

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

	January 31 2007	April 30 2006
Assets:		
Current assets:		
Cash and cash equivalents	\$ 15,108	\$ 15,693
Accounts receivable, net of allowances for doubtful accounts of \$191 (April 30, 2006 – \$223)	7,749	11,026
Deferred income taxes	2,385	2,572
Prepaid expenses and other assets	1,574	2,088
Total current assets	26,816	31,379
Fixed assets (note 2)	4,108	3,278
Intangible assets (note 3)	262	–
Goodwill	2,424	2,424
Deferred income taxes	2,608	2,608
Total assets	\$ 36,218	\$ 39,689
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,169	\$ 1,451
Accrued liabilities	2,523	2,689
Income taxes payable	82	367
Deferred revenue	13,667	12,326
Total current liabilities	17,411	16,833
Commitments (note 4)		
Shareholders' equity (note 5):		
Share capital	54,565	52,983
Accumulated other comprehensive loss	(1,540)	(1,293)
Accumulated deficit	(34,248)	(28,834)
Total shareholders' equity	18,777	22,856
Total liabilities and shareholders' equity	\$ 36,218	\$ 39,689

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 January 31		Nine Months Ended January 31	
	2007	2006	2007	2006
Revenue:				
License	\$ 4,229	\$ 7,399	\$ 14,668	\$ 18,075
Maintenance	5,727	4,853	16,423	13,912
Service	1,594	1,161	4,587	3,767
	11,550	13,413	35,678	35,754
Operating expenses:				
Cost of product and support	790	1,045	2,820	2,783
Cost of service	1,241	1,096	3,508	3,099
Sales and marketing	5,727	5,337	17,659	14,720
Research and development	2,834	2,500	8,494	7,022
General and administrative	1,796	1,860	5,285	5,137
Stock based compensation (note 5 f))	269	–	794	–
Amortization of intangibles	15	–	16	2
	12,672	11,838	38,576	32,763
Income (loss) from operations	(1,122)	1,575	(2,898)	2,991
Interest income, net	(99)	(54)	(370)	(113)
Income (loss) before income taxes	(1,023)	1,629	(2,528)	3,104
Income tax provision (recovery):				
Current (note 6)	–	–	(330)	–
Deferred	184	–	187	–
Income tax provision (recovery)	184	–	(143)	–
Net income (loss)	\$ (1,207)	\$ 1,629	\$ (2,385)	\$ 3,104
Earnings (loss) per share (note 7):				
Basic	\$ (0.02)	\$ 0.04	\$ (0.05)	\$ 0.07
Diluted	\$ (0.02)	\$ 0.03	\$ (0.05)	\$ 0.06
Basic weighted average number of shares outstanding	50,550	46,210	50,401	43,833
Diluted weighted average number of shares outstanding	50,550	51,661	50,401	49,802

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	Warrants		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount		Warrants	Amount			
Balances at April 30, 2005	41,945	\$ 46,237	\$ 345	6,927	\$ 1,351	\$ (1,332)	\$ (37,947)	\$ 8,654
Exercise of warrants	6,927	5,125	–	(6,927)	(1,351)	–	–	3,774
Issuance of common shares	1,097	1,276	–	–	–	–	–	1,276
Comprehensive income:								
Foreign currency translation adjustment	–	–	–	–	–	39	–	39
Net income	–	–	–	–	–	–	9,113	9,113
Comprehensive income	–	–	–	–	–	39	9,113	9,152
Balances at April 30, 2006	49,969	\$ 52,638	\$ 345	–	\$ –	\$ (1,293)	\$ (28,834)	\$ 22,856
Issuance of common shares	593	796	(8)	–	–	–	–	788
Stock based compensation	–	–	794	–	–	–	–	794
Dividends paid	–	–	–	–	–	–	(3,029)	(3,029)
Comprehensive loss:								
Foreign currency translation adjustment	–	–	–	–	–	(247)	–	(247)
Net loss	–	–	–	–	–	–	(2,385)	(2,385)
Comprehensive loss	–	–	–	–	–	(247)	(2,385)	(2,632)
Balances at January 31, 2007	50,562	\$ 53,434	\$ 1,131	–	\$ –	\$ (1,540)	\$ (34,248)	\$ 18,777

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows
(U.S. dollars, thousands, unaudited)

	Three Months Ended January 31		Nine Months Ended January 31	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net income (loss)	\$ (1,207)	\$ 1,629	\$ (2,385)	\$ 3,104
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation of fixed assets	262	222	683	612
Amortization of intangible assets	15	—	16	2
Stock based compensation	269	—	794	—
Deferred income taxes	184	—	187	—
Loss on disposal of fixed assets	—	—	—	10
Change in operating assets and liabilities:				
Accounts receivable	(127)	(3,955)	3,277	(3,247)
Prepaid expenses and other assets	221	61	514	250
Accounts payable, net of deferred compensation	(103)	(405)	(281)	(120)
Accrued liabilities	78	234	(166)	(417)
Income taxes payable	(97)	(25)	(285)	44
Deferred revenue	2,540	1,802	1,342	1,476
Net cash provided by (used for) operating activities	2,035	(437)	3,696	1,714
Cash flows from investing activities:				
Purchase of fixed assets	(526)	(194)	(1,496)	(821)
Purchase of intangible assets	(49)	—	(278)	—
Net cash used for investing activities	(575)	(194)	(1,774)	(821)
Cash flows from financing activities:				
Proceeds on issuance of common shares	18	3,343	788	4,667
Dividends paid	(1,011)	—	(3,029)	—
Payments of deferred compensation	—	—	—	(335)
Net cash provided by (used for) financing activities	(993)	3,343	(2,241)	4,332
Effect of exchange rate changes on cash and cash equivalents	(80)	(12)	(266)	161
Change in cash and cash equivalents balances	387	2,700	(585)	5,386
Cash and cash equivalents, beginning of period	14,721	10,485	15,693	7,799
Cash and cash equivalents, end of period	\$ 15,108	\$ 13,185	\$ 15,108	\$ 13,185
Supplemental cash flow information:				
Interest received	\$ 98	\$ —	\$ 367	\$ —
Interest paid	—	—	—	5
Income taxes paid	108	23	108	45
Income tax refund received	—	—	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 January 31, 2007 and for the three and nine month periods ended January 31, 2007 and 2006 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, 2006 financial statements, except as described in Note 1 b). 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:

SFAS 123R – "Accounting for Share-Based Payment" was adopted by the Company effective May 1, 2006. Accordingly, the Company accounts for share-based compensation transactions using a fair-value method and has recognized the expense in the consolidated statement of operations during the period using the modified-prospective method.

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 4.4% (January 31, 2006 – 4.2%), dividend yield of 4.5% (January 31, 2006 – nil) and expected lives of options of five years and expected volatility as specified in the following table.

Had compensation expense for the Company's stock-based compensation plans been determined based on the fair value, at the grant dates, for awards under the plans consistent with the method under SFAS 123, the Company's net income (loss) and earnings (loss) per share would have been reported as the pro-forma amounts for the periods ended January 31, 2006 indicated in the following table.

	Three Months Ended January 31		Nine Months Ended January 31	
	2007	2006	2007	2006
Pro-forma net income (loss):				
Net income (loss), as reported	\$ (1,207)	\$ 1,629	\$ (2,385)	\$ 3,104
Pro-forma compensation expense	–	302	–	1,046
Net income (loss), pro-forma	(1,207)	1,327	(2,385)	2,058
Pro-forma basic and diluted earnings (loss) per share:				
As reported				
Basic	\$ (0.02)	\$ 0.04	\$ (0.05)	\$ 0.07
Diluted	(0.02)	0.03	(0.05)	0.06
Pro-forma				
Basic	\$ (0.02)	\$ 0.03	\$ (0.05)	\$ 0.05
Diluted	(0.02)	0.03	(0.05)	0.04
Weighted average grant date fair value of options granted during the period (Cdn\$)	\$ 0.94	\$ 2.45	\$ 1.46	\$ 2.06
Expected volatility	75%	57%	77%	61%

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2. Fixed assets:

	January 31 2007	April 30 2006
Computer equipment	\$ 8,970	\$ 8,274
Applications software	2,658	2,521
Office furniture and equipment	1,952	1,745
Leasehold improvements	1,197	660
	14,777	13,200
Accumulated depreciation	(10,669)	(9,922)
	\$ 4,108	\$ 3,278

3. Intangible assets:

	January 31 2007	April 30 2006
Purchased software and technology, gross	\$ 959	\$ 681
Other intangible assets, gross	389	389
Accumulated amortization	(1,086)	(1,070)
Intangible assets, net	\$ 262	\$ —

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

4. Commitments, contingencies and guarantees:

a) Commitments:

Future minimum lease payments under non-cancelable operating leases as at January 31, 2007 in the periods ending as indicated below:

April 30, 2007	\$ 485
April 30, 2008	1,835
April 30, 2009	1,492
April 30, 2010	1,368
April 30, 2011	525
Total minimum lease payments	\$ 5,705

Rent expense for the three and nine months ended January 31, 2007 and 2006 was \$414, \$363, \$1,213 and \$1,297, respectively. These amounts are net of sublease income of \$nil, \$29, \$9 and \$340 for the three and nine months ended January 31, 2007 and 2006, respectively. The Company is also responsible for certain common area costs at its various leased premises.

b) Product warranties:

The Company's standard warranty covers a 30-day period and warrants against substantial nonconformance of the Company's software to the published documentation at time of delivery. The Company has not experienced any material returns where it was under obligation to honor this standard warranty, and as such, there is no warranty provision recorded in the consolidated financial statements.

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The Company's software license agreements generally include certain provisions for indemnifying customers against liabilities if the Company's software products infringe a third party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such indemnification and has not accrued any liabilities related to such obligations in the consolidated financial statements.

5. Shareholders' equity:

a) Share capital:

	January 31 2007	April 30 2006
Common shares:		
Authorized – unlimited		
Issued and outstanding – 50,562		
(April 30, 2006 – 49,969), no par value	\$ 53,434	\$ 52,638
Additional paid in capital	1,131	345
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 54,565	\$ 52,983

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) Transactions:

Nine months ended January 31, 2007: The Company issued 593 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$788.

Fiscal 2006: The Company issued 1,097 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$1,276. The Company issued 6,927 Common Shares on the exercise of special warrants for aggregate proceeds of \$3,774.

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.

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d) Continuity of options issued under the plans:

A summary of the status of the plans as of the nine months ended January 31, 2007 and the year ended April 30, 2006 is presented below:

	Nine Months Ended January 31, 2007		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	785	2.71	731	2.07
Exercised	(593)	1.48	(1,097)	1.37
Forfeited	(139)	3.09	(444)	2.91
Outstanding, end of period	7,678	Cdn\$1.69	7,625	Cdn\$1.59
Options exercisable, end of period	6,028	Cdn\$1.55	5,970	Cdn\$1.56

e) Summary of the balances of options issued under the plans at January 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 – 1.37	4,001	2.6 years	\$ 1.28	3,707	\$ 1.28
1.38 – 2.07	2,398	2.8	1.87	1,958	1.88
2.20 – 3.04	1,252	5.6	2.59	336	2.39
3.95 – 7.90	27	0.6	4.13	27	4.13
	7,678	3.1 years	\$ 1.69	6,028	\$ 1.55

f) Impact of stock compensation:

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

	Three months Ended January 31		Nine months Ended January 31	
	2007	2006	2007	2006
Cost of product and support	\$ 6	\$ –	\$ 19	\$ –
Cost of service	10	–	31	–
Sales and marketing	80	–	219	–
Research and development	64	–	184	–
General and administrative	109	–	341	–
	\$ 269	\$ –	\$ 794	\$ –

g) Employee Share Purchase Plan:

On September 26, 2006, the Company's shareholders approved an Employee Share Purchase Plan (ESPP) in order to encourage the Company's employees and directors to invest in its shares. The ESPP allows participants to contribute a specified percentage of their base salary, generally through payroll deductions, for the purposes of purchasing shares in the Company from treasury. The ESPP provides for quarterly purchases to be at the share's market value at the time of purchase less 15%. To January 31, 2007, no shares have been issued under the ESPP.

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6. Current income tax provision (recovery):

	Three months Ended January 31		Nine months Ended January 31	
	2007	2006	2007	2006
Gross current income tax provision (recovery)	\$ -	\$ -	\$ -	\$ -
Less: Investment tax credits realized	-	-	(330)	-
Net current income tax provision (recovery)	\$ -	\$ -	\$ (330)	\$ -

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.

7. Earnings (loss) per share:

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

	Three months Ended January 31		Nine months Ended January 31	
	2007	2006	2007	2006
Net income (loss)	\$ (1,207)	\$ 1,629	\$ (2,385)	\$ 3,104
Basic weighted average number of shares outstanding	50,550	46,210	50,401	43,833
Incremental shares from assumed exercise of stock options and warrants	-	5,451	-	5,969
Diluted weighted average number of shares	50,550	51,661	50,401	49,802
Earnings (loss) per share:				
Basic	\$ (0.02)	\$ 0.04	\$ (0.05)	\$ 0.07
Diluted	\$ (0.02)	\$ 0.03	\$ (0.05)	\$ 0.06

For the three and nine months ended January 31, 2007, stock options and warrants 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.

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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The following schedule provides required segmented information disclosure.

Three Months Ended January 31						
	2007			2006		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 6,260	\$ 1,296	\$ 7,556	\$ 7,377	\$ 1,462	\$ 8,839
Europe & Other	3,502	492	3,994	4,257	317	4,574
Total revenue	\$ 9,762	\$ 1,788	\$ 11,550	\$ 11,634	\$ 1,779	\$ 13,413
Revenue:						
License	\$ 3,237	\$ 992	\$ 4,229	\$ 6,481	\$ 918	\$ 7,399
Maintenance	4,931	796	5,727	4,001	852	4,853
Service	1,594	—	1,594	1,152	9	1,161
Total revenue	\$ 9,762	\$ 1,788	\$ 11,550	\$ 11,634	\$ 1,779	\$ 13,413
Income (loss):						
Operating income (loss)	\$ (1,422)	\$ 300	\$ (1,122)	\$ 1,247	\$ 328	\$ 1,575
Interest and income taxes			(85)			54
Net income (loss)			\$ (1,207)			\$ 1,629

Nine Months Ended January 31						
	2007			2006		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 18,890	\$ 4,454	\$ 23,344	\$ 18,496	\$ 4,812	\$ 23,308
Europe & Other	11,027	1,307	12,334	11,550	896	12,446
Total revenue	\$ 29,917	\$ 5,761	\$ 35,678	\$ 30,046	\$ 5,708	\$ 35,754
Revenue:						
License	\$ 11,312	\$ 3,356	\$ 14,668	\$ 14,892	\$ 3,183	\$ 18,075
Maintenance	14,028	2,395	16,423	11,408	2,504	13,912
Service	4,577	10	4,587	3,746	21	3,767
Total revenue	\$ 29,917	\$ 5,761	\$ 35,678	\$ 30,046	\$ 5,708	\$ 35,754
Income (loss):						
Operating income (loss)	\$ (4,349)	\$ 1,451	\$ (2,898)	\$ 1,673	\$ 1,318	\$ 2,991
Interest and income taxes			513			113
Net income (loss)			\$ (2,385)			\$ 3,104

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