

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

(U.S. dollars, thousands, unaudited)

	<b>January 31 2008</b>	April 30 2007
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 10,632	\$ 15,258
Accounts receivable, net of allowances for doubtful accounts of \$249 (April 30, 2007 – \$233)	9,292	6,118
Future income taxes	1,847	1,847
Other	2,060	1,946
Total current assets	23,831	25,169
Capital assets (note 2)	4,681	4,709
Intangible assets (note 2)	176	240
Goodwill (note 2)	4,494	4,494
Future income taxes	2,281	2,964
Total assets	\$ 35,463	\$ 37,576
<b>Liabilities and shareholders' equity:</b>		
Current liabilities:		
Accounts payable	\$ 1,265	\$ 1,482
Accrued liabilities	2,885	2,722
Income taxes payable	111	70
Deferred revenue	14,828	13,783
Total current liabilities	19,089	18,057
Shareholders' equity:		
Share capital (note 3)	64,830	63,935
Accumulated other comprehensive loss	(849)	(726)
Accumulated deficit	(47,607)	(43,690)
Total shareholders' equity	16,374	19,519
Total liabilities and shareholders' equity	\$ 35,463	\$ 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 January 31		Nine Months Ended January 31	
	2008	2007	2008	2007
Revenue:				
License	\$ 4,120	\$ 4,229	\$ 15,050	\$ 14,668
Maintenance	6,584	5,727	19,191	16,423
Service	2,086	1,594	5,784	4,587
	<b>12,790</b>	11,550	<b>40,025</b>	35,678
Operating expenses:				
Cost of product and support	1,123	805	3,109	2,836
Cost of service	1,479	1,241	4,233	3,508
Sales and marketing	5,672	5,727	17,455	17,659
Research and development (note 4)	3,191	2,834	9,576	8,164
General and administrative	1,929	1,796	5,596	5,285
Stock based compensation (note 3 (d))	202	265	505	731
	<b>13,596</b>	12,668	<b>40,474</b>	38,183
Loss from operations	(806)	(1,118)	(449)	(2,505)
Interest income, net	44	99	255	370
Loss before income taxes	(762)	(1,019)	(194)	(2,135)
Income tax provision (recovery):				
Future	(8)	184	683	187
Income tax provision (recovery)	(8)	184	683	187
Net loss	\$ (754)	\$ (1,203)	\$ (877)	\$ (2,322)
Loss per share (note 5):				
Basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
Basic and diluted weighted average number of shares outstanding	50,751	50,550	50,652	50,401

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	593	934	(146)	–	–	788
Stock-based compensation	–	–	731	–	–	731
Dividends paid	–	–	–	–	(3,029)	(3,029)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(247)	–	(247)
Net loss	–	–	–	–	(2,322)	(2,322)
Comprehensive loss	–	–	–	(247)	(2,322)	(2,569)
Balances at January 31, 2007	50,562	\$ 61,408	\$ 2,252	\$ (595)	\$ (42,218)	\$ 20,847

	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	326	390	–	–	–	390
Stock-based compensation	–	–	505	–	–	505
Dividends paid	–	–	–	–	(3,040)	(3,040)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(123)	–	(123)
Net loss	–	–	–	–	(877)	(877)
Comprehensive loss	–	–	–	(123)	(877)	(1,000)
Balances at January 31, 2008	50,896	\$ 61,808	\$ 3,022	\$ (849)	\$ (47,607)	\$ 16,374

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	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net loss	\$ (754)	\$ (1,203)	\$ (877)	\$ (2,322)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:				
Depreciation of capital assets	368	262	994	683
Amortization of intangible assets	22	15	64	16
Stock based compensation	202	265	505	731
Future income taxes	(8)	184	683	187
Loss on disposal of capital assets	30	–	73	–
Change in operating assets and liabilities:				
Accounts receivable	289	(127)	(3,174)	3,277
Other	(97)	221	(114)	514
Accounts payable	(454)	(103)	(217)	(281)
Accrued liabilities	(549)	78	163	(166)
Income taxes payable	238	(97)	41	(285)
Deferred revenue	2,565	2,540	1,045	1,342
Net cash provided by (used for) operating activities	1,852	2,035	(814)	3,696
Cash flows used for investing activities:				
Purchase of capital assets	(401)	(526)	(1,003)	(1,496)
Purchase of intangible assets	–	(49)	–	(278)
Net cash used for investing activities	(401)	(575)	(1,003)	(1,774)
Cash flows used for financing activities:				
Proceeds on issuance of common shares	265	18	390	788
Dividends paid	(1,015)	(1,011)	(3,040)	(3,029)
Net cash used for financing activities	(750)	(993)	(2,650)	(2,241)
Effect of exchange rate changes on cash and cash equivalents	53	(80)	(159)	(266)
Change in cash and cash equivalents balances	754	387	(4,626)	(585)
Cash and cash equivalents, beginning of period	9,878	14,721	15,258	15,693
Cash and cash equivalents, end of period	\$ 10,632	\$ 15,108	\$ 10,632	\$ 15,108
Supplemental cash flow information:				
Interest received	\$ 44	\$ 98	\$ 255	\$ 367
Interest paid	–	–	–	–
Income taxes paid	–	108	3	108
Income tax refund received	242	–	242	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, 2008 and for the three and nine month periods ended January 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, 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>January 31 2008</b>	April 30 2007
Computer equipment	\$ 9,802	\$ 9,136
Applications software	2,869	2,724
Office furniture and equipment	2,031	1,970
Leasehold improvements	1,885	1,881
	<b>16,587</b>	15,711
Accumulated depreciation	<b>(11,906)</b>	(11,002)
	<b>\$ 4,681</b>	\$ 4,709

b. Intangible assets:

	<b>January 31 2008</b>	April 30 2007
Purchased software and technology, gross	\$ 6,712	\$ 6,712
Other intangible assets, gross	2,801	2,801
Accumulated amortization	<b>(9,337)</b>	(9,273)
Intangible assets, net	<b>\$ 176</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>January 31 2008</b>	April 30 2007
Common shares:		
Authorized – unlimited		
Issued and outstanding – 50,896 (April 30, 2007 – 50,570), no par value	\$ 61,808	\$ 61,418
Additional paid in capital	<b>3,022</b>	2,517
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	<b>\$ 64,830</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 nine months ended January 31, 2008 and the year ended April 30, 2007 is presented below:

	Nine Months Ended January 31, 2008		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	798	1.55	795	2.69
Exercised	(293)	1.21	(601)	1.48
Forfeited	(1,216)	1.99	(167)	2.96
Outstanding, end of period	6,941	Cdn\$1.64	7,652	Cdn\$1.69
Options exercisable, end of period	5,403	Cdn\$1.55	6,187	Cdn\$1.55

c. Summary of the balances of options issued under the plans at January 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 – 1.44	3,729	1.6 years	\$ 1.29	3,648	\$ 1.29
1.45 – 2.07	2,115	4.4	1.76	1,162	1.89
2.20 – 2.75	1,097	5.0	2.58	593	2.49
	6,941	3.0 years	\$ 1.64	5,403	\$ 1.55

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

	Three months Ended January 31		Nine months Ended January 31	
	2008	2007	2008	2007
Cost of product and support	\$ 4	\$ 6	\$ 10	\$ 17
Cost of service	7	10	17	29
Sales and marketing	63	80	156	205
Research and development	47	64	111	172
General and administrative	81	105	211	308
	\$ 202	\$ 265	\$ 505	\$ 731

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions for options granted in the nine months ended January 31, 2008: risk free interest rate – 4% (January 31, 2007 - 5%), dividend yield – 6% (January 31, 2007 – 3%), expected lives of options – 5 years (January 31, 2007 - 5 years), expected volatility – 69% (January 31, 2007 - 77%) and expected forfeiture rate – 17% (January 31, 2007 – 17%). The fair value of options applicable to non-vested awards at January 31, 2008 was \$834 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 nine months ended January 31, 2008, 23 shares (January 31, 2007 – nil) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$41. A stock based compensation charge of \$7 was charged related to the discount provided to ESPP participants during the nine months ended January 31, 2008 (January 31, 2007 - \$nil).

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

4. Research and development expenditures:

	Three months Ended January 31		Nine months Ended January 31	
	2008	2007	2008	2007
Gross research and development expenditures	\$ 3,191	\$ 2,834	\$ 9,772	\$ 8,494
Less: Investment tax credits realized	—	—	(196)	(330)
Net research and development expenditures	\$ 3,191	\$ 2,834	\$ 9,576	\$ 8,164

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. Loss per share:

Basic loss per share and diluted loss per share are calculated as follows:

	Three months Ended January 31		Nine months Ended January 31	
	2008	2007	2008	2007
Net loss	\$ (754)	\$ (1,203)	\$ (877)	\$ (2,322)
Basic weighted average number of shares outstanding	50,751	50,550	50,652	50,401
Incremental shares from assumed exercise of stock options	—	—	—	—
Diluted weighted average number of shares outstanding	50,751	50,550	50,652	50,401
Loss per share:				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)

For the three months ended January 31, 2008 and 2007 and the nine months ended January 31, 2008 and 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 111 and 1,008 for the three months ended January 31, 2008 and 2007, respectively, and 373 and 1,701 for the nine months ended January 31, 2008 and 2007, 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 January 31, 2008			Three Months Ended January 31, 2007		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 6,252	\$ 1,248	\$ 7,500	\$ 6,260	\$ 1,296	\$ 7,556
Europe & Other	4,771	519	5,290	3,502	492	3,994
Total revenue	\$ 11,023	\$ 1,767	\$ 12,790	\$ 9,762	\$ 1,788	\$ 11,550
Revenue:						
License	\$ 3,134	\$ 986	\$ 4,120	\$ 3,237	\$ 992	\$ 4,229
Maintenance	5,803	781	6,584	4,931	796	5,727
Service	2,086	—	2,086	1,594	—	1,594
Total revenue	\$ 11,023	\$ 1,767	\$ 12,790	\$ 9,762	\$ 1,788	\$ 11,550
Income (loss):						
Operating income (loss)	\$ (1,201)	\$ 395	\$ (806)	\$ (1,418)	\$ 300	\$ (1,118)
Interest and income taxes			52			(85)
Net loss			\$ (754)			\$ (1,203)

	Nine Months Ended January 31, 2008			Nine Months Ended January 31, 2007		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 19,756	\$ 4,153	\$ 23,909	\$ 18,890	\$ 4,454	\$ 23,344
Europe & Other	14,846	1,270	16,116	11,027	1,307	12,334
Total revenue	\$ 34,602	\$ 5,423	\$ 40,025	\$ 29,917	\$ 5,761	\$ 35,678
Revenue:						
License	\$ 11,999	\$ 3,051	\$ 15,050	\$ 11,312	\$ 3,356	\$ 14,668
Maintenance	16,819	2,372	19,191	14,028	2,395	16,423
Service	5,784	—	5,784	4,577	10	4,587
Total revenue	\$ 34,602	\$ 5,423	\$ 40,025	\$ 29,917	\$ 5,761	\$ 35,678
Income (loss):						
Operating income (loss)	\$ (1,746)	\$ 1,297	\$ (449)	\$ (3,963)	\$ 1,458	\$ (2,505)
Interest and income taxes			(428)			183
Net loss			\$ (877)			\$ (2,322)
Purchase of fixed assets and intangible assets	\$ 1,003	\$ —	\$ 1,003	\$ 1,724	\$ 50	\$ 1,774
Depreciation and amortization of fixed assets and intangible assets	\$ 1,022	\$ 36	\$ 1,058	\$ 678	\$ 21	\$ 699

	January 31, 2008			April 30, 2007		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 10,577	\$ —	\$ 10,577	\$ 17,389	\$ —	\$ 17,389
Other	10,869	14,017	24,886	7,431	12,756	20,187
Total assets	\$ 21,446	\$ 14,017	\$ 35,463	\$ 24,820	\$ 12,756	\$ 37,576
Fixed assets, intangible assets and goodwill	\$ 7,118	\$ 2,233	\$ 9,351	\$ 7,174	\$ 2,269	\$ 9,443

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