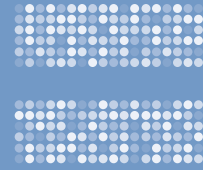


*the value of MOSAID*



# Third Quarter

*interim report* For the Quarter Ended January 31, 2006





**MOSAID Technologies Incorporated**

## **MOSAID Announces Third Quarter Results for Fiscal Year 2006**

**OTTAWA, Ontario** – February 23, 2006 – MOSAID Technologies Incorporated (TSX:MSD) today announced financial results for the third quarter of fiscal 2006, ended January 31, 2006.

Revenues for the third quarter of fiscal year 2006 were \$16,541,000, compared to revenues of \$16,897,000 in the third quarter of fiscal year 2005. Net income for the quarter was \$3,623,000 or \$0.31 per diluted share, compared to net income of \$34,106,000 or \$2.96 per diluted share a year ago, when the Company posted a one-time income tax recovery of \$28,300,000.

Revenues for the year-to-date were \$47,027,000, compared to revenues of \$33,201,000 reported for the same period last year. Net income for the first nine months of fiscal 2006 was \$12,348,000 or \$1.07 per diluted share, compared to net income of \$33,039,000 or \$3.05 per diluted share reported in the first nine months of fiscal 2005.

The Company's cash balance and short-term marketable securities at the end of the third quarter were \$66.1 million, compared to \$64.5 million at the end of the second quarter of fiscal 2006.

“In Q3 we delivered our fifth consecutive quarter with over 20% profitability. Further, for the year-to-date our pre-tax income from operations was almost triple that of last year, growing from \$6.7 million to \$18.5 million,” said George Cwynar, President and Chief Executive Officer. “MOSAID was very active in the quarter developing opportunities to further grow the business. We rolled out and delivered new Semiconductor IP and tester products; our advanced research initiative continued to make significant progress on the development of future Flash memory technology; and we are assessing a variety of patent acquisition opportunities.”

“Furthermore, in keeping with our ongoing commitment to balance strategic business investments and profitable growth with actions that provide direct returns to shareholders, our \$0.20 per share dividend payment in Q3 reflected a 60% increase over the dividend paid in Q2. In addition, during the third quarter, we began buying MOSAID shares under our normal course issuer bid. We purchased and cancelled 214,000 shares at a cost of approximately \$5 million,” said Cwynar.

### **Operating Highlights**

#### ***Semiconductor IP Products Available in 90nm Technologies***

MOSAID's Semiconductor IP products, including the DDR2 memory controller solution, MOSAID Mobilize low power standard cell library, and fractional Phase Locked Loop (PLL) are now available in 90nm technologies. Early testing of 90nm silicon for all three product lines is yielding encouraging results in MOSAID's Sunnyvale and Kanata labs. During the quarter, MOSAID licensed the DDR2 controller solution to its first customer and licensed additional PLL customers. 90nm versions of all three product lines have now been licensed to early customers.

The integration of Virtual Silicon Technology's operations with MOSAID's Semiconductor IP business has been proceeding as expected since the acquisition last quarter. The sales force has been merged and is now cross-selling MOSAID's memory controller, MOSAID Mobilize low power library and PLL product lines.

### ***Appeal in Lawsuit Against Infineon Advances***

On November 25, 2005, MOSAID filed a Notice of Appeal in its patent infringement lawsuit with Infineon Technologies in California. This Notice effectively began the appeal process of the New Jersey summary judgment ruling in the Infineon litigation. MOSAID believes the appeal is a positive development, and will ultimately provide a faster overall resolution of this case.

In the Infineon Texas case, a Court ordered mediation was held on February 16, 2006. The Markman hearing is currently scheduled for April 6, 2006 and a jury trial is scheduled to begin on October 10, 2006. A further recent development in the case was the addition of patent number 6,992,950 and the withdrawal of patent number 6,057,676 from the suit.

### ***Systems Division Ships New Tester***

During the third quarter, the Systems Division began shipping its new test system, the MS5205. The MS5205 is MOSAID's sixth generation of automatic test equipment targeted at engineering test, analysis and bitmapping applications for semiconductor memories. With double the available pins of previous systems and expanded logic test capability, the MS5205 addresses not only commodity Flash and DRAM memories, but also embedded memory and mixed memory/logic devices of many types.

Last month, the Systems Division successfully achieved re-certification of its quality management system to the ISO9001:2000 standard. Registration under ISO9000 confirms that the quality management system complies with the highest internationally accepted quality standard and demonstrates MOSAID's commitment to continuous improvement in the quality of its operations and products.

### **Guidance**

Guidance for the Company's Q4 of fiscal year 2006 revenues is \$16.5 to \$17.5 million and for net earnings is \$2.5 to \$3.0 million. Revenues for fiscal year 2006 are forecast to range between \$63.5 to \$64.5 million. Guidance for the Company's net earnings for fiscal year 2006 is \$14.8 to \$15.3 million. It is expected that approximately two thirds of the fiscal 2006 revenues will stem from the Intellectual Property Division. The Company is also tabling its initial guidance for fiscal 2007, where it is expected that revenues will range between \$70 to \$75 million and net earnings between \$15 to \$17 million.

### **Conference Call and Webcast**

*Management will hold a conference call and webcast on **Thursday, February 23, 2006 at 5:00 p.m. (EST)**. Participants wishing to access the conference call should dial 1-800-814-4941. The conference call will also be webcast live at [www.mosaid.com](http://www.mosaid.com) and [www.newswire.ca](http://www.newswire.ca), and subsequently archived on MOSAID's web site. A rebroadcast of the conference call will be available until midnight on **Thursday, March 2, 2006**. To access the rebroadcast, please dial 1-877-289-8525 and enter the passcode 21175428#.*

## **About MOSAID**

MOSAID Technologies Incorporated makes semiconductors better through the development and licensing of intellectual property and the supply of memory test and analysis systems. MOSAID counts many of the world's largest semiconductor companies among its customers. Founded in 1975, MOSAID is based in Ottawa, Ontario, with offices in Sunnyvale and Santa Clara, California; Newcastle upon Tyne, U.K.; and Tokyo, Japan. For more information, visit [www.mosaid.com](http://www.mosaid.com).

## **Forward Looking Information**

*This document may contain forward-looking statements relating to the Company's operations or to the environment in which the Company operates. Such statements are based on current expectations that are subject to a variety of risks and uncertainties that are difficult to predict and/or beyond MOSAID's control. Actual results may differ materially from those expressed in any forward-looking statements, due to factors such as customer demand and timing of purchasing decisions, product and business mix, competitive products, pricing pressures as well as general economic and industry conditions. MOSAID assumes no obligation to update these forward-looking statements, or to update the reasons why actual results could differ from those reflected in any forward-looking statements. Additional information identifying risks and uncertainties is contained in other public filings with the Ontario Securities Commission.*

For more information, please contact:

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**MANAGEMENT'S DISCUSSION AND ANALYSIS,  
FINANCIAL STATEMENTS AND NOTES FOLLOW**

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

*The following discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements of MOSAID Technologies Incorporated ("MOSAID" or "the Company") for the quarter ended January 31, 2006 appearing elsewhere in this report. It should also be read in conjunction with the audited annual Consolidated Financial Statements and the Management's Discussion and Analysis (MD&A) included in the Company's most recent Annual Report for the fiscal year ended April 30, 2005 and the interim reports for the quarters ended July 31, 2005 and October 31, 2005. All dollar amounts are in Canadian dollars, except where otherwise indicated.*

Management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by management, is complete and reliable. These procedures include the review and approval of the financial statements and associated information, including this MD&A, first by the Audit Committee of the Board of Directors and subsequently by the full Board.

This document contains forward-looking statements relating to the Company's operations and to the environment in which the Company operates. Such statements are based on current expectations that are subject to a variety of risks and uncertainties that are difficult to predict and/or beyond MOSAID's control. Actual results may differ materially from those expressed in any forward-looking statements due to factors such as customer demand and timing of purchasing decisions, product or business mixes, competitive products, pricing pressures as well as general economic and industry conditions. MOSAID assumes no obligation to update these forward-looking statements, or to explain the reasons why actual results could differ from those reflected in any forward-looking statements. Additional information identifying risks and uncertainties is contained in other public filings with the Ontario Securities Commission.

It should also be noted that the Certification by MOSAID's CEO and CFO of Interim Filings, as prescribed by Form 52-109F2, is required in conjunction with the reporting of these quarterly results and is filed accordingly with SEDAR.

### **Overview**

The Company reported revenues of \$16.5 million for the quarter ended January 31, 2006 ("Q3 fiscal 2006"), representing a decrease of 2% from revenues of \$16.9 million for the quarter ended January 21, 2005 ("Q3 fiscal 2005"). The net income for Q3 fiscal 2006 was \$3.6 million or \$0.31 per diluted share, compared to a net income of \$34.1 million or \$2.96 per diluted share, for the same quarter last year. The income before discontinued operations for Q3 fiscal 2006 and for Q3 fiscal 2005 was the same as the net income for the respective periods. The net income for Q3 fiscal 2005 contained a one-time income tax recovery of \$28.3 million. Without this one-time recovery, net income for Q3 fiscal 2005 would have been \$5.8 million or \$0.50 per diluted share.

On October 7, 2005, the Company acquired all of the shares of California-based Virtual Silicon Technology, Inc. ("VST"), an established supplier of semiconductor intellectual property, for a cash payment of \$6.4 million. The operating results of VST have been included in the Company's operating results since the date of acquisition.

## Results of Operations

The following table shows the percentage of revenues represented by certain items in the Company's consolidated statement of earnings for the fiscal quarters indicated.

(Dollar amounts in thousands)

|  | Quarter ended    |     |                  |       | Nine Months Ended |       |                  |      |
|--|------------------|-----|------------------|-------|-------------------|-------|------------------|------|
|  | January 31, 2006 |     | January 21, 2005 |       | January 31, 2006  |       | January 21, 2005 |      |
|  | \$               | %   | \$               | %     | \$                | %     | \$               | %    |
| <b>Revenues</b>                                      | 16,541           | 100 | 16,897           | 100.0 | 47,027            | 100.0 | 33,201           | 100  |
| <b>Expenses</b>                                      |                  |     |                  |       |                   |       |                  |      |
| Labour and materials                                 | 2,026            | 12  | 1,328            | 8     | 5,608             | 12    | 4,902            | 15   |
| Research and development                             | 4,822            | 29  | 1,817            | 11    | 9,718             | 21    | 5,479            | 17   |
| Selling and marketing                                | 3,482            | 21  | 4,200            | 25    | 8,865             | 19    | 12,425           | 37   |
| General and administration                           | 1,542            | 9   | 1,501            | 9     | 4,694             | 10    | 3,724            | 11   |
| Bad debt   | (446)            | (3) | -                | -     | (386)             | (1)   | -                | -    |
|  | 11,426           | 69  | 8,846            | 52    | 28,499            | 61    | 26,530           | 80   |
| Income from operations                               | 5,115            | 31  | 8,051            | 48    | 18,528            | 39    | 6,671            | 20   |
| Net interest income                                  | 397              | 2.4 | 170              | 1.0   | 1,001             | 2     | 432              | 1    |
| Income before income tax and discontinued operations | 5,512            | 33  | 8,221            | 49    | 19,529            | 42    | 7,103            | 21   |
| Income tax   | 1,889            | 11  | (25,885)         | (153) | 7,181             | 15    | (25,709)         | (77) |
| Income before discontinued operations                | 3,623            | 22  | 34,106           | 202   | 12,348            | 26    | 32,812           | 99   |
| Discontinued operations (net of tax)                 | -                | -   | -                | -     | -                 | -     | 227              | 1    |
| Net income   | 3,623            | 22  | 34,106           | 202   | 12,348            | 26    | 33,039           | 100  |

MOSAID operates through the Intellectual Property and Systems Divisions, whose current segmented financial information is shown in Note 5 to the Q3 fiscal 2006 financial statements.

The IP Division's segment profit was \$4.8 million for Q3 fiscal 2006 compared to a segment profit of \$8.2 million for the same quarter in the previous year. The decreased profit in Q3 fiscal 2006 when compared to the same quarter in the prior year is due to a combination of reduced revenues, which fell by \$1.8 million from \$12.8 million to \$11.0 million, and higher expenses. Engineering related expense for the segment increased by \$2.5 million, largely as a result of the acquisition of VST. This was somewhat offset by a reduction of \$937,000 in sales and marketing expenses, primarily related to reduced litigation costs.

The Systems Division's segment profit was \$328,000 on revenues of \$5.6 million for Q3 fiscal 2006 compared to a loss of \$87,000 million on revenues of \$4.1 million for the same quarter last year. The increased profit is due to a higher volume of sales and lower general and administrative costs being allocated to the segment, offset in part by increased sales and marketing and research and development expenses.

## REVENUES

(Dollar amounts in thousands)

|          | Quarter ended    |     |                  |     | Nine Months Ended |     |                  |     |
|----------|------------------|-----|------------------|-----|-------------------|-----|------------------|-----|
|          | January 31, 2006 |     | January 21, 2005 |     | January 31, 2006  |     | January 21, 2005 |     |
|          | \$               | %   | \$               | %   | \$                | %   | \$               | %   |
| IP       | 10,991           | 66  | 12,834           | 76  | 30,678            | 65  | 17,130           | 52  |
| Systems  | 5,550            | 34  | 4,063            | 24  | 16,349            | 35  | 16,071           | 48  |
| Revenues | 16,541           | 100 | 16,897           | 100 | 47,027            | 100 | 33,201           | 100 |

Revenue for the IP segment decreased by \$1.8 million from \$12.8 million in Q3 fiscal 2005 to \$11.0 million in Q3 fiscal 2006. The reduced revenue is a result of reduced patent licensing revenue of \$3.2 million, partially offset by a \$1.4 million increase in semiconductor intellectual property (“SIP”) revenues. The reduced patent licensing revenues are due to a significant payment in Q3 fiscal 2005 related to the initiation of the patent license agreement with Samsung. The increased SIP revenue is due primarily to revenues generated by VST.

Revenue for the IP segment for the nine months ended January 31, 2006 increased by 79% over the same period for the prior year as: i) the patent licensing arrangements signed during Q3 fiscal 2005 and Q4 fiscal 2005 contributed revenue throughout fiscal 2006 to date whereas they did not do so during fiscal 2005 and; ii) SIP revenue increased due primarily to revenues generated by VST, which was acquired near the end of Q2 fiscal 2006.

Systems Division revenues for Q3 fiscal 2006 increased by 37% over revenues for the same quarter in the previous year as the Division shipped more testers during Q3 fiscal 2006 than in Q3 fiscal 2005. Systems Division revenues for the nine months ended January 31, 2006 were marginally higher than the same period for the prior year. However, the average selling price (“ASP”) of the testers was lower in Q3 fiscal 2006 and for the nine months ended January 31, 2006 as compared to the same periods for the prior year. The lower ASP in fiscal 2006 as compared to fiscal 2005 is due to the difference in both product mix and distribution channel mix. To the extent that sales of the new lower priced MS5205 product become an increasing percentage of System Division total sales, ASP will trend lower.

The approximate geographic breakdown of operating revenues is as follows:

|               | Quarter ended    |                  | Nine Months Ended |                  |
|---------------|------------------|------------------|-------------------|------------------|
|               | January 31, 2006 | January 21, 2005 | January 31, 2006  | January 21, 2005 |
| Korea         | 61%              | 85%              | 67%               | 62%              |
| United States | 6%               | 2%               | 7%                | 11%              |
| Taiwan        | 12%              | 2%               | 14%               | 9%               |
| Europe        | 7%               | 2%               | 4%                | 7%               |
| Japan         | 3%               | 5%               | 1%                | 7%               |
| China         | 5%               | 0%               | 5%                | 0%               |
| Other         | 6%               | 4%               | 2%                | 4%               |
|               | 100%             | 100%             | 100%              | 100%             |

The Company markets its products and services globally. Revenues for Q3 fiscal 2006 for the IP Division were reported from Korea, Taiwan, Japan, Europe and USA. Systems Division revenues were concentrated in Korea, China, Europe, USA and Taiwan. Due to the low volume and high unit value of test equipment sales, the geographic distribution of Systems revenues can significantly vary from quarter to quarter.

## **EXPENSES**

### **Labour and Materials**

(Dollar amounts in thousands)

|  | Quarter ended    |                  | Nine Months Ended |                  |
|--|------------------|------------------|-------------------|------------------|
|  | January 31, 2006 | January 21, 2005 | January 31, 2006  | January 21, 2005 |
| Labour and materials                         | \$2,026          | \$1,328          | \$5,608           | \$4,902          |
| As a percentage of total revenue             | 12%              | 8%               | 12%               | 15%              |
| As a percentage of Systems Division revenues | 37%              | 33%              | 34%               | 31%              |
| Increase from same period last year          | 53%              |                  | 14%               |                  |

This category comprises the labour, materials and subcontract costs of assembling, integrating, testing and servicing the memory test systems.

The increase in labour and materials expense as a percentage of total revenues in Q3 fiscal 2006 was due to the higher percentage of total revenues generated by the Systems Division than in the corresponding period in fiscal 2005. The decrease in labour and materials expense as a percentage of total revenues for the first nine months of 2006, as compared to the same periods last year, was due to the lower percentage of total revenues generated by the Systems Division in the former period as compared to the latter.

Labour and materials as a percentage of Systems Division revenues in Q3 fiscal 2006 and the first nine months of fiscal 2006, as compared to the same periods last year, have increased due to one-time recovery amounts in fiscal 2005. As indicated in the Company's Q3 fiscal 2005 interim report, without these one-time events, the same percentages for the quarter ended January 21, 2005 and the nine months ended January 21, 2005 would have been 38% and 35% respectively.

### **Research and Development (R&D)**

(Dollar amounts in thousands)

|                                     | Quarter ended    |                  | Nine Months Ended |                  |
|-------------------------------------|------------------|------------------|-------------------|------------------|
|                                     | January 31, 2006 | January 21, 2005 | January 31, 2006  | January 21, 2005 |
| Research and development            | \$4,822          | \$1,817          | \$9,718           | \$5,479          |
| As a percentage of total revenues   | 29%              | 11%              | 21%               | 17%              |
| Increase from same period last year | 165%             |                  | 77%               |                  |

The majority of the increase in R&D expense in Q3 fiscal 2006 and the first nine months of fiscal 2006, as compared to the respective periods in fiscal 2005, is due to the acquisition of VST, late in Q2 fiscal 2006, while the balance is driven by the IP Division's expansion of its capability to commercialize the Company's patent portfolio and the Systems Division's ongoing product development program.

Investment tax credits reduced gross R&D expenses by \$142,000 during Q3 fiscal 2006, compared to \$105,000 for the same quarter in the prior year. Investment tax credits reduced gross R&D expenses by \$395,000 during the first nine months of fiscal 2006, compared to \$105,000 for the same period in the prior year.

## **Selling and Marketing (S&M)**

(Dollar amounts in thousands)

|                                     | Quarter ended    |                  | Nine Months Ended |                  |
|-------------------------------------|------------------|------------------|-------------------|------------------|
|                                     | January 31, 2006 | January 21, 2005 | January 31, 2006  | January 21, 2005 |
| Selling and marketing               | \$3,482          | \$4,200          | \$8,865           | \$12,425         |
| As a percentage of total revenues   | 21%              | 25%              | 19%               | 37%              |
| Decrease from same period last year | 17%              |                  | 29%               |                  |

Absolute S&M expense and the expense as a percentage of revenues for Q3 fiscal 2006 and the first nine months of fiscal 2006 declined significantly when compared to the same periods in the prior year. In both cases, the decline was due to reduced litigation expenses associated with patent infringement cases, offset partially by higher SIP S&M costs primarily as a result of the acquisition of VST.

During Q3 fiscal 2006, court cases against Infineon were proceeding in California and Texas. In Q2 fiscal 2006, the pace of proceedings in the California case against Infineon slowed pending the outcome of MOSAID's request to immediately appeal the summary judgment rulings in the case. On October 27th, 2005, MOSAID's motion was granted and MOSAID is now in the Appeal process. During Q3 fiscal 2006, the documentary discovery phase of the case against Infineon continued in the Eastern District of Texas. Legal expenses in Q3 fiscal 2006 were 44% lower than those in Q3 fiscal 2005, but have increased over Q2 fiscal 2006 and are expected to continue to escalate as depositions, the Texas Markman hearing and other activities proceed. Due to the nature of the expense, however, it is likely to vary significantly from quarter-to-quarter.

Systems Division S&M expense increased by 20% in Q3 fiscal 2006 as compared to Q3 fiscal 2005 due to a higher volume of sales and channel mix. Systems Division S&M expense for the first nine months of fiscal 2006 declined marginally from the comparable period in fiscal 2005 based on roughly the same level of revenues.

## **General and Administration (G&A)**

(Dollar amounts in thousands)

|                                     | Quarter ended    |                  | Nine Months Ended |                  |
|-------------------------------------|------------------|------------------|-------------------|------------------|
|                                     | January 31, 2006 | January 21, 2005 | January 31, 2006  | January 21, 2005 |
| General and administration          | \$1,542          | \$1,501          | \$4,694           | \$3,724          |
| As a percentage of total revenues   | 9%               | 9%               | 10%               | 11%              |
| Increase from same period last year | 3%               |                  | 26%               |                  |

G&A expense increased 3% in absolute terms in Q3 fiscal 2006 versus Q3 fiscal 2005. G&A expense increased 26% for the first nine months of fiscal 2006 as compared to the same period in the prior year.

The increase in the absolute amount in Q3 fiscal 2006 versus Q3 fiscal 2005 was driven by increased headcount and professional fees. For the first nine months of fiscal 2006, increased headcount and professional fees have increased over the comparable period in fiscal 2005, but additionally a foreign exchange loss of \$308,000 was incurred, compared to a foreign exchange gain of \$52,000 for the same period in the prior year.

### **Bad Debts**

During Q3 fiscal 2006, the Company recovered \$446,000 of bad debt assumed as part of the acquisition of VST. The Company does not anticipate collecting any further amounts related to the bad debts of VST.

### **Net Interest Income**

Interest income and interest expense amounted to \$492,000 and \$95,000, respectively, in Q3 fiscal 2006, compared to \$269,000 and \$99,000 in Q3 fiscal 2005. For the first nine months of fiscal 2006, interest income and interest expense amounted to \$1.3 million and \$288,000 respectively, compared to \$733,000 and \$301,000 for the same period in fiscal 2005. Interest income was higher due to higher cash balances and higher yields.

### **Income Taxes**

Income tax expense of \$1.9 million was recorded for Q3 fiscal 2006, compared to a tax recovery of \$25.9 million for Q3 fiscal 2005. The tax recovery amount in Q3 fiscal 2005 included a one-time recovery amount of \$28.3 million. The effective tax rate during Q3 fiscal 2006 was 34%. The Company expects the consolidated effective tax rate for fiscal 2006 to be approximately 36%-37%. The Company's consolidated effective tax rate is influenced by a variety of factors including statutory tax rates and the profitability of the Company in different geographic regions.

### **Liquidity and Capital Resources**

During the first nine months of fiscal 2006, the Company generated a positive cashflow from operations (before changes in non-cash working capital items) of \$17.0 million, as compared to positive cashflow of \$6.2 million for the same period in fiscal 2005. Changes in non-cash working capital reduced cashflow by \$180,000 for the first nine months of fiscal 2006, compared to a reduction in cashflow of \$10.4 million for the same period in fiscal 2005. During the first nine months of fiscal 2006, the Company paid dividends totaling \$5.2 million, as compared to no payments during the first nine months of fiscal 2005. During the first nine months of fiscal 2006, the Company repurchased and cancelled 214,000 common shares at an average cost per share of \$23.22, totaling approximately \$5.0 million. Of the total amount of \$5.0 million, \$1.9 million was charged to the share capital account, \$108,000 to the contributed surplus account, with the residual amount of \$2.9 million charged to retained earnings. During the first nine months of fiscal 2005, the Company repurchased and cancelled 24,200 shares at an average cost of \$9.52, totaling approximately \$230,000.

In terms of other cashflow items:

#### *Cash and short term marketable securities*

At the end of Q3 fiscal 2006, the Company had cash and marketable securities of \$66.1 million, compared to \$65.9 million at the end of fiscal 2005. Working capital decreased slightly to \$74.7 million at the end of Q3 fiscal 2006, from \$75.6 million at the end of fiscal 2005. Management believes that the Company is well capitalized with sufficient working capital to fund current ongoing operations.

The Company continues to have a \$10,000,000 bank credit facility available to cover the fluctuations in cash requirements. The Company had no borrowings against this facility throughout the quarter. The available operating line within this credit facility is calculated using a formula based on accounts receivable.

#### *Accounts receivable*

Accounts receivable decreased to \$4.7 million at the end of Q3 fiscal 2006, from \$5.6 million at the end of fiscal 2005, mainly due to timing of collections.

### Prepaid expenses

Prepaid expenses increased to \$1.5 million at the end of Q3 fiscal 2006, from \$518,000 at the end of fiscal 2005, largely as a result of payments for EDA tool maintenance for the SIP business, including a \$1.0 million increase as a result of the acquisition of VST.

### Capital assets

During the first nine months of fiscal 2006, the Company purchased \$1.2 million of capital assets, primarily for Systems Division sales and marketing and customer support equipment.

### Acquired Intangibles and Goodwill

The Company acquired intangibles and goodwill as part of the acquisition of VST. The preliminary allocation of the purchase price is shown in Note 2 to the Q2 fiscal 2006 interim financial statements. No significant changes to the numbers shown in the Q2 fiscal 2006 interim financial statements were made during Q3 fiscal 2006.

### Future income taxes recoverable

At the end of Q3 fiscal 2006, the balance for future income taxes recoverable was \$38.1 million, compared with \$40.1 million at the end of fiscal 2005. During the first nine months of fiscal 2006, \$395,000 of investment tax credits were recorded as an offset to R&D expense, and \$4.8 million of withholding taxes on international royalty income were added to the future income tax balance, offset by the tax expense during the first nine months of fiscal 2006 of \$7.2 million.

### Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased by \$585,000 at the end of Q3 fiscal 2006, from \$5.3 million at the end of fiscal 2005, due to the acquisition of VST.

### Mortgage payable

A mortgage of \$6,000,000, at a fixed rate of 8.24% per annum and for a ten year term, was put in place to finance the Company's principal physical facility, which went into service in December 1997. The remaining principal amount at the end of Q3 fiscal 2006 was \$4.6 million, of which \$239,000 was due within 12 months. The cost of the land and building was \$8.0 million, less amortization of \$2.2 million, at the end of the quarter.

## **Summary of Quarterly Results**

Shown in the following table is selected quarterly information, as prescribed by NI 51-102, for the Company for the past two fiscal years.

| (in thousands of dollars,<br>except per share amounts) | Q306     | Q206     | Q106     | Q405     | Q305     | Q205      | Q105    | Q404    |
|--|----------|----------|----------|----------|----------|-----------|---------|---------|
| Net sales  | \$16,541 | \$16,253 | \$14,233 | \$16,542 | \$16,897 | \$7,049   | \$9,255 | \$8,799 |
| Earnings (loss) before<br>discontinued operations      | \$3,623  | \$4,323  | \$4,433  | \$4,316  | \$34,106 | (\$1,366) | \$72    | \$302   |
| Per share  | \$0.32   | \$0.38   | \$0.39   | \$0.38   | \$3.05   | (\$0.13)  | \$0.01  | \$0.03  |
| Per diluted share                                      | \$0.31   | \$0.37   | \$0.38   | \$0.37   | \$2.96   | (\$0.13)  | \$0.01  | \$0.03  |
| Net earnings (loss)                                    | \$3,623  | \$4,323  | \$4,433  | \$4,546  | \$34,106 | (\$1,159) | \$92    | \$661   |
| Per share  | \$0.32   | \$0.38   | \$0.39   | \$0.40   | \$3.05   | (\$0.11)  | \$0.01  | \$0.06  |
| Per diluted share                                      | \$0.31   | \$0.37   | \$0.38   | \$0.39   | \$2.96   | (\$0.11)  | \$0.01  | \$0.06  |

NI 51-102 prescribes that the following chart be incorporated in the MD&A presentation, concerning the contractual obligations to which the Company is bound over the following five years:

| <b>Contractual Obligations</b>       | <b>Payments Due by Period</b>    |                        |                  |                  |                          |
|--------------------------------------|----------------------------------|------------------------|------------------|------------------|--------------------------|
|                                      | <b>(in thousands of dollars)</b> |                        |                  |                  |                          |
|                                      | <b>Total</b>                     | <b>Less<br/>1 year</b> | <b>1-3 years</b> | <b>4-5 years</b> | <b>After<br/>5 years</b> |
| Long term debt                       | \$4,647                          | \$239                  | \$4,408          | \$0              | \$0                      |
| Capital lease obligations            | \$0                              | \$0                    | \$0              | \$0              | \$0                      |
| Operating leases                     | \$69                             | \$69                   | \$0              | \$0              | \$0                      |
| Purchase obligations                 | \$0                              | \$0                    | \$0              | \$0              | \$0                      |
| Other long term obligations          | \$0                              | \$0                    | \$0              | \$0              | \$0                      |
| <b>Total contractual obligations</b> | <b>\$4,716</b>                   | <b>\$308</b>           | <b>\$4,408</b>   | <b>\$0</b>       | <b>\$0</b>               |

### **Off Balance Sheet Arrangements**

Off balance sheet arrangements are described in the notes to the annual financial statements. Note 16 describes the Company's foreign exchange forward contract commitments and Note 18 discloses the Company's guarantees and contingencies.

### **DSU Plan**

During Q3 fiscal 2006 the Company issued 167 deferred stock units in lieu of quarterly retainers to directors of the Company. The deferred stock units do not have an exercise price and are expected to be settled using cash consideration. These deferred stock units vest immediately.

### **Critical Accounting Estimates**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management estimates and assumptions that affect the amounts reported in our consolidated financial statements. The policies described in the Company's fiscal 2005 Annual MD&A are considered critical to our business operations and the understanding of our results of operations. The application of these and other accounting policies are described in Note 1 to the annual consolidated financial statements.

In addition to those items described in Note 1 to the annual consolidated financial statements, the following should be considered critical to our business operations and the understanding of our results of operations.

#### *Valuation of Identifiable Goodwill and Other Intangible Assets*

We account for our business acquisitions under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we must identify and attribute values and estimated lives to the intangible assets acquired. While we may employ experts to assist us with these matters, such determinations involve considerable judgment,

and often involve the use of significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These determinations affect the amount of amortization expense recognized in current and future periods.

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the fair value assigned to the net identifiable tangible and intangible assets acquired. Goodwill is not amortized, but rather it is periodically assessed for impairment. We perform an annual review in the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

Goodwill is tested for impairment at the “reporting unit level” (“reporting unit”) in accordance with the CICA Handbook Section 3062, “Goodwill and Other Intangible Assets”. A “reporting unit” is a group of businesses for which discrete financial information is available and that have similar economic characteristics. Our impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit. To determine the fair value, our review process uses the cash flow method and is based on a discounted future cash flow approach that utilizes estimates for the reporting unit’s costs and appropriate discount rates.

The determination as to whether a write-down of goodwill is necessary involves significant judgment based on the short-term and long-term projections of the future performance of the reporting unit to which the goodwill is attributed. The assumptions supporting the estimated future cash flows of the reporting unit, including the discount rate used and the estimated terminal value, reflect our best estimates.

We also review the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. Any change in estimate which causes the undiscounted expected future cash flows to be less than the carrying value, would result in an impairment loss being recognized equal to the amount by which the carrying value of the asset exceeds the fair value of the asset.

The preparation of these financial statements requires estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

### **Financial Instruments**

The Company’s use of financial instruments is largely limited to foreign exchange contracts, as described in Note 16 to the annual financial statements, and investment grade short-term marketable securities, as described in Note 2. At the end of Q3 fiscal 2006, the Company had committed with various financial institutions to sell US\$22.3 million at an average rate of 1.1651 by February 2007.

### **Outstanding Share Data**

The Company has an unlimited authorized number of shares. At the end of Q3 fiscal 2006, the issued number of shares was 11,357,118. Under the Employee and Director Stock Option Plan, the Company may grant up to 947,268 options of which 810,091 were outstanding at the end of Q3 fiscal 2006.

### **Other MD&A Requirements**

Additional information relating to the Company, including its Annual Information Form, are filed with SEDAR (available for review at [www.sedar.com](http://www.sedar.com)).

### **Business Risks and Uncertainties**

As described in the “Risk Management” section included in the Company’s annual MD&A for the year ended April 30, 2005, numerous factors could cause the Company’s results to differ materially from those in forward-looking statements. While these factors have not significantly changed since the end of fiscal 2005, one incremental area of risk relates to the acquisition of VST. The operations of this former company are involved in the same area of endeavour as the IP Division’s SIP business and possess the same risks, namely those related to the fact that products are in the early stage of being introduced into the marketplace. Furthermore, the continuing funding of the acquisition’s operations, given its historic losses, adds to the financial risk of the Company.

Dated this 23rd day of February, 2006.

MOSAID Technologies Incorporated  
Unaudited Consolidated Financial Statements  
For the three months ended January 31, 2006

Notice required under National Instrument 51-102,  
“Continuous Disclosure Obligations” Part 3.3(3) (a).

The attached consolidated financial statements have been prepared by Management of  
MOSAID Technologies Incorporated and have not been reviewed by an auditor.

**MOSAID TECHNOLOGIES INCORPORATED**  
 (Subject to the Canadian Business Corporations Act)  
**CONSOLIDATED BALANCE SHEET**  
 (In thousands)

|  | As at<br><b>January 31, 2006</b><br>(unaudited) | As at<br>April 30, 2005<br>(audited) |
|--|---|--------------------------------------|
| <b>Current Assets</b>                    |   |                                      |
| Cash and cash equivalents                | \$6,917   | \$7,083                              |
| Marketable securities                    | 59,218  | 58,781                               |
| Accounts receivable                      | 4,710   | 5,636                                |
| Income taxes receivable                  | 380   | 455                                  |
| Inventories                              | 1,939   | 2,203                                |
| Prepaid expenses                         | 1,498   | 518                                  |
| Future income taxes recoverable          | 8,228   | 8,228                                |
|  | <b>82,890</b>                                   | 82,904                               |
| <b>Capital Assets</b>                    |   |                                      |
|  | 9,264   | 9,418                                |
| <b>Acquired Intangibles</b>              | 5,667   | -                                    |
| <b>Goodwill</b>                          | 1,791   | -                                    |
| <b>Future Income Taxes</b>               | 29,851  | 31,885                               |
|  | <b>\$129,463</b>                                | \$124,207                            |
| <b>Current Liabilities</b>               |   |                                      |
| Accounts payable and accrued liabilities | \$5,889   | \$5,304                              |
| Deferred revenue                         | 2,071   | 1,405                                |
| Mortgage payable                         | 239   | 225                                  |
| Other current liabilities                | -   | 343                                  |
|  | <b>8,199</b>                                    | 7,277                                |
| <b>Mortgage Payable</b>                  | 4,408   | 4,590                                |
|  | <b>12,607</b>                                   | 11,867                               |
| <b>Shareholders' Equity</b>              |   |                                      |
| Share capital                            | 102,269   | 102,820                              |
| Contributed surplus                      | 2,200   | 1,357                                |
| Retained earnings                        | 12,387  | 8,163                                |
|  | <b>116,856</b>                                  | 112,340                              |
|  | <b>\$129,463</b>                                | \$124,207                            |

See accompanying Notes to the Consolidated Financial Statements

**MOSAID TECHNOLOGIES INCORPORATED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**

(In thousands, except per share amounts)  
(unaudited)

|  | Quarter<br>ended<br>January 31,<br>2006 | Quarter<br>ended<br>January 21,<br>2005 | Nine months<br>ended<br>January 31,<br>2006 | Nine months<br>ended<br>January 21,<br>2005 |
|--|---|---|---|---|
| <b>Revenues</b>  | <b>\$16,541</b>                         | \$16,897                                | <b>\$47,027</b>                             | \$33,201                                    |
| <b>Expenses</b>  |   |   |   |   |
| Labour and materials   | 2,026                                   | 1,328                                   | 5,608                                       | 4,902                                       |
| Research and development                                     | 4,822                                   | 1,817                                   | 9,718                                       | 5,479                                       |
| Selling and marketing  | 3,482                                   | 4,200                                   | 8,865                                       | 12,425                                      |
| General and administration                                   | 1,542                                   | 1,501                                   | 4,694                                       | 3,724                                       |
| Bad debts  | (446)                                   | -                                       | (386)                                       | -   |
|  | <b>11,426</b>                           | 8,846                                   | <b>28,499</b>                               | 26,530                                      |
| Income from operations                                       | 5,115                                   | 8,051                                   | 18,528                                      | 6,671                                       |
| Net interest income (Note 2)                                 | 397                                     | 170                                     | 1,001                                       | 432   |
| Income before income tax expense and discontinued operations | 5,512                                   | 8,221                                   | 19,529                                      | 7,103                                       |
| Income tax expense (recovery)                                | 1,889                                   | (25,885)                                | 7,181                                       | (25,709)                                    |
| Income before discontinued operations                        | 3,623                                   | 34,106                                  | 12,348                                      | 32,812                                      |
| Discontinued operations (net of tax)                         | -                                       | -                                       | -   | 227   |
| Net income   | 3,623                                   | 34,106                                  | 12,348                                      | 33,039                                      |
| Dividends  | 2,309                                   | -                                       | 5,183                                       | -   |
| Normal course issuer bid                                     | 2,941                                   | -                                       | 2,941                                       | -   |
| <b>Retained earnings (deficit), beginning of period</b>      | <b>14,014</b>                           | (30,489)                                | <b>8,163</b>                                | (29,422)                                    |
| <b>Retained earnings, end of period</b>                      | <b>\$12,387</b>                         | \$3,617                                 | <b>\$12,387</b>                             | \$3,617                                     |
| <b>Earnings per share (Note 3)</b>                           |   |   |   |   |
| Basic – before discontinued operations                       | <b>\$0.32</b>                           | \$3.05                                  | <b>\$1.08</b>                               | \$3.09                                      |
| Diluted – before discontinued operations                     | <b>\$0.31</b>                           | \$2.96                                  | <b>\$1.07</b>                               | \$3.03                                      |
| Basic – net earnings   | <b>\$0.32</b>                           | \$3.05                                  | <b>\$1.08</b>                               | \$3.11                                      |
| Diluted – net earnings                                       | <b>\$0.31</b>                           | \$2.96                                  | <b>\$1.07</b>                               | \$3.05                                      |
| <b>Weighted average number of shares</b>                     |   |   |   |   |
| Basic  | <b>11,461,391</b>                       | 11,176,358                              | <b>11,482,501</b>                           | 10,629,793                                  |
| Diluted  | <b>11,593,845</b>                       | 11,538,937                              | <b>11,573,864</b>                           | 10,826,268                                  |

See accompanying Notes to the Consolidated Financial Statements

**MOSAID TECHNOLOGIES INCORPORATED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)  
(unaudited)

|  | Quarter<br>ended<br>January 31,<br>2006 | Quarter<br>ended<br>January 21,<br>2005 | Nine months<br>ended<br>January 31,<br>2006 | Nine months<br>ended<br>January 21,<br>2005 |
|--|---|---|---|---|
| <b>Operating</b>   |   |   |   |   |
| Income before discontinued operations                                  | <b>\$3,623</b>                          | \$34,106                                | <b>\$12,348</b>                             | \$32,812                                    |
| Items not affecting cash   |   |   |   |   |
| Amortization   | <b>696</b>                              | 444                                     | <b>1,654</b>                                | 1,378                                       |
| Stock option expense   | <b>340</b>                              | 227                                     | <b>951</b>                                  | 568   |
| Loss on disposal   | <b>24</b>                               | -                                       | <b>24</b>                                   | -   |
| Future income tax recoverable  | <b>187</b>                              | (28,537)                                | <b>2,034</b>                                | (28,537)                                    |
|  | <b>4,870</b>                            | 6,240                                   | <b>17,011</b>                               | 6,221                                       |
| Change in non-cash working capital items<br>from continuing operations | <b>3,454</b>                            | (11,544)                                | <b>(180)</b>                                | (10,396)                                    |
|  | <b>8,324</b>                            | (5,304)                                 | <b>16,831</b>                               | (4,175)                                     |
| <b>Investing</b>   |   |   |   |   |
| Acquisition of capital assets – net –<br>continuing operations         | <b>(468)</b>                            | (395)                                   | <b>(1,159)</b>                              | (1,046)                                     |
| Acquisition of short-term marketable<br>securities                     | <b>(58,197)</b>                         | (38,852)                                | <b>(172,414)</b>                            | (49,809)                                    |
| Acquisition of shares in Virtual Silicon<br>Technology Inc.            | <b>(24)</b>                             | -                                       | <b>(6,388)</b>                              | -   |
| Proceeds on disposal/maturity of short-term<br>marketable securities   | <b>57,764</b>                           | 14,283                                  | <b>171,977</b>                              | 37,406                                      |
|  | <b>(925)</b>                            | (24,964)                                | <b>(7,984)</b>                              | (13,449)                                    |
| <b>Financing</b>   |   |   |   |   |
| Repayment of mortgage  | <b>(57)</b>                             | (52)                                    | <b>(168)</b>                                | (154)                                       |
| Repurchase of shares   | <b>(4,966)</b>                          | -                                       | <b>(4,966)</b>                              | (230)                                       |
| Dividends  | <b>(2,309)</b>                          | -                                       | <b>(5,183)</b>                              | -   |
| Issue of common shares   | <b>1,112</b>                            | 14,513                                  | <b>1,366</b>                                | 16,105                                      |
|  | <b>(6,220)</b>                          | 14,461                                  | <b>(8,951)</b>                              | 15,721                                      |
| Net cash (outflow) inflow – continuing<br>operations                   | <b>1,179</b>                            | (15,807)                                | <b>(104)</b>                                | (1,903)                                     |
| Net cash (outflow) inflow – discontinued<br>operations                 | <b>-</b>                                | (25)                                    | <b>(62)</b>                                 | (228)                                       |
| <b>Net cash (outflow) inflow</b>                                       | <b>1,179</b>                            | (15,832)                                | <b>(166)</b>                                | (2,131)                                     |
| <b>Cash and cash equivalents, beginning of<br/>period</b>              | <b>5,738</b>                            | 22,722                                  | <b>7,083</b>                                | 9,021                                       |
| <b>Cash and cash equivalents, end of period</b>                        | <b>\$6,917</b>                          | \$6,890                                 | <b>\$6,917</b>                              | \$6,890                                     |

See accompanying Notes to the Consolidated Financial Statements

**MOSAID TECHNOLOGIES INCORPORATED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Quarter ended January 31, 2006**  
(tabular dollar amounts in thousands, except per share amounts)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with Canadian generally accounting principles for interim financial information. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements.

In the opinion of management, all adjustments consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the interim period presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the full fiscal year ending April 30, 2006.

The accounting policies used in preparing these interim financial statements are consistent with those used in preparing the annual financial statements, except as follows:

*Business combinations, goodwill and intangible assets*

The Company adopted the guidance in the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1581, "Business Combinations", which requires all business combinations to be accounted for using the purchase method. In addition, any goodwill and intangible assets acquired in a business combination are accounted for under CICA Handbook Section 3062, "Goodwill and Other Intangible Assets". This section requires that goodwill and intangible assets with indefinite useful lives are not amortized, while those identified intangible assets with finite useful lives are amortized over their useful lives.

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The impairment test is carried out in two steps. In the first step, the identification of a potential impairment is determined by comparing the fair value of the reporting unit to its carrying value. Fair value is based on estimates of discounted future cash flows or other valuation methods. When the fair value of the reporting unit is less than its carrying value, the fair value is allocated to all its assets and liabilities based on their fair values. The amount that the fair value of the reporting unit exceeds the amounts assigned to its assets and liabilities is the fair value of goodwill. In the second step, impairment is determined by comparing the fair value of goodwill to its carrying value. Any excess is charged to earnings.

Intangible assets with finite useful lives acquired through business combinations are recorded at their fair value at the date of acquisition. An impairment loss on intangible assets with finite useful lives is recognized when its carrying value exceeds the total undiscounted cash flows expected from its use and disposition. The amount of loss is determined by deducting its fair value based on discounted cash flows from its use and disposition from its carrying values.

2. Net Interest Income

Net interest income comprises the following:

|                  | <b>Quarter ended<br/>January 31, 2006</b> | Quarter ended<br>January 21, 2005 | <b>Nine months ended<br/>January 31, 2006</b> | Nine months ended<br>January 21, 2005 |
|------------------|---|-----------------------------------|---|---------------------------------------|
| Interest income  | <b>\$492</b>                              | \$269                             | <b>\$1,289</b>                                | \$733                                 |
| Interest expense | <b>95</b>                                 | 99                                | <b>288</b>                                    | 301                                   |
|                  | <b>\$397</b>                              | \$170                             | <b>\$1,001</b>                                | \$432                                 |

### 3. Earnings per Share

The following is a reconciliation of the numerator and denominator of the basic and diluted per share computations:

|  | <b>Quarter ended<br/>January 31, 2006</b> | Quarter ended<br>January 21, 2005 | <b>Nine months ended<br/>January 31, 2006</b> | Nine months ended<br>January 21, 2005 |
|--|---|-----------------------------------|---|---------------------------------------|
| Income before discontinued operations                        | <b>\$3,623</b>                            | \$34,106                          | <b>\$12,348</b>                               | \$32,812                              |
| Discontinued operations (net of tax)                         | -   | -                                 | -   | 227                                   |
| Net income   | <b>\$3,623</b>                            | \$34,106                          | <b>\$12,348</b>                               | \$33,039                              |
| Weighted average number of common shares outstanding         | <b>11,461,391</b>                         | 11,176,358                        | <b>11,482,501</b>                             | 10,629,793                            |
| Net effect of stock options                                  | <b>132,454</b>                            | 362,579                           | <b>91,363</b>                                 | 196,475                               |
| Weighted average diluted number of common shares outstanding | <b>11,593,845</b>                         | 11,538,937                        | <b>11,573,864</b>                             | 10,826,268                            |
| Earnings per share   |   |                                   |   |                                       |
| Basic - before discontinued operations                       | <b>\$0.32</b>                             | \$3.05                            | <b>\$1.08</b>                                 | \$3.09                                |
| Diluted - before discontinued operations                     | <b>\$0.31</b>                             | \$2.96                            | <b>\$1.07</b>                                 | \$3.03                                |
| Basic – net income   | <b>\$0.32</b>                             | \$3.05                            | <b>\$1.08</b>                                 | \$3.11                                |
| Diluted - net income   | <b>\$0.31</b>                             | \$2.96                            | <b>\$1.07</b>                                 | \$3.05                                |

For the quarter and nine months ended January 31, 2006, 76,400 and 211,324 options respectively were excluded from the calculation of diluted earnings per share as the exercise price of these options exceeded the average market price of the Company's common stock during the period and were therefore anti-dilutive.

For the quarter and nine months ended January 21, 2005, 9,000 and 261,391 options respectively were excluded from the calculation of diluted earnings per share as the exercise price of these options exceeded the average market price of the Company's common stock during the period and were therefore anti-dilutive.

There were 810,091 and 815,317 options issued and outstanding as at January 31, 2006 and January 21, 2005 respectively.

### 4. Stock-based Compensation

The Company has an employee stock purchase plan program whereby employees may elect to designate up to 5% of their annual salary to purchase shares of the Company at a 10% discount from the fair market value. The purchase price is deducted over a six month period via payroll.

Also, the Company has an Employee and Director Stock Option Plan. The exercise price is no lower than the market price on the date of grant. Options granted under the Plan expire within a period of six years of granting, with vesting periods determined by the Human Resources Committee.

The Company employs a fair value method of accounting for all options issued to employees or directors on or after April 27, 2002. The fair value of options issued in the quarter was calculated using the Black-Scholes option pricing model and the following assumptions:

|                         | <b>Quarter ended<br/>January 31, 2006</b> | Quarter ended<br>January 21, 2005 |
|-------------------------|---|-----------------------------------|
| Risk free interest rate | <b>3.41 %</b>                             | 4.1 %                             |
| Expected life in years  | <b>5.5</b>                                | 4.6                               |
| Expected dividend yield | <b>3.4 %</b>                              | -                                 |
| Volatility              | <b>76.05 %</b>                            | 91.06 %                           |

#### 5. Business Segment Information

Based upon the Company's internal reporting structure, the following operating segments have been assigned:

*Intellectual Property (IP):* A developer and licensor of semiconductor intellectual property.  
*Systems:* A supplier of engineering memory test and analysis systems.

The significant accounting policies of the above segments are the same as those described in Note 1. Intersegment sales are recorded at cost. General and administrative costs are allocated to the operating segments based upon estimates of usage. The Company has not included net interest income, foreign exchange gains or losses, unusual items, gains or losses of long-term assets or income tax expense in the determination of operating segment profit.

**Segment information**  
(in thousands of dollars)

| Nine months ended January 31, 2006              |             |                  | Before              |                         |                         | Totals    |
|---|-------------|------------------|---------------------|-------------------------|-------------------------|-----------|
|   | IP Division | Systems Division | Unallocated amounts | discontinued operations | Discontinued operations |           |
| Revenues from external customers                | \$ 30,678   | \$ 16,349        | \$ -                | \$ 47,027               | \$ -                    | \$ 47,027 |
| Segment profit (loss)                           | \$ 16,834   | \$ 1,966         | \$ (6,452)          | \$ 12,348               | \$ -                    | \$ 12,348 |
| Segment assets *                                | \$ 6,029    | \$ 1,951         | \$ 6,951            | \$ 14,931               | \$ -                    | \$ 14,931 |
| Expenditure on segment assets *                 | \$ 6,157    | \$ 863           | \$ 171              | \$ 7,191                | \$ -                    | \$ 7,191  |
| Amortization and write-down of segment assets * | \$ 569      | \$ 663           | \$ 422              | \$ 1,654                | \$ -                    | \$ 1,654  |

| Nine months ended January 21, 2005              |             |                  | Before              |                         |                         | Totals    |
|---|-------------|------------------|---------------------|-------------------------|-------------------------|-----------|
|   | IP Division | Systems Division | Unallocated amounts | discontinued operations | Discontinued operations |           |
| Revenues from external customers                | \$ 17,130   | \$ 16,071        | \$ -                | \$ 33,201               | \$ 42                   | \$ 33,243 |
| Segment profit (loss)                           | \$ 4,078    | \$ 2,644         | \$ 26,090           | \$ 32,812               | \$ 227                  | \$ 33,039 |
| Segment assets *                                | \$ 133      | \$ 1,232         | \$ 7,411            | \$ 8,776                | \$ -                    | \$ 8,776  |
| Expenditure on segment assets *                 | \$ 147      | \$ 830           | \$ 69               | \$ 1,046                | \$ -                    | \$ 1,046  |
| Amortization and write-down of segment assets * | \$ 252      | \$ 673           | \$ 453              | \$ 1,378                | \$ -                    | \$ 1,378  |

| Quarter ended January 31, 2006                  |             |                  | Before              |                         |                         | Totals    |
|---|-------------|------------------|---------------------|-------------------------|-------------------------|-----------|
|   | IP Division | Systems Division | Unallocated amounts | discontinued operations | Discontinued operations |           |
| Revenues from external customers                | \$ 10,991   | \$ 5,550         | \$ -                | \$ 16,541               | \$ -                    | \$ 16,541 |
| Segment profit (loss)                           | \$ 4,842    | \$ 328           | \$ (1,547)          | \$ 3,623                | \$ -                    | \$ 3,623  |
| Segment assets *                                | \$ 6,029    | \$ 1,951         | \$ 6,951            | \$ 14,931               | \$ -                    | \$ 14,931 |
| Expenditure on segment assets *                 | \$ 72       | \$ 363           | \$ 133              | \$ 568                  | \$ -                    | \$ 568    |
| Amortization and write-down of segment assets * | \$ 347      | \$ 204           | \$ 145              | \$ 696                  | \$ -                    | \$ 696    |

| Quarter ended January 21, 2005                  |             |                  | Before              |                         |                         | Totals    |
|---|-------------|------------------|---------------------|-------------------------|-------------------------|-----------|
|   | IP Division | Systems Division | Unallocated amounts | discontinued operations | Discontinued operations |           |
| Revenues from external customers                | \$ 12,834   | \$ 4,063         | \$ -                | \$ 16,897               | \$ -                    | \$ 16,897 |
| Segment profit (loss)                           | \$ 8,198    | \$ (87)          | \$ 25,995           | \$ 34,106               | \$ -                    | \$ 34,106 |
| Segment assets *                                | \$ 133      | \$ 1,232         | \$ 7,411            | \$ 8,776                | \$ -                    | \$ 8,776  |
| Expenditure on segment assets *                 | \$ 4        | \$ 344           | \$ 47               | \$ 395                  | \$ -                    | \$ 395    |
| Amortization and write-down of segment assets * | \$ 77       | \$ 215           | \$ 151              | \$ 443                  | \$ -                    | \$ 443    |

\* Assets include capital assets and acquired intangibles but not goodwill.

6. Comparative Amounts

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current year.