2,098
<b>Total revenue</b>	<b>\$ 14,205</b>	<b>\$ 2,063</b>	<b>\$ 16,268</b>	<b>\$ 11,865</b>	<b>\$ 1,763</b>	<b>\$ 13,628</b>
Income:						
Operating income	\$ 1,474	\$ 527	\$ 2,001	\$ 239	\$ 395	\$ 634
Interest and income taxes			(648)			(437)
<b>Net income</b>			<b>\$ 1,353</b>			<b>\$ 197</b>
	<b>Six Months Ended October 31, 2008</b>			<b>Six Months Ended October 31, 2007</b>		
	<b>ALM</b>	<b>IO</b>	<b>Total</b>	<b>ALM</b>	<b>IO</b>	<b>Total</b>
Revenue:						
North America	\$ 16,078	\$ 3,010	\$ 19,088	\$ 13,504	\$ 2,905	\$ 16,409
Europe & Other	11,570	975	12,545	10,075	751	10,826
<b>Total revenue</b>	<b>\$ 27,648</b>	<b>\$ 3,985</b>	<b>\$ 31,633</b>	<b>\$ 23,579</b>	<b>\$ 3,656</b>	<b>\$ 27,235</b>
Revenue:						
License	\$ 10,026	\$ 2,555	\$ 12,581	\$ 8,865	\$ 2,065	\$ 10,930
Maintenance	12,656	1,430	14,086	11,016	1,591	12,607
Service	4,966	—	4,966	3,698	—	3,698
<b>Total revenue</b>	<b>\$ 27,648</b>	<b>\$ 3,985</b>	<b>\$ 31,633</b>	<b>\$ 23,579</b>	<b>\$ 3,656</b>	<b>\$ 27,235</b>
Income (loss):						
Operating income (loss)	\$ 2,161	\$ 1,038	\$ 3,199	\$ (545)	\$ 902	\$ 357
Interest and income taxes			(1,227)			(480)
<b>Net income (loss)</b>			<b>\$ 1,972</b>			<b>\$ (123)</b>
Purchase of fixed assets and intangible assets	\$ 687	\$ 13	\$ 700	\$ 602	\$ —	\$ 602
Depreciation and amortization of fixed assets and intangible assets	\$ 689	\$ 15	\$ 704	\$ 643	\$ 25	\$ 668
	<b>October 31, 2008</b>			<b>April 30, 2008</b>		
	<b>ALM</b>	<b>IO</b>	<b>Total</b>	<b>ALM</b>	<b>IO</b>	<b>Total</b>
Total assets:						
Canada	\$ 11,080	\$ —	\$ 11,080	\$ 10,366	\$ —	\$ 10,366
Other	12,055	12,786	24,841	19,331	14,637	31,898
<b>Total assets</b>	<b>\$ 23,135</b>	<b>\$ 12,786</b>	<b>\$ 35,921</b>	<b>\$ 29,697</b>	<b>\$ 14,637</b>	<b>\$ 42,264</b>
Fixed assets, intangible assets and goodwill	\$ 6,814	\$ 2,223	\$ 9,037	\$ 6,954	\$ 2,225	\$ 7,109

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