

MKS Inc.
Consolidated Balance Sheets

[Dollar Amounts in US, In Thousands, Unaudited]

	January 31 2006	(Audited) April 30 2005
Assets:		
Current assets:		
Cash and cash equivalents	\$ 13,185	\$ 7,799
Accounts receivable, net of allowances for doubtful accounts of \$154 (April 30, 2005 – \$148)	11,373	8,126
Other	2,184	2,039
Total current assets	26,742	17,964
Fixed assets	3,417	3,250
Intangibles and goodwill (note 2)	2,424	2,426
Other	-	395
Total assets	\$ 32,583	\$ 24,035
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,298	\$ 1,753
Accrued liabilities	3,038	3,455
Income taxes payable	364	320
Deferred revenue	11,090	9,704
Total current liabilities	15,790	15,232
Long-term liabilities:		
Deferred revenue	239	149
Total liabilities	16,029	15,381
Shareholders' equity:		
Share capital	52,601	47,933
Accumulated other comprehensive loss	(1,204)	(1,332)
Accumulated deficit	(34,843)	(37,947)
Total shareholders' equity	16,554	8,654
Total liabilities and shareholders' equity	\$ 32,583	\$ 24,035

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Operations

[Dollar Amounts in US, In Thousands, Except Per Share Data, Unaudited]

	Three Months Ended January 31		Nine Months Ended January 31	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:				
License	\$ 7,399	\$ 5,563	\$ 18,075	\$ 14,809
Maintenance	4,853	3,937	13,912	11,418
Service	1,161	1,089	3,767	2,607
Total revenue	13,413	10,589	35,754	28,834
Operating expenses:				
Cost of product and support	1,045	836	2,783	2,393
Cost of service	1,096	724	3,099	1,893
Sales and marketing	5,337	4,366	14,720	12,605
Research and development	2,500	2,209	7,022	6,332
General and administrative	1,860	1,644	5,139	4,423
Total operating expenses	11,838	9,779	32,763	27,646
Income from operations	1,575	810	2,991	1,188
Interest income, net	54	4	113	7
Net income	\$ 1,629	\$ 814	\$ 3,104	\$ 1,195
Earnings per share:				
Basic	\$ 0.04	\$ 0.02	\$ 0.07	\$ 0.03
Diluted	\$ 0.03	\$ 0.02	\$ 0.06	\$ 0.03
Weighted average number of shares outstanding:				
Basic	46,210	41,436	43,833	41,420
Diluted	51,661	45,703	49,802	44,866

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Shareholders' Equity

[Dollar Amounts in US, In Thousands, Unaudited]

	Common Shares		Additional Paid In Capital	Warrants		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Number	Amount		Number	Amount			
Balances at April 30, 2004 (audited)	41,409	\$ 45,815	\$ 345	7,295	\$ 1,423	\$ (1,218)	\$ (40,661)	\$ 5,704
Issuance of common shares	47	50	-	-	-	-	-	50
Comprehensive income:								
Foreign currency translation adjustment	-	-	-	-	-	(102)	-	(102)
Net income	-	-	-	-	-	-	1,195	1,195
Comprehensive income	-	-	-	-	-	\$ (102)	\$ 1,195	\$ 1,093
Balances at January 31, 2005	41,456	\$ 45,865	\$ 345	7,295	\$ 1,423	\$ (1,320)	\$ (39,466)	\$ 6,847
Exercise of warrants	368	251	-	(368)	(72)	-	-	179
Issuance of common shares	121	121	-	-	-	-	-	121
Comprehensive income:								
Foreign currency translation adjustment	-	-	-	-	-	(12)	-	(12)
Net income	-	-	-	-	-	-	1,519	1,519
Comprehensive income	-	-	-	-	-	\$ (12)	\$ 1,519	\$ 1,507
Balances at April 30, 2005 (audited)	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	776	894	-	-	-	-	-	894
Comprehensive income:								
Foreign currency translation adjustment	-	-	-	-	-	128	-	128
Net income	-	-	-	-	-	-	3,104	3,104
Comprehensive income	-	-	-	-	-	128	3,104	3,232
Balances at January 31, 2006	49,648	\$ 52,256	\$ 345	-	\$ -	\$ (1,204)	\$ (34,843)	\$ 16,554

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows

[Dollar Amounts in US, In Thousands, Unaudited]

	Three Months Ended January 31		Nine Months Ended January 31	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:				
Net income	\$ 1,629	\$ 814	\$ 3,104	\$ 1,195
Adjustments to reconcile net income to net cash used for operating activities:				
Depreciation and amortization	222	222	612	628
Interest on deferred compensation	-	4	2	13
Loss on disposal of capital assets	-	-	10	10
Change in operating assets and liabilities:				
Accounts receivable	(3,955)	(998)	(3,247)	(1,160)
Other assets	61	15	250	(128)
Accounts payable, net of deferred compensation	(405)	(503)	(120)	(798)
Accrued liabilities	234	372	(417)	268
Income taxes payable	(25)	(3)	44	4
Deferred revenue	1,802	268	1,476	(446)
Net cash provided by (used for) operating activities	(437)	191	1,714	(414)
Cash flows from investing activities:				
Purchase of fixed assets	(194)	(137)	(821)	(684)
Net cash used for investing activities	(194)	(137)	(821)	(684)
Cash flows from financing activities:				
Proceeds on issuance of common shares	3,343	46	4,668	50
Payments of deferred compensation	-	-	(335)	(334)
Net cash provided by (used for) financing activities	3,343	46	4,333	(284)
Effect of exchange rates on cash and cash equivalents	(12)	2	160	(125)
Change in cash and cash equivalents	2,700	102	5,386	(1,507)
Cash and cash equivalents, beginning of period	10,485	4,758	7,799	6,367
Cash and cash equivalents, end of period	\$ 13,185	\$ 4,860	\$ 13,185	\$ 4,860
Supplemental schedules:				
Cash paid for:				
Interest	\$ -	\$ -	\$ 5	\$ 31
Income taxes	\$ 23	\$ -	\$ 45	\$ 2

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements

[Dollar Amounts in US, In Thousands, Except Per Share Data, Unaudited]

1. Significant accounting policies:

a) Basis of presentation:

The accompanying consolidated financial statements of MKS Inc. ("MKS" or the "Company") as at January 31, 2006 and for the three and nine month periods ended January 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, 2005 financial statements. 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, 2005.

b) Stock-based compensation:

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 the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS No. 123), the Company's net income (loss) and earnings (loss) per share would have been reported as the pro-forma amounts indicated in the following table. The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.2% (January 31, 2005 – 2.5%), dividend yield of 0.0% and expected lives of options of five years and expected volatility as specified in the following table:

	Three Months Ended January 31		Nine Months Ended January 31	
	2006	2005	2006	2005
Pro-forma net income:				
Net income, as reported	\$ 1,629	\$ 814	\$ 3,104	\$ 1,195
Compensation expense	302	202	1,046	604
Net income, pro-forma	1,327	612	2,058	591
Pro-forma basic earnings per share:				
As reported	\$ 0.04	\$ 0.02	\$ 0.07	\$ 0.03
Pro-forma	0.03	0.01	0.05	0.01
Pro-forma fully diluted earnings per share:				
As reported	0.03	0.02	0.06	0.03
Pro-forma	0.03	0.01	0.04	0.01
Weighted average grant date fair value of options granted during the period (Cdn\$)	\$ 2.45	\$ 1.43	\$ 2.06	\$ 1.21
Expected volatility	57%	73%	61%	72%

MKS Inc.
Notes to Consolidated Financial Statements

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c) Restatement of maintenance revenue:

Effective May 1, 2004, the Company changed its method of calculating revenue on its maintenance contracts from a monthly basis, which recognized one month of revenue in the month of sale, to a method of recognizing revenue on a daily basis, from the commencement of the maintenance term. The impact of this change increases maintenance revenue and net income by \$25 (\$0.00 per share) in the quarter ended January 31, 2005 and \$23 for the nine months ended January 31, 2005 (\$0.00 per share).

2. Intangibles and goodwill:

	January 31 2006	April 30 2005
Intangibles:		
Purchased software and technology, gross	\$ 681	\$ 681
Other intangibles, gross	389	389
Accumulated amortization	(1,070)	(1,068)
Intangibles, net	\$ -	\$ 2
Goodwill, gross	\$ 2,493	\$ 2,493
Accumulated amortization	(69)	(69)
Goodwill, net	\$ 2,424	\$ 2,424

3. Reclassification

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

4. Segmented information:

The Company evaluates operational performance based on two operating segments: Application Lifecycle Management (ALM) and systems administration ("Interoperability" or "IO"). The segments are managed separately because each requires unique selling and marketing strategies and is exposed to different economic environments. The ALM segment provides products and services that facilitate collaboration between large multi-site development teams, control the creation and ongoing maintenance of software, and manage business processes utilized by information technology departments within the Global 1000 companies. 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 schedules provide required segmented information disclosure.

	January 31, 2006			April 30, 2005		
	ALM	IO	Total	ALM	IO	Total
Identifiable assets	\$ 22,439	\$ 10,144	32,583	\$ 15,708	\$ 8,327	\$ 24,035

MKS Inc.
Notes to Consolidated Financial Statements

[Dollar Amounts in US, In Thousands, Except Per Share Data, Unaudited]

4. Segmented information: cont'd

	Three Months Ended					
	January 31, 2006			January 31, 2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
License	\$ 6,481	\$ 918	\$ 7,399	\$ 4,112	\$ 1,451	\$ 5,563
Maintenance	4,001	852	4,853	3,108	829	3,937
Service	1,152	9	1,161	1,054	35	1,089
Total revenue	\$ 11,634	\$ 1,779	\$ 13,413	\$ 8,274	\$ 2,315	\$ 10,589
Segment profit (loss)	\$ 1,247	\$ 328	\$ 1,575	\$ 156	\$ 654	\$ 810
Interest and income taxes			54			4
Net income			\$ 1,629			\$ 814

	Nine Months Ended					
	January 31, 2006			January 31, 2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
License	\$ 14,892	\$ 3,183	\$ 18,075	\$ 10,826	\$ 3,983	\$ 14,809
Maintenance	11,408	2,504	13,912	8,964	2,454	11,418
Service	3,746	21	3,767	2,507	100	2,607
Total revenue	\$ 30,046	\$ 5,708	\$ 35,754	\$ 22,297	\$ 6,537	\$ 28,834
Segment profit (loss)	\$ 1,673	\$ 1,318	\$ 2,991	\$ (240)	\$ 1,428	\$ 1,188
Interest and income taxes			113			7
Net income			\$ 3,104			\$ 1,195

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

	Three Months Ended					
	January 31, 2006			January 31, 2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 7,377	\$ 1,462	\$ 8,839	\$ 4,790	\$ 1,969	\$ 6,759
Europe & Other	4,257	317	4,574	3,484	346	3,830
Total revenue	\$ 11,634	\$ 1,779	\$ 13,413	\$ 8,274	\$ 2,315	\$ 10,589

	Nine Months Ended					
	January 31, 2006			January 31, 2005		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 18,496	\$ 4,812	\$ 23,308	\$ 13,518	\$ 5,354	\$ 18,872
Europe & Other	11,550	896	12,446	8,779	1,183	9,962
Total revenue	\$ 30,046	\$ 5,708	\$ 35,754	\$ 22,297	\$ 6,537	\$ 28,834