

MKS Inc.
Consolidated Balance Sheets

(U.S. dollars, thousands, unaudited)

	January 31 2008	April 30 2007
Assets:		
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
Deferred income taxes	1,847	1,847
Other	2,060	1,946
Total current assets	23,831	25,169
Fixed assets (note 2)	4,681	4,709
Intangible assets (note 2)	176	240
Goodwill (note 2)	2,424	2,424
Deferred income taxes	2,281	2,964
Total assets	\$ 33,393	\$ 35,506
Liabilities and shareholders' equity:		
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)	55,732	54,837
Accumulated other comprehensive loss	(1,794)	(1,671)
Accumulated deficit	(39,634)	(35,717)
Total shareholders' equity	14,304	17,449
Total liabilities and shareholders' equity	\$ 33,393	\$ 35,506

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
	12,790	11,550	40,025	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	3,191	2,834	9,772	8,494
General and administrative	1,929	1,796	5,596	5,285
Stock based compensation (note 3 (d))	202	269	505	794
	13,596	12,672	40,670	38,576
Loss from operations	(806)	(1,122)	(645)	(2,898)
Interest income, net	44	99	255	370
Loss before income taxes	(762)	(1,023)	(390)	(2,528)
Income tax provision (recovery):				
Current (note 4)	—	—	(196)	(330)
Deferred	(8)	184	683	187
Income tax provision (recovery)	(8)	184	487	(143)
Net loss	\$ (754)	\$ (1,207)	\$ (877)	\$ (2,385)
Loss per share (note 6):				
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 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)	\$ (1,207)	\$ (877)	\$ (2,385)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:				
Depreciation of fixed assets	368	262	994	683
Amortization of intangible assets	22	15	64	16
Stock based compensation	202	269	505	794
Deferred income taxes	(8)	184	683	187
Loss on disposal of fixed 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 fixed 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 the United States for interim financial information, using the same accounting policies and methods of application as used in the April 30, 2007 annual financial statements, except for the adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 ("FIN 48") which in accordance with the transitional provisions was adopted on May 1, 2007.

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 consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended April 30, 2007.

2. Fixed assets, intangible assets and goodwill:

a) Fixed assets:

	January 31 2008	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
	16,587	15,711
Accumulated depreciation	(11,906)	(11,002)
	\$ 4,681	\$ 4,709

b) Intangible assets:

	January 31 2008	April 30 2007
Purchased software and technology, gross	\$ 958	\$ 958
Other intangible assets, gross	389	389
Accumulated amortization	(1,171)	(1,107)
Intangible assets, net	\$ 176	\$ 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	–
Goodwill	\$ 2,424

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3. Shareholders' equity:

a) Share capital:

	January 31 2008	April 30 2007
Common shares:		
Authorized – unlimited		
Issued and outstanding – 50,896 (April 30, 2007 – 50,570), no par value	\$ 53,834	\$ 53,444
Additional paid in capital	1,898	1,393
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 55,732	\$ 54,837

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) 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

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- 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	\$ 19
Cost of service	7	10	17	31
Sales and marketing	63	80	156	219
Research and development	47	64	111	184
General and administrative	81	109	211	341
	\$ 202	\$ 269	\$ 505	\$ 794

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).

4. Income taxes

- a) Current income tax provision (recovery):

	Three months Ended January 31		Nine months Ended January 31	
	2008	2007	2008	2007
Gross current income tax provision (recovery)	\$ –	\$ –	\$ –	\$ –
Less: Investment tax credits realized	–	–	(196)	(330)
Net current income tax provision (recovery)	\$ –	\$ –	\$ (196)	\$ (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.

- b) Uncertain tax positions:

Effective May 1, 2007, the Company adopted the provisions of FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. As a result of the implementation of FIN 48 there was no material impact to the Company's opening tax balances based on the tax positions taken.

Upon adoption of FIN 48, the Company's policy is to include interest and penalties related to gross unrecognized tax benefits within our income tax provision. Previously, interest paid related to income taxes was classified in the company's financial statements as interest expense. As of January 31, 2008, the Company had accrued \$nil related to the payment of such interest and penalties.

The Company is subject to income taxes in a number of jurisdictions due to its international operations. The Company is not currently under examinations by any tax authorities related to its income taxes. The major tax jurisdictions the Company operates within and open tax years in each of those jurisdictions is indicated in the following table:

Major Tax Jurisdiction	Open Tax Years
Canada	2002 to 2007
United States	2004 to 2007
United Kingdom	2005 to 2007
Germany	2004 to 2007

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5. Comprehensive loss:

	Three months Ended January 31		Nine months Ended January 31	
	2008	2007	2008	2007
Net loss	\$ (754)	\$ (1,207)	\$ (877)	\$ (2,385)
Other comprehensive income (loss):				
Foreign currency translation, net of taxes of nil	57	(80)	(123)	(247)
Comprehensive loss	\$ (697)	\$ (1,287)	\$ (1,000)	\$ (2,632)

6. 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)	\$ (1,207)	\$ (877)	\$ (2,385)
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 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 was 373 and 1,701 for the nine months ended January 31, 2008 and 2007, respectively.

7. 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, 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)	\$ (1,422)	\$ 300	\$ (1,122)
Interest and income taxes			52			(85)
Net loss			\$ (754)			\$ (1,207)
	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)	\$ (1,942)	\$ 1,297	\$ (645)	\$ (4,349)	\$ 1,451	\$ (2,898)
Interest and income taxes			(232)			513
Net loss			\$ (877)			\$ (2,385)
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	11,947	22,816	7,431	10,686	18,117
Total assets	\$ 21,446	\$ 11,947	\$ 33,393	\$ 24,820	\$ 10,686	\$ 35,506
Fixed assets, intangible assets and goodwill	\$ 7,118	\$ 163	\$ 7,281	\$ 7,174	\$ 199	\$ 7,373

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