INDEPENDENT AUDITORS' REPORT

To the Shareholders of MKS Inc.

We have audited the consolidated balance sheets of MKS Inc. as at April 30, 2007 and 2006, and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended April 30, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of MKS Inc. as at April 30, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended April 30, 2007 in accordance with Canadian generally accepted accounting principles.

On June 5, 2007, we reported separately to the shareholders of MKS Inc. on consolidated financial statements for the same periods, prepared in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
June 5, 2007

CDN GAAP

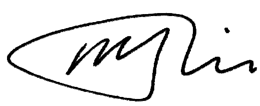
MKS Inc.
Consolidated Balance Sheets
(US dollars, thousands)

As at April 30	**2007**	2006
Assets:		
Current assets:		
Cash and cash equivalents	**$ 15,258**	$ 15,693
Accounts receivable, net of allowances for doubtful accounts of $233 (2006 – $223)	**6,118**	11,026
Future income taxes (note 3)	**1,847**	2,572
Prepaid expenses and other assets	**1,946**	2,088
Total current assets	**25,169**	31,379
Fixed assets (note 2)	**4,709**	3,278
Intangible assets (note 2)	**240**	–
Goodwill (note 2)	**4,494**	4,494
Future income taxes (note 3)	**2,964**	2,608
Total assets	**$ 37,576**	$ 41,759
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	**$ 1,482**	$ 1,451
Accrued liabilities	**2,722**	2,689
Income taxes payable	**70**	367
Deferred revenue	**13,783**	12,326
Total current liabilities	**18,057**	16,833
Commitments (note 4)		
Shareholders' equity:		
Share capital (note 5)	**63,935**	62,141
Cumulative translation adjustment	**(726)**	(348)
Accumulated deficit	**(43,690)**	(36,867)
Total shareholders' equity	**19,519**	24,926
Total liabilities and shareholders' equity	**$ 37,576**	$ 41,759

See accompanying Notes to Consolidated Financial Statements

On behalf of the Board of Directors:

J. Ian Giffen
Director



Robert Gibb
Director

MKS Inc.
Consolidated Statements of Operations
(US dollars, thousands, except per share data)

Years ended April 30	**2007**	2006	2005
Revenue:			
License	**$ 20,234**	$ 24,660	$ 22,120
Maintenance	**22,092**	18,799	15,517
Service	**5,998**	4,863	3,654
	48,324	48,322	41,291
Operating expenses:			
Cost of product and support	**3,654**	3,816	3,341
Cost of service	**4,865**	4,094	2,725
Sales and marketing	**23,336**	20,143	17,896
Research and development (note 7)	**11,001**	9,591	8,532
General and administrative	**7,241**	6,986	6,095
Stock based compensation (note 5 (f))	**996**	709	790
Amortization of intangibles	**37**	840	1,171
	51,130	46,179	40,550
Operating income (loss)	**(2,806)**	2,143	741
Interest income, net	**508**	243	19
Income (loss) before income taxes	**(2,298)**	2,386	760
Income tax provision (recovery) (note 3):			
Current	**116**	–	–
Future	**369**	(5,180)	–
Income tax provision (recovery)	**485**	(5,180)	–
Net income (loss)	**$ (2,783)**	$ 7,566	$ 760
Earnings (loss) per share (note 6):			
Basic	**$ (0.06)**	$ 0.17	$ 0.02
Diluted	**(0.06)**	0.15	0.02
Weighted average number of shares outstanding	**50,442**	45,290	41,496
Diluted weighted average number of shares outstanding	**50,442**	51,026	45,481

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Shareholders' Equity
(US dollars, thousands)

	Common Shares		Contributed	Warrants		Cumulative Translation	Accumulated	
	Shares	Amount	surplus	Warrants	Amount	Adjustment	Deficit	Total
Balances at April 30, 2004	41,409	$ 53,139	$ 680	7,295	$ 1,423	$ (273)	$ (45,193)	$ 9,776
Exercise of warrants	368	251	–	(368)	(72)	–	–	179
Issuance of common shares	168	171	–	–	–	–	–	171
Foreign currency translation adjustment	–	–	–	–	–	(114)	–	(114)
Stock based compensation			790					790
Net income	–	–	–	–	–	–	760	760
Balances at April 30, 2005	41,945	53,561	1,470	6,927	1,351	(387)	(44,433)	11,562
Exercise of warrants	6,927	5,125	–	(6,927)	(1,351)	–	–	3,774
Issuance of common shares	1,097	1,788	(512)	–	–	–	–	1,276
Foreign currency translation adjustment	–	–	–	–	–	39	–	39
Stock based compensation			709					709
Net income	–	–	–	–	–	–	7,566	7,566
Balances at April 30, 2006	49,969	60,474	1,667	–	–	(348)	(36,867)	24,926
Issuance of common shares	601	944	(146)	–	–	–	–	798
Dividends paid	–	–	–	–	–	–	(4,040)	(4,040)
Foreign currency translation adjustment	–	–	–	–	–	(378)	–	(378)
Stock based compensation			996					996
Net loss	–	–	–	–	–	–	(2,783)	(2,783)
Balances at April 30, 2006	50,570	$ 61,418	$ 2,517	–	$ –	$ (726)	$ (43,690)	$ 19,519

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows
(US dollars, thousands)

Years ended April 30	**2007**	2006	2005
Cash flows provided by operating activities:			
Net income (loss)	**$ (2,783)**	$ 7,566	$ 760
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of fixed assets	**981**	835	855
Amortization of intangible assets	**37**	840	1,171
Stock based compensation	**996**	709	790
Future income taxes	**369**	(5,180)	–
Interest on deferred compensation	**–**	2	4
Loss on disposal of fixed assets	**–**	10	95
Change in operating assets and liabilities:			
Accounts receivable	**4,908**	(2,900)	(2,701)
Prepaid expenses and other assets	**142**	346	(24)
Accounts payable, net of deferred compensation	**(157)**	33	(380)
Accrued liabilities	**33**	(766)	661
Income taxes payable	**(297)**	47	192
Deferred revenue	**1,457**	2,473	864
Net cash provided by operating activities	**5,686**	4,015	2,287
Cash flows used for investing activities:			
Purchase of fixed assets	**(2,171)**	(895)	(782)
Purchase of intangible assets	**(277)**	–	–
Net cash used for investing activities	**(2,448)**	(895)	(782)
Cash flows provided by (used for) financing activities:			
Proceeds on issuance of common shares	**798**	5,050	350
Payment of dividends	**(4,040)**	–	–
Payments of deferred compensation	**–**	(335)	(301)
Net cash provided by (used for) financing activities	**(3,242)**	4,715	49
Effect of exchange rate changes on cash and cash equivalents	**(431)**	59	(122)
Change in cash and cash equivalents balances	**(435)**	7,894	1,432
Cash and cash equivalents, beginning of year	**15,693**	7,799	6,367
Cash and cash equivalents, end of year	**$ 15,258**	$ 15,693	$ 7,799

	2007	2006	2005
Supplemental cash flow information:			
Interest received	**$ 503**	$ 248	$ 50
Interest paid	**–**	5	31
Income taxes paid	**111**	45	2
Income tax refund received	**178**	–	–
Acquisition of fixed assets financed in accounts payable	**188**	–	–

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements
(US 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:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

c) Revenue recognition:

The Company recognizes revenue in accordance with Canadian GAAP, which, in the Company's circumstances, is not materially different from the amounts that would be determined under the provisions of the American Institute of Certified Public Accountants' Statement of Position ("SOP") No. 97-2, "*Software Revenue Recognition*", as amended. The Company's revenues are derived from product elements, comprised primarily of license fees, maintenance elements, which include post-contract customer support and, when and if available, product upgrades, and service elements, which include implementation, training and royalties from technology licenses. Fees for service elements are generally billed separately from licenses of the Company's products. Revenue from sales that, directly or indirectly, include multiple elements is allocated between the elements to the extent of their fair values where vendor specific objective evidence exists.

Revenue from product elements is recognized pursuant to a contract or purchase order, when each element is delivered to the customer, the fee is fixed and determinable, and collection of the related receivable is deemed probable by management. When all criteria other than the fee being fixed and determinable exist for product element sales, revenue is recognized as payments are due. Reserves for product returns and sales allowances are estimated and provided for at the time of sale. Such reserves are based upon management's evaluation of historical experience and current industry trends.

Maintenance elements are generally paid in advance, are non-refundable, and are recognized ratably over the term of the agreement, which is typically twelve months.

Service elements are recognized when the services are performed.

Revenues related to royalties from technology licenses are recognized when earned and when collection is probable.

Elements that have been prepaid but do not yet qualify for recognition as revenue under the Company's revenue recognition policy are reflected as deferred revenue on the Company's balance sheet.

d) Research and development costs:

Research and development costs related to software products are expensed in the period incurred unless criteria for capitalization under Canadian GAAP are met.

Based on the Company's product development process, technological feasibility is established once a working model has been produced and tested. To date, development costs incurred between the completion of a working model and the point where a product is released have been insignificant. Accordingly, research and development costs have been charged to the consolidated statements of operations in the year in which they were incurred.

e) Use of estimates:

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the year to prepare these consolidated financial statements in conformity with Canadian GAAP. Significant items subject to such estimates and assumptions include the assessment of the carrying amount of intangible assets and goodwill, revenue recognition and the valuation of allowances for receivables, share-based payments and income tax assets. Actual results could differ from these estimates.

f) Financial instruments:

The Company determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses. The recorded amounts of financial instruments in these consolidated financial statements approximate their fair values.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

Financial instruments potentially exposing the Company to a concentration of credit risk principally consist of cash and cash equivalents and accounts receivable. Cash and cash equivalent balances consist of deposits with major commercial banks, the maturities of which are less than 90 days from the date of purchase. The Company performs ongoing credit evaluations of its customers' financial condition and establishes allowances for potential losses. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers. At April 30, 2007 one customer accounted for approximately 12% of accounts receivable. One customer accounted for approximately 15% of accounts receivable at April 30, 2006.

g) Accounting for foreign currencies:

The functional currency of MKS Inc. is the United States dollar. The financial statements of subsidiaries whose functional currency is not the United States dollar are translated to United States dollars at the period end rate for assets and liabilities and at the average rate for the period for revenue and expense amounts (including depreciation and amortization). The unrealized translation gains and losses on the net investment in those operations, including long-term intercompany advances forming part of the net investment, are accumulated as a component of accumulated other comprehensive loss within the shareholders' equity section of the consolidated balance sheet.

Foreign currency balances of the Company and its subsidiaries are translated into the relevant functional currency at period end rates for assets and liabilities and foreign currency revenue and expense amounts are translated at the exchange rate prevailing at the time of the transaction. Exchange gains and losses resulting from the translation of foreign currency transactions are reflected in the consolidated statement of operations in the year in which they occurred. During the year ended April 30, 2007, a foreign exchange gain (loss) of $178 was included in sales and marketing expenditures related to such foreign currency transactions (2006 - $(209); 2005 - $37).

h) Prepaid expenses and other assets:

This amount is comprised of advance royalty payments made to third parties for the licensing of technology used directly or indirectly in the Company's products, rent and lease deposits and other prepaid expenses. Third party licensing and technology amounts are amortized over their applicable periods which approximate the useful life of the asset. Rent and lease deposits are fixed in nature and are recoverable. Other prepaid expenses are expensed in the period in which the cost relates.

i) Fixed assets:

Fixed assets are recorded at cost and are depreciated over their estimated useful lives. Leasehold improvements are recorded at cost and depreciated over the lesser of their useful lives or the term of the related lease.

Expenditures for maintenance and repairs have been charged to the consolidated statements of operations as incurred. The depreciation policies for fixed assets by category are as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	20%
Applications software	Straight-line	3 1/3 years
Office furniture and equipment	Declining balance	20%

j) Goodwill and intangible assets:

The Company accounts for goodwill and intangible assets utilizing Canadian Institute of Chartered Accountants ("CICA") Section 3062, "Goodwill and Other Intangible Assets" (CICA 3062). This standard requires that goodwill be allocated to reporting units as of the date of the business combination. Goodwill has an indefinite life, is not amortized, and is subject to an impairment test at least annually. An impairment loss is determined under this test by comparing the book value of goodwill to the fair value of the reporting unit to which the goodwill relates.

The Company's policy is to review for impairment of goodwill annually at April 30, based on a discounted cash flow basis for the Interoperability segment and a residual enterprise value method for the software Application Lifecycle Management segment. Based on this review, the Company has determined that no impairment exists.

k) Impairment of long-lived assets:

The Company accounts for the impairment and disposal of long-lived assets utilizing CICA Section 3063, "Impairment of Long-Lived Assets". This standard requires that long-lived assets, which include fixed assets and intangible assets, other than goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of an asset is measured by comparing expected future cash flows to the carrying amount of the asset. If their carrying value exceeds the amount recoverable, a write down equal to the excess of their carrying value over their fair value is charged to the consolidated statement of operations.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

l) Income taxes:

The Company accounts for income taxes using the asset and liability method of tax allocation. Under this method, differences between financial reporting and tax bases of assets and liabilities are measured at tax rates expected to be in effect when the differences reverse. The effect of a change in tax rate is recognized in the year of enactment.

Valuation allowances are established when necessary to reduce future tax assets to the amounts expected to be realized. In establishing the appropriate income tax valuation allowances, the Company assesses the realizability of its net future tax assets quarterly and, based on all available evidence, both positive and negative, determines whether it is more likely than not that the net future tax assets, or a portion thereof, will be realized.

m) Earnings (loss) per share:

Basic earnings (loss) per share have been computed by dividing net income (loss) by the weighted average number of Common Shares outstanding for the year. Diluted earnings (loss) per share include the effect, if any, of securities with dilutive potential on the Company's Common Shares. The treasury stock method is used for the calculation of the dilutive effect of stock options and warrants.

n) Stock based compensation:

The Company accounts for stock options granted under the provisions of the CICA Section 3870, Stock-based Compensation and Other Stock-based Payments" for its stock based compensation plans.

o) Reclassifications:

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

2. Fixed assets, intangible assets and goodwill:

a) Fixed assets:

As at April 30	**2007**	2006
Computer equipment	**$ 9,136**	$ 8,274
Applications software	**2,724**	2,521
Office furniture and equipment	**1,970**	1,745
Leasehold improvements	**1,881**	660
	15,711	13,200
Accumulated depreciation	**(11,002)**	(9,922)
	$ 4,709	$ 3,278

b) Intangible assets:

As at April 30	**2007**	2006
Purchased software and technology, gross	**$ 6,712**	$ 6,435
Other intangible assets, gross	**$ 2,801**	$ 2,801
Accumulated amortization	**(9,273)**	(9,236)
Intangible assets, net	**$ 240**	$ –

Intangible assets are amortized on a straight-line basis over their expected lives, periods ranging from 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	$ 4,494

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

3. Income taxes:

a) Income tax provision (recovery):

The income tax provision (recovery) consists of the following:

Years ended April 30	**2007**	2006	2005
Current:			
Canadian	**$ 116**	$ –	$ –
Foreign	**–**	–	–
Total current taxes	**116**	–	–
Future:			
Canadian	**51**	(1,592)	–
Foreign	**318**	(3,588)	–
Total future taxes	**369**	(5,180)	–
Income tax provision (recovery)	**$ 485**	$ (5,180)	$ -

b) Income tax reconciliation:

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to net income (loss) before income taxes. These differences result from the following items:

Years ended April 30	**2007**	2006	2005
Income (loss) before income taxes	**$ (2,298)**	$ 2,386	$ 760
Combined basic Federal and Provincial rates	**36.1%**	36.1%	36.1%
Computed expected tax expense (recovery)	**$ (830)**	$ 861	$ 274
Increase (decrease) resulting from:			
Losses not recognized for accounting	**595**	305	245
Utilization of tax assets not previously recognized	**–**	(1,969)	(1,349)
Change in valuation allowance	**–**	(5,180)	–
Foreign rate differences	**191**	154	68
Non-deductible acquisition related charges	**–**	318	423
Permanent difference related to stock-based compensation	**360**	256	285
Other permanent differences	**68**	75	54
Other	**101**	–	–
Income tax provision (recovery)	**$ 485**	$ (5,180)	$ –

c) Components of the future tax asset:

The components of the temporary differences, which have created the future tax asset, are as follows:

Years ended April 30	**2007**	2006
Tax depreciation greater than accounting depreciation	**$ 4,036**	$ 5,165
Provisions not yet deducted for tax purposes	**180**	169
Other	**37**	38
Losses carried forward	**10,558**	9,686
	14,811	15,058
Valuation allowance	**(10,000)**	(9,878)
Future tax asset	**$ 4,811**	$ 5,180

A valuation allowance of $10,000 has been recorded for a portion of the future tax asset attributable to certain tax losses carried forward as it is more likely than not that the income tax benefit will not be realized.

Realization of the net future tax assets is dependent on generating sufficient taxable income in certain legal entities. Although realization is not assured, the Company believes it is more likely than not that the net amount of the future tax asset will be realized. However, this estimate could change in the near term as future taxable income in these certain legal entities changes.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

d) Income tax losses available for carry forward:

The Company has domestic income tax losses available for carry forward of approximately $6,300, all of which have no expiry date. In addition, the Company has $25,150 of foreign income tax losses available of which $15,050 expire between 2021 and 2027 with the remaining $10,100 having no expiry date.

In addition, the Company has Canadian investment tax credits available for carry forward of approximately $2,650. No recognition has been given to the potential benefit of the investment tax credits available for carry forward in these consolidated financial statements.

4. Commitments, contingencies and guarantees:

a) Commitments:

Future minimum lease payments under non-cancelable operating leases for the year ended April 30, 2007 are as follows:

2008	$	1,977
2009		1,611
2010		1,481
2011		501
2012		39
Total minimum lease payments	$	5,609

Rent expense for fiscal 2007, 2006 and 2005 was $1,627, $1,317 and $1,463, respectively. These amounts are net of sublease income of $12, $303 and $570 for each of fiscal 2007, 2006 and 2005, respectively. The Company is also responsible for certain common area costs at its various leased premises.

b) Guarantees:

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.

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.

The Company has provided standard indemnifications to its landlords under certain property lease agreements for claims by third parties in connection with the Company's use of the premises. In addition, the Company may from time to time in the normal course of business provide indemnifications with respect to the procurement and provision of products and services. The maximum amount of these indemnifications cannot be reasonably estimated due to their nature. Historically, the Company has not made any payments relating to such indemnifications.

5. Shareholders' equity:

a) Share capital:

As at April 30		**2007**		2006
Common shares:				
Authorized – unlimited				
Issued and outstanding – 50,570 (2006 – 49,969), no par value	**$**	**61,418**	$	60,474
Additional paid in capital		**2,517**		1,667
Preferred shares:				
Authorized – unlimited, issuable in series				
Issued and outstanding – nil		**–**		–
Total share capital	**$**	**63,935**	$	62,141

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
(US dollars, thousands, except per share data)

b) Transactions:

Fiscal 2007: The Company issued 601 Common Shares to employees on the exercise of stock options for aggregate proceeds of $798.

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.

Fiscal 2005: The Company issued 168 Common Shares to employees on the exercise of stock options for aggregate proceeds of $171. The Company issued 368 Common Shares on the exercise of special warrants for aggregate proceeds of $179.

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 issued 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 it subsidiaries, as applicable. Options issued under the plans are non-transferable.

d) Continuity of options issued under the plans:

A summary of the status of the plans as of April 30, 2007, 2006 and 2005 is presented below:

As at April 30	**2007**		2006		2005	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	**7,625**	**Cdn$1.59**	8,435	Cdn$1.59	7,936	Cdn$1.65
Granted	**795**	**2.69**	731	2.07	1,350	1.30
Exercised	**(601)**	**1.48**	(1,097)	1.37	(168)	1.25
Forfeited	**(167)**	**2.96**	(444)	2.91	(683)	1.79
Outstanding, end of year	**7,652**	**Cdn$1.69**	7,625	Cdn$1.59	8,435	Cdn$1.59
Options exercisable, end of year	**6,187**	**Cdn$1.55**	5,970	Cdn$1.56	5,825	Cdn$1.66

e) Summary of the balances of options issued under the plans at April 30, 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	4,045	2.3 years	$ 1.28	3,801	$ 1.28
1.45 – 2.07	2,344	2.6	1.88	1,988	1.89
2.20 – 3.04	1,237	5.4	2.59	372	2.40
3.95 – 7.90	26	0.3	3.98	26	3.98
	7,652	2.9 years	$ 1.69	6,187	$ 1.55

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

f) Impact of stock compensation:

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

Years ended April 30		**2007**		2006		2005
Cost of product and support	**$**	**23**	$	18	$	24
Cost of service		**32**		21		22
Sales and marketing		**295**		184		139
Research and development		**233**		169		220
General and administrative		**413**		317		385
	$	**996**	$	709	$	790

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 April 30, 2007, no shares have been issued under the ESPP.

h) Stock based compensation:

During the current fiscal year, the fair value of option grants were estimated using the Black-Scholes option pricing model with the assumptions as specified in the following table.

In accordance with CICA recommendations, the following pro forma disclosures present the compensation cost for the Company's stock option plan had compensation cost been determined and recorded in the consolidated statement of operations during the three years ended April 30, 2007, based on the fair value at the grant date of the options awarded on or after May 1, 2002.

Year ended April 30		**2007**		2006		2005
Pro-forma net income (loss)						
Net income (loss), as reported	**$**	**(2,783)**	$	7,566	$	760
Stock based compensation expense recorded on employee options		**996**		709		790
Pro-forma compensation expense		**(1,056)**		(1,249)		(2,583)
Net income (loss), pro-forma	**$**	**(2,843)**	$	7,026	$	(1,033)
Pro-forma basic and diluted income (loss) per share:						
As reported						
Basic	**$**	**(0.06)**	$	0.17	$	0.02
Diluted		**(0.06)**		0.15		0.02
Pro-forma						
Basic	**$**	**(0.06)**	$	0.16	$	(0.02)
Diluted		**(0.06)**		0.14		(0.02)
Weighted average grant date fair value of options granted during the year		**Cdn$1.45**		Cdn$1.14		Cdn$0.79
Risk free interest rate		**4.9%**		4.1%		3.9%
Dividend yield		**3.2%**		0.0%		0.0%
Expected lives of options		**5 years**		5 years		5 years
Expected volatility		**77%**		61%		71%

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6. Earnings (loss) per share:

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

Years ended April 30	**2007**	2006	2005
Net income (loss)	**$ (2,783)**	$ 7,566	$ 760
Weighted average number of shares outstanding	**50,442**	45,290	41,496
Incremental shares from assumed conversion of stock options & warrants	**–**	5,736	3,985
Adjusted weighted average number of shares outstanding	**50,442**	51,026	45,481
Earnings (loss) per share:			
Basic	**$ (0.06)**	$ 0.17	$ 0.02
Diluted	**$ (0.06)**	$ 0.15	$ 0.02

For the year ended April 30, 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.

7. Research and development expenditures:

Years ended April 30	**2007**	2006	2005
Gross research and development expenditures	**$ 11,447**	$ 9,591	$ 8,532
Less: Investment tax credits realized	**(446)**	–	–
Net research and development expenditures	**$ 11,001**	$ 9,591	$ 8,532

The Company qualifies for certain 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.

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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.

The following schedule provides required segmented information disclosure.

Years ended April 30			**2007**			2006			2005
	ALM	**IO**	**Total**	ALM	IO	Total	ALM	IO	Total
Revenue:									
North America	**$ 25,377**	**$ 6,012**	**$ 31,389**	$ 24,850	$ 6,954	$ 31,804	$ 20,125	$ 7,327	$ 27,452
Europe & Other	**14,793**	**2,142**	**16,935**	15,178	1,340	16,518	12,327	1,512	13,839
Total revenue	**$ 40,170**	**$ 8,154**	**$ 48,324**	$ 40,028	$ 8,294	$ 48,322	$ 32,452	$ 8,839	$ 41,291
Revenue:									
License	**$ 15,248**	**$ 4,986**	**$ 20,234**	$ 19,676	$ 4,984	$ 24,660	$ 16,648	$ 5,472	$ 22,120
Maintenance	**18,934**	**3,158**	**22,092**	15,510	3,289	18,799	12,278	3,239	15,517
Service	**5,988**	**10**	**5,998**	4,842	21	4,863	3,526	128	3,654
Total revenue	**$ 40,170**	**$ 8,154**	**$ 48,324**	$ 40,028	$ 8,294	$ 48,322	$ 32,452	$ 8,839	$ 41,291
Income (loss):									
Operating income (loss)	**$ (5,157)**	**$ 2,351**	**$ (2,806)**	$ 706	$ 1,437	$ 2,143	$ (187)	$ 928	$ 741
Interest and income taxes			**23**			5,423			19
Net income (loss)			**$ (2,783)**			$ 7,566			$ 760
Total assets	**$ 24,820**	**$12,756**	**$ 37,576**	$ 29,015	$ 12,744	$ 41,759	$ 15,708	$ 11,235	$ 26,943
Fixed assets, intangible assets and goodwill	**$ 7,174**	**$ 2,269**	**$ 9,443**	$ 5,535	$ 2,237	$ 7,772	$ 5,531	$ 3,053	$ 8,584
Purchase of fixed assets and intangible assets	**$ 2,570**	**$ 66**	**$ 2,636**	$ 845	$ 50	$ 895	$ 744	$ 38	$ 782
Depreciation and amortization of fixed assets and intangible assets	**$ 987**	**$ 31**	**$ 1,018**	$ 808	$ 867	$ 1,675	$ 824	$ 1,202	$ 2,026

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