

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

	October 31 2006	April 30 2006
Assets:		
Current assets:		
Cash and cash equivalents	\$ 14,721	\$ 15,693
Accounts receivable, net of allowances for doubtful accounts of \$168 (April 30, 2006 – \$223)	7,622	11,026
Deferred income taxes	2,569	2,572
Other	1,795	2,088
Total current assets	26,707	31,379
Fixed assets	3,844	3,278
Intangible assets (note 2)	228	–
Goodwill (note 2)	2,424	2,424
Deferred income taxes	2,608	2,608
Total assets	\$ 35,811	\$ 39,689
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,272	\$ 1,451
Accrued liabilities	2,445	2,689
Income taxes payable	179	367
Deferred revenue	11,127	12,326
Total current liabilities	15,023	16,833
Shareholders' equity:		
Share capital	54,278	52,983
Accumulated other comprehensive loss	(1,460)	(1,293)
Accumulated deficit	(32,030)	(28,834)
Total shareholders' equity	20,788	22,856
Total liabilities and shareholders' equity	\$ 35,811	\$ 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 October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Revenue:				
License	\$ 4,425	\$ 5,431	\$ 10,439	\$ 10,676
Maintenance	5,491	4,704	10,696	9,059
Service	1,593	1,401	2,993	2,606
	11,509	11,536	24,128	22,341
Operating expenses:				
Cost of product and support	991	888	2,030	1,738
Cost of service	1,146	979	2,267	2,003
Sales and marketing	5,637	4,735	11,932	9,383
Research and development	2,895	2,312	5,660	4,522
General and administrative	1,718	1,722	3,489	3,279
Stock based compensation (note 1 f))	279	–	525	–
Amortization of intangibles	1	–	1	–
	12,667	10,636	25,904	20,925
Income (loss) from operations	(1,158)	900	(1,776)	1,416
Interest income, net	120	39	271	59
Income (loss) before income taxes	(1,038)	939	(1,505)	1,475
Income tax provision (recovery):				
Current (note 3)	(330)	–	(330)	–
Deferred	(18)	–	3	–
Income tax provision (recovery)	(348)	–	(327)	–
Net income (loss)	\$ (690)	\$ 939	\$ (1,178)	\$ 1,475
Earnings (loss) per share:				
Basic and diluted	\$ (0.01)	\$ 0.02	\$ (0.02)	\$ 0.03
Basic weighted average number of shares outstanding	50,469	42,916	50,327	42,645
Diluted weighted average number of shares outstanding	52,278	48,628	52,301	46,365

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	576	770	–	–	–	–	–	770
Stock based compensation	–	–	525	–	–	–	–	525
Dividends paid	–	–	–	–	–	–	(2,018)	(2,018)
Comprehensive loss:								
Foreign currency translation adjustment	–	–	–	–	–	(167)	–	(167)
Net loss	–	–	–	–	–	–	(1,178)	(1,178)
Comprehensive loss	–	–	–	–	–	(167)	(1,178)	(1,345)
Balances at October 31, 2006	50,545	\$ 53,408	\$ 870	–	\$ –	\$ (1,460)	\$ (32,030)	\$ 20,788

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows

(U.S. dollars, thousands, unaudited)

	Three Months Ended October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income (loss)	\$ (690)	\$ 939	\$ (1,178)	\$ 1,475
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation of fixed assets	213	203	421	390
Amortization of intangible assets	1	–	1	2
Stock based compensation	279	–	525	–
Deferred income taxes	(18)	–	3	–
Loss on disposal of fixed assets	–	–	–	10
Change in operating assets and liabilities:				
Accounts receivable	1,689	(859)	3,404	708
Other	348	291	293	189
Accounts payable, net of deferred compensation	(203)	377	(178)	285
Accrued liabilities	(306)	139	(244)	(651)
Income taxes payable	(150)	–	(188)	69
Deferred revenue	(288)	347	(1,198)	(326)
Net cash provided by operating activities	875	1,437	1,661	2,151
Cash flows used for investing activities:				
Purchase of fixed assets	(599)	(474)	(970)	(627)
Purchase of intangible assets	(7)	–	(229)	–
Net cash used for investing activities	(606)	(474)	(1,199)	(627)
Cash flows provided by financing activities:				
Proceeds on issuance of common shares	151	793	770	1,325
Dividends paid	(1,010)	–	(2,018)	–
Payments of deferred compensation	–	(145)	–	(335)
Net cash provided by (used for) financing activities	(859)	648	(1,248)	990
Effect of exchange rate changes on cash and cash equivalents	(59)	(39)	(186)	172
Change in cash and cash equivalents balances	(649)	1,572	(972)	2,686
Cash and cash equivalents, beginning of period	15,370	8,913	15,693	7,799
Cash and cash equivalents, end of period	\$ 14,721	\$ 10,485	\$ 14,721	\$ 10,485
Supplemental cash flow information:				
Interest received	\$ 119	\$ 42	\$ 269	\$ 64
Interest paid	–	3	–	5
Income taxes paid	–	–	–	22
Income tax refund received	178	–	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 October 31, 2006 and for the three and six month periods ended October 31, 2006 and 2005 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 5.0% (October 31, 2005 – 4.2%), dividend yield of 3.1% (October 31, 2005 – nil) and expected lives of options of five years and expected volatility of 76% (October 31, 2005 – 63%).

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 October 31, 2005 indicated in the following table.

	Three Months Ended October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Pro-forma net income (loss):				
Net income (loss), as reported	\$ (690)	\$ 939	\$ (1,178)	\$ 1,475
Pro-forma compensation expense	-	(361)	-	(744)
Net income (loss), pro-forma	(690)	578	(1,178)	731
Pro-forma basic and diluted earnings (loss) per share:				
As reported				
Basic	\$ (0.01)	\$ 0.02	\$ (0.02)	\$ 0.03
Diluted	(0.01)	0.02	(0.02)	0.03
Pro-forma				
Basic	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.02
Diluted	(0.01)	0.01	(0.02)	0.02
Weighted average grant date fair value of options granted during the period (Cdn\$)	\$ 1.26	\$ 1.91	\$ 1.45	\$ 1.86
Expected volatility	70%	61%	76%	63%

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Notes to Consolidated Financial Statements

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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.

d) Continuity of options issued under the plans:

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

	Six Months Ended October 31, 2006		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	775	2.71	731	2.07
Exercised	(576)	1.49	(1,097)	1.37
Forfeited	(120)	3.29	(444)	2.91
Outstanding, end of period	7,704	Cdn\$1.69	7,625	Cdn\$1.59
Options exercisable, end of period	5,840	Cdn\$1.54	5,970	Cdn\$1.56

e) Summary of the balances of options issued under the plans at October 31, 2006:

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	4,079	2.8 years	\$ 1.28	3,714	\$ 1.28
1.45 – 2.07	2,341	3.1	1.88	1,830	1.89
2.20 – 3.04	1,257	5.9	2.59	269	2.38
3.95 – 7.90	27	0.8	4.13	27	4.13
	7,704	3.4 years	\$ 1.69	5,840	\$ 1.54

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f) Impact of stock compensation:

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

	Three months Ended October 31		Six months Ended October 31	
	2006	2005	2006	2005
Cost of product and support	\$ 7	\$ -	\$ 13	\$ -
Cost of service	12	-	21	-
Sales and marketing	80	-	139	-
Research and development	66	-	120	-
General and administrative	114	-	232	-
	\$ 279	\$ -	\$ 525	\$ -

2. Intangible assets and goodwill:

a) Intangible assets:

	October 31 2006	April 30 2006
Purchased software and technology, gross	\$ 910	\$ 681
Other intangible assets, gross	389	389
Accumulated amortization	(1,071)	(1,070)
Intangible assets, net	\$ 228	\$ -

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

b) Goodwill:

	October 31 2006	April 30 2006
Goodwill, gross	\$ 2,493	\$ 2,493
Accumulated amortization	(69)	(69)
Goodwill, net	\$ 2,424	\$ 2,424

3. Current income tax provision (recovery):

	Three months Ended October 31		Six months Ended October 31	
	2006	2005	2006	2005
Gross current income tax provision (recovery)	\$ -	\$ -	\$ -	\$ -
Less: Investment tax credits realized	(330)	-	(330)	-
Net current income tax provision (recovery)	\$ (330)	\$ -	\$ (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.

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4. 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.

Three Months Ended October 31						
	2006			2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 6,437	\$ 1,506	\$ 7,943	\$ 5,703	\$ 1,704	\$ 7,407
Europe & Other	3,213	353	3,566	3,885	244	4,129
Total revenue	\$ 9,650	\$ 1,859	\$ 11,509	\$ 9,588	\$ 1,948	\$ 11,536
Revenue:						
License	\$ 3,372	\$ 1,053	\$ 4,425	\$ 4,324	\$ 1,107	\$ 5,431
Maintenance	4,695	796	5,491	3,863	841	4,704
Service	1,583	10	1,593	1,401	–	1,401
Total revenue	\$ 9,650	\$ 1,859	\$ 11,509	\$ 9,588	\$ 1,948	\$ 11,536
Income (loss):						
Operating income (loss)	\$ (1,272)	\$ 454	\$ (818)	\$ 235	\$ 210	\$ 445
Interest and income taxes			138			39
Net income (loss)			\$ (680)			\$ 484

Six Months Ended October 31						
	2006			2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 12,630	\$ 3,158	\$ 15,788	\$ 11,119	\$ 3,350	\$ 14,469
Europe & Other	7,525	815	8,340	7,293	579	7,872
Total revenue	\$ 20,155	\$ 3,973	\$ 24,128	\$ 18,412	\$ 3,929	\$ 22,341
Revenue:						
License	\$ 8,075	\$ 2,364	\$ 10,439	\$ 8,411	\$ 2,265	\$ 10,676
Maintenance	9,097	1,599	10,696	7,407	1,652	9,059
Service	2,983	10	2,993	2,594	12	2,606
Total revenue	\$ 20,155	\$ 3,973	\$ 24,128	\$ 18,412	\$ 3,929	\$ 22,341
Income (loss):						
Operating income (loss)	\$ (2,927)	\$ 1,151	\$ (1,776)	\$ 426	\$ 990	\$ 1,416
Interest and income taxes			598			59
Net income (loss)			\$ (1,178)			\$ 1,475

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