

Interim Report:

**Third Quarter**

for the quarter ended January 31, 2007





**MOSAID Technologies Incorporated**

## **MOSAID Announces Third Quarter Fiscal 2007 Results**

*Asset Sale, Patent Acquisition Sharply Focuses MOSAID as an Intellectual Property Company*

**OTTAWA, Ontario** – February 22, 2007 – MOSAID Technologies Incorporated (TSX:MSD) today announced financial results for the third quarter of fiscal 2007, ended January 31, 2007.

Fiscal 2007 third quarter revenues were \$18.7 million, up 13% from \$16.5 million in the fiscal 2006 third quarter. Third quarter revenues were higher primarily due to the previously announced patent licenses with Infineon Technologies AG and Qimonda AG. Net income for the third quarter was \$4.3 million or \$0.38 per diluted share, up from \$3.6 million or \$0.31 per diluted share in the third quarter of fiscal 2006. Third quarter net income was reduced by unusual expenses of \$840,000 related to the Company's strategic alternatives initiative. There were no such expenses in the comparative period for fiscal 2006.

For the first nine months of fiscal 2007, revenues were \$61.3 million, up 30% from \$47.0 million for the comparable period in fiscal 2006. Net income in the first nine months of the current fiscal year was \$15.7 million or \$1.38 per diluted share, up 28% from \$12.3 million or \$1.07 per diluted share in the first nine months of fiscal 2006. Costs related to the strategic alternative initiative totaled \$2.0 million in the first nine months of fiscal 2007. There were no such costs in the comparative period last year.

MOSAID today executed on two elements of its strategic alternatives initiative, announcing a Systems Division asset sale and business wind-down, and a major acquisition of wireless patents. (See the two press releases at [www.mosaid.com](http://www.mosaid.com).) The Company announced the sale of the principal assets of its automatic test equipment (ATE) business to Teradyne, Inc. for \$20 million in cash, and the orderly wind-down of this business. MOSAID anticipates that this transaction will result in a pre-tax gain, including the impact of discontinued operations, of approximately \$13 million, reportable in the fourth quarter, ending April 30, 2007. In addition, MOSAID announced the purchase of a valuable portfolio of essential patents related to WiFi and WiMAX technology from Agere Systems. The Company believes that the licensing revenue from this portfolio of 23 issued and pending patents has the potential to surpass the revenues that MOSAID has earned to date from its DRAM memory patents.

“The asset sale and patent acquisition are important steps in MOSAID's strategic alternatives initiative, resulting in a Company that is sharply focused on developing and licensing intellectual property,” said George Cwynar, President and Chief Executive Officer, MOSAID. “As we continue to pursue the strategic alternatives initiative, we are also taking steps today to rationalize our Semiconductor Intellectual Property products portfolio.”

“In the third quarter, we continued to demonstrate steady financial performance while engaged in the strategic alternatives initiative, and we remain on track to deliver the best financial results in the Company's history,” said Richard Boadway, Executive Vice President and Chief Financial Officer,

MOSAID. “In the Intellectual Property (IP) Division, the Patent Licensing program delivered excellent results but the Semiconductor IP products group again performed below expectations. It is our view that the DDR memory controller and PLL timing product portfolios are competitive in the marketplace. However, our Mobilize product family has not met with market acceptance, so we are stopping further development and reducing our cost structure accordingly, which will require a restructuring charge of \$6 million to \$6.5 million. MOSAID’s patents on the low-power circuit techniques of Mobilize may yield an attractive future patent licensing opportunity.”

The wind-down of the Systems Division on April 30 and staff reductions in the Semiconductor IP and corporate groups will result in a staff reduction of 57 employees from the current base of 116 employees.

At the end of the fiscal 2007 third quarter, the Company had cash and marketable securities of \$63.6 million, compared with \$67.2 million at the end of the second quarter. Working capital declined marginally in the quarter. MOSAID expects net cash proceeds from the sale of Systems Division assets to be \$16 million, with cash costs of the announced Semiconductor IP restructuring actions to be approximately \$1 million, resulting in a net cash gain of approximately \$15 million.

### **Operating Highlights**

The Intellectual Property Division recorded another highly profitable quarter, with third quarter revenue of \$14.8 million and segment profit of \$6.5 million or 44% of segment revenues. During the quarter, MOSAID acquired a portfolio of nine patents related to Pseudo-Static Random Access Memory (PSRAM) technology.

MOSAID also announced general availability of the industry’s first complete Double Data Rate (DDR) Synchronous Dynamic Random Access Memory (SDRAM) controller and interface IP, as well as Phase Locked Loop (PLL) IP product, in leading 65nm process technology. These new products position MOSAID well in their respective semiconductor IP market segments.

As anticipated, results for the Systems Division improved in the third quarter. A segment profit of \$50,000 on revenues of \$3,960,000 compared favourably to a segment loss of \$717,000 on revenues of \$3.1 million for the fiscal 2007 second quarter. MOSAID anticipates that the Systems Division will make a positive contribution of \$1 million to \$2 million in the fourth quarter, as it is wound down and reported as a discontinued operation.

On February 5, 2007, in the United States District Court for the Northern District of California, San Jose Division, Judge Fogel issued an order denying MOSAID’s and Infineon’s joint motion to vacate Judge Martini’s summary judgment and Markman orders. Judge Fogel’s order leaves the matter of collateral estoppel with regard to these rulings to be decided by the court in the Eastern District of Texas.

At the end of the third quarter, MOSAID’s patent portfolio grew to 720 patents issued or pending, up from 687 at the end of the second quarter. Approximately 40% of MOSAID’s issued or pending patents relate to memory technology and 60% to other technology areas.

MOSAID had 15 companies on notice for patent infringement and was in litigation with four of these companies at the end of the third quarter.

## **Guidance**

Guidance for MOSAID's revenues in the fourth quarter of fiscal 2007 is \$13.5 million to \$14.0 million and for net earnings is \$5.5 million to \$6.5 million. These figures do not include a provision for depreciation of the newly acquired patent portfolio. Fiscal 2007 revenues are forecast to range between \$64.7 million and \$65.2 million, compared with earlier guidance of \$80 million to \$85 million, of which Systems Division revenues would have been \$15 million to \$16 million. Net earnings are expected to range from \$21 million to \$22 million, compared with earlier guidance of \$18 million to \$20 million, as a result of the sale of Systems Division assets and the Semiconductor IP restructuring expense. Because the accounting for the Systems Division's results necessitates a reclassification of these results as discontinued operations, represented as one line on the income statement, revenues will be reduced, both for the fourth quarter and the full fiscal year.

### **Conference Call and Webcast**

*Management will hold a conference call and webcast on **Thursday, February 22, 2007 at 5:00 p.m. (ET)**. Participants wishing to access the conference call should dial 1-800-591-7539. The webcast will be 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 replay of the conference call will be available until midnight on **Thursday, March 1, 2007**. To access the replay, please dial 1-877-289-8525 and enter passcode 21219466#.*

## **About MOSAID**

MOSAID Technologies Incorporated makes semiconductors better through the development and licensing of intellectual property. 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 Santa Clara, California. For more information, visit [www.mosaid.com](http://www.mosaid.com).

## **Forward Looking Information**

This document and certain other public documents incorporated by reference in this document, contain forward-looking statements to the extent they relate to MOSAID or its management, including those identified by the expressions "anticipate," "believe," "foresee," "estimate," "expect," "intend," "could," "may," "plan," "will," "would" and similar expressions. Similarly, statements in this document that describe MOSAID's business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. These forward-looking statements are not historical facts, but rather reflect MOSAID's current expectations regarding future events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results, performance or achievements to differ materially from those in such forward-looking statements. Assumptions made in preparing forward-looking statements and financial guidance include, but are not limited to, the following: MOSAID's continued expansion of its patent portfolio and of its opportunities for future patent licensing revenue as a result of MOSAID's acquisition of patents from third parties and from development of new inventions; DRAM manufacturers continuing to infringe MOSAID's patents; the timing and amount of MOSAID's litigation expenses; MOSAID's ability to sign new patent licensees; the value proposition associated with MOSAID's products relative to its competition in the market; the timing and amount of MOSAID's Research & Development expenses; the timing of MOSAID's new product introductions; MOSAID's ability to develop, manufacture, and market innovative products in a rapidly changing technological environment; and MOSAID's ability to maintain and enhance existing customer relationships.

Factors that could cause actual results to differ materially from expected results include, but are not limited to, the following: declines or unexpected variations in market growth rates for MOSAID's products; the extent of embedded DRAM proliferation in the System-on-a-Chip markets; variability in customer deployment schedules from quarter to quarter; shifts in the mix of MOSAID products sold; unfavorable legal rulings in MOSAID's patent litigations; economic, social, and political conditions in the countries in which MOSAID, its customers, suppliers, or patent licensees operate, including security risks, health conditions, possible disruptions in transportation networks and fluctuations in foreign currency exchange rates; non-payment or delays in payment by customers/licensees; failure to maintain and enforce MOSAID's existing patent portfolio, or failure to obtain valuable patents as a result of research and development activities, or failure to acquire valuable patents from third parties; MOSAID's ability to recruit

and retain skilled personnel; change in MOSAID's financial position; obsolescence of products or inappropriate targeting to markets that fail to materialize; inability to transition to new technologies to meet customer demand; variations in average sales cycles; key component supply restrictions and/or cost increases; critical industry transitions; consolidation of MOSAID's customers and/or licensees; natural events, such as severe weather and earthquakes in the locations in which MOSAID, its customers, suppliers, or patent licensees operate; and changes in the tax rate applicable to MOSAID as the result of changes in the tax law in the jurisdictions in which profits are determined to be earned and taxed, the outcome of tax audits and the ability to realize deferred tax assets.

MOSAID assumes no obligation to update or revise any forward-looking statements. Additional information identifying risks and uncertainties affecting MOSAID's business and other factors that could cause MOSAID's financial results to fluctuate are contained in MOSAID's Annual Information Form, under the section entitled "Risk Factors," and in MOSAID's other public filings available online at [www.sedar.com](http://www.sedar.com).

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## MOSAID Technologies Incorporated

### **MOSAID Announces Conference Call to Present Patent Opportunity Provides Corrections to Yesterday's Releases**

**OTTAWA, Ontario, Canada** – February 23, 2007 – MOSAID Technologies Inc. (TSX: MSD) today announced that it will host a conference call on Thursday, March 1, 2007 at 10 a.m. EST to present its full assessment of the wireless patent portfolio recently acquired from Agere Systems and the significant opportunity it affords the Company.

MOSAID today is also correcting its guidance for the fourth quarter of fiscal 2007 with respect to its level of R&D expense, which did not properly account for expense reductions as a result of the announced restructuring. As a consequence, R&D expense is expected to be approximately \$600,000 lower than guidance, with the resulting positive impact on operating profits of like amount, and improved net earnings of approximately \$400,000. Accordingly, the guidance for net income for the fourth quarter of fiscal 2007 is increased to \$5.9 million to \$6.9 million.

MOSAID also corrected the date of record for its declaration of dividend. The quarterly dividend of \$0.25 per share is payable on April 20, 2007 to shareholders of record as of April 2, 2007.

#### **About MOSAID**

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Factors that could cause actual results to differ materially from expected results include, but are not limited to, the following: declines or unexpected variations in market growth rates for MOSAID's products; the extent of embedded DRAM proliferation in the System-on-a-Chip markets; variability in customer deployment schedules from quarter to quarter; shifts in the mix of MOSAID products sold; unfavorable legal rulings in MOSAID's patent

litigations; economic, social, and political conditions in the countries in which MOSAID, its customers, suppliers, or patent licensees operate, including security risks, health conditions, possible disruptions in transportation networks and fluctuations in foreign currency exchange rates; non-payment or delays in payment by customers/licensees; failure to maintain and enforce MOSAID's existing patent portfolio, or failure to obtain valuable patents as a result of research and development activities, or failure to acquire valuable patents from third parties; MOSAID's ability to recruit and retain skilled personnel; change in MOSAID's financial position; obsolescence of products or inappropriate targeting to markets that fail to materialize; inability to transition to new technologies to meet customer demand; variations in average sales cycles; key component supply restrictions and/or cost increases; critical industry transitions; consolidation of MOSAID's customers and/or licensees; natural events, such as severe weather and earthquakes in the locations in which MOSAID, its customers, suppliers, or patent licensees operate; and changes in the tax rate applicable to MOSAID as the result of changes in the tax law in the jurisdictions in which profits are determined to be earned and taxed, the outcome of tax audits and the ability to realize deferred tax assets.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION,  
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, 2007 appearing later 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, 2006. 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 (the Board) and subsequently by the Board.

### **Forward Looking Information Statement**

This document and certain other public documents incorporated by reference in this document contain forward-looking statements to the extent they relate to MOSAID or its management, including those identified by the expressions "anticipate," "believe," "foresee," "estimate," "expect," "intend," "could," "may," "plan," "will," "would" and similar expressions. Similarly, statements in this document that describe MOSAID's business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. These forward-looking statements are not historical facts, but rather reflect MOSAID's current expectations regarding future events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results, performance or achievements to differ materially from those in such forward-looking statements. Assumptions made in preparing forward-looking statements and financial guidance include, but are not limited to, the following:

- MOSAID's continued expansion of its patent portfolio and of its opportunities for future patent licensing revenue as a result of MOSAID's acquisition of patents from third parties and from development of new inventions;
- DRAM manufacturers continuing to infringe MOSAID's patents;
- The timing and amount of MOSAID's litigation expenses;
- MOSAID's ability to sign new patent licensees;
- Current assumptions as to the identification of products that are unlicensed to MOSAID's wireless patents;
- The value proposition associated with MOSAID's products relative to its competition in the market;
- The timing and amount of MOSAID's Research & Development expenses;
- The timing of MOSAID's new product introductions;
- MOSAID's ability to develop, manufacture, and market innovative products in a rapidly changing technological environment; and
- MOSAID's ability to maintain and enhance existing customer relationships.

Factors that could cause actual results to differ materially from expected results include, but are not limited to, the following:

- Declines or unexpected variations in market growth rates for MOSAID's products;
- The extent of embedded DRAM proliferation in the System-on-a-Chip markets;
- Variability in customer deployment schedules from quarter to quarter;
- Shifts in the mix of MOSAID products sold;
- Legal rulings and/or regulatory investigations or complaints having an adverse impact on the validity, enforceability, potential royalty rates, and strength or breadth of coverage of MOSAID's essential and/or nonessential patents (including, but not limited to, adverse results from litigation or proceedings in patent offices and government regulatory agencies in various countries around the world);
- Judicial, legislative or regulatory changes that impair the ability of patent holders to earn licensing revenues;
- Economic, social, and political conditions in the countries in which MOSAID, its customers, suppliers, or patent licensees operate, including security risks, health conditions, possible disruptions in transportation networks and fluctuations in foreign currency exchange rates;
- Non-payment or delays in payment by customers/licensees;
- Variability in patent licensees' sales of licensed products; failure to maintain and enforce MOSAID's existing patent portfolio, or failure to obtain valuable patents as a result of research and development activities, or failure to acquire valuable patents from third parties;
- MOSAID's ability to recruit and retain skilled personnel;
- Change in MOSAID's financial position;
- Obsolescence of products or inappropriate targeting to markets that fail to materialize;
- Inability to transition to new technologies to meet customer demand;
- Variations in average sales cycles;
- Key component supply restrictions and/or cost increases;
- Critical industry transitions;
- Consolidation of MOSAID's customers and/or licensees;
- Natural events, such as severe weather and earthquakes in the locations in which MOSAID, its customers, suppliers, or patent licensees operate;
- Changes in the tax rate applicable to MOSAID as the result of changes in the tax law in the jurisdictions in which profits are determined to be earned and taxed, the outcome of tax audits and the ability to realize deferred tax assets; and
- Adverse impacts of the current strategic alternatives initiative on customer relationships, employee morale, or management's capacity to focus on business execution.

MOSAID assumes no obligation to update or revise any forward looking statements. Additional information identifying risks and uncertainties affecting MOSAID's business and other factors that could cause MOSAID's financial results to fluctuate are contained in MOSAID's Annual Information Form, under the section entitled "Risk Factors," and in MOSAID's other public filings available online at [www.sedar.com](http://www.sedar.com).

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 \$18.7 million for the quarter ended January 31, 2007 (“Q3 fiscal 2007”), representing an increase of 13% from revenues of \$16.5 million for the quarter ended January 31, 2006 (“Q3 fiscal 2006”). The net income for Q3 fiscal 2007 was \$4.3 million or \$0.38 per diluted share, compared to a net income of \$3.6 million or \$0.31 per diluted share, for the same quarter last year.

During Q3 fiscal 2007, the Company recorded an unusual expense of approximately \$840,000 related to the establishment and conduct of the Special Committee of the Board, whose mandate included the proxy contest which occurred prior to the Annual General Meeting of September 2007 and includes the oversight of MOSAID activities related to the review and pursuit of strategic alternatives. It is anticipated that the ongoing expenses associated with the pursuit of the strategic alternatives initiative will approximate \$800,000 in Q4 fiscal 2007.

## 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, 2007		January 31, 2006		January 31, 2007		January 31, 2006	
	\$	%	\$	%	\$	%	\$	%
<b>Revenues</b>	18,735	100	16,541	100	61,308	100	47,027	100
<b>Expenses</b>								
Labour and materials	1,271	7	2,026	12	3,665	6	5,608	12
Research and development	5,537	30	4,822	29	16,175	26	9,718	21
Selling and marketing	3,473	19	3,482	21	9,770	16	8,865	19
General and administration	1,866	10	1,542	9	5,691	9	4,694	10
Bad debt	-	-	(446)	(3)	83	-	(386)	(1)
Special Committee	840	4	-	-	1,964	3	-	-
	12,987	69	11,426	69	37,348	61	28,499	61
Income from operations	5,748	31	5,115	31	23,960	39	18,528	39
Net interest income	580	3	397	2	1,840	3	1,001	2
Income before income tax	6,328	34	5,512	33	25,800	42	19,529	42
Income tax	2,034	11	1,889	11	10,134	17	7,181	15
Net income	4,294	23	3,623	22	15,666	26	12,348	26

MOSAID operates through two divisions: the Intellectual Property (IP) Division and the Systems Division, whose current segmented financial information is shown in Note 6 to the Q3 fiscal 2007 financial statements.

The IP Division’s segment profit was \$6.5 million for Q3 fiscal 2007 on revenues of \$14.8 million, compared to a segment profit of \$4.8 million on revenues of \$11.0 million for the same quarter in the previous year. The increased profit in Q3 fiscal 2007 when compared to the same quarter in the prior year was driven primarily by greater revenues, offset partially by greater costs in all areas of the business. In the prior year, the IP segment had recorded a bad debt recovery of \$446,000; no such recovery was recorded in the current fiscal year.

The Systems Division’s segment profit was \$50,000 on revenues of \$4.0 million for the third quarter of fiscal 2007, compared to a profit of \$328,000 on revenues of \$5.6 million for the same quarter last year.

The reduced profit is due to lower revenues, offset partially by lower cost of sales, research and development and selling and marketing costs.

## **REVENUES**

(Dollar amounts in thousands)

	Quarter Ended				Nine Months Ended			
	January 31, 2007		January 31, 2006		January 31, 2007		January 31, 2006	
	\$	%	\$	%	\$	%	\$	%
IP	14,775	79	10,991	66	51,245	84	30,678	65
Systems	3,960	21	5,550	34	10,063	16	16,349	35
Revenues	18,735	100	16,541	100	61,308	100	47,027	100

Revenues in Q3 fiscal 2007 for the IP Division were significantly higher than the comparable period in fiscal 2006 primarily due to the signing of the previously announced patent licensing arrangement with Infineon Technologies AG (Infineon) and Qimonda AG (Qimonda).

IP Division revenues for the nine months ended January 31, 2006, as compared to the same period in the prior year, were significantly greater due to the patent licensing arrangement with Infineon and Qimonda and the previously announced patent sale and licensing arrangement with PortalPlayer, Inc. (Portal Player).

Patent license revenues for Q3 fiscal 2007 increased by 44% as compared to the same period in the prior year. Patent license revenues for the first nine months of fiscal 2007 increased by 66% as compared to the same period in the prior year.

While Q3 fiscal 2007 Semiconductor Intellectual Property (SIP) revenues were down 33% as compared to the same period in the prior year, for the nine months ended January 31, 2007, SIP revenues were 77% greater than the revenues for the comparative period.

Systems Division revenues for Q3 fiscal 2007 and for the nine month ended January 31, 2007 were lower than the same period in the prior year due to the sale of fewer test systems and a lower average selling price per tester.

The approximate geographic breakdown of operating revenues is as follows:

	Quarter Ended		Nine Months Ended	
	January 31, 2007	January 31, 2006	January 31, 2007	January 31, 2006
Korea	49%	61%	45%	67%
United States	4%	6%	18%	7%
Taiwan	21%	12%	18%	14%
Europe	20%	7%	16%	4%
Japan	0%	3%	1%	1%
China	4%	5%	1%	5%
Other	2%	6%	%	2%
	100%	100%	100%	100%

The Company markets its products and services globally. Revenues for Q3 fiscal 2007 for the IP Division were reported principally from Europe, Korea, Taiwan, and the United States. Systems Division revenues were earned principally from Korea, Taiwan, China, Europe and the United States. Due to the low volume and high unit value of test equipment sales, the geographic distribution of Systems revenues can vary significantly from quarter to quarter.

## **EXPENSES**

### **Labour and Materials**

(Dollar amounts in thousands)

	Quarter Ended		Nine Months Ended	
	January 31, 2007	January 31, 2006	January 31, 2007	January 31, 2006
Labour and materials	\$1,271	\$2,026	\$3,665	\$5,608
As a percentage of total revenue	7%	12%	6%	12%
As a percentage of Systems Division revenues	32%	37%	36%	34%
Decrease from same period last year	37%		35%	

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

The decrease in labour and materials expense as a percentage of total revenues in Q3 fiscal 2007 and the nine months ended January 31, 2007, as compared to the same period in the prior year, is due to the lower percentage of total revenues generated by the Systems Division.

Labour and material expenses as a percentage of Systems Division revenues for the quarter ended January 31, 2007, as compared to the same period last year, decreased a result of the sale of a refurbished tester during the quarter which required relatively little labour and materials cost. Removing the effect of the refurbished tester sale from both quarterly revenues and expenses would have resulted in labour and materials being 39% of Systems revenues. Labour and material expenses as a percentage of Systems Division revenues for the nine months ended January 31, 2007, as compared to the same period last year, increased marginally due to the re-work costs associated with inventory and an in-house tester in prior quarters of fiscal 2007 as well as a different product mix.

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

(Dollar amounts in thousands)

	Quarter Ended		Nine Months Ended	
	January 31, 2007	January 31, 2006	January 31, 2007	January 31, 2006
Research and development	\$5,537	\$4,822	\$16,175	\$9,718
As a percentage of total revenues	30%	29%	26%	21%
Increase from same period last year	15%		66%	

During Q3 fiscal year 2007, as compared to the same period in the prior year, R&D expenses increased due to higher reverse engineering expense in support of litigation and higher patent prosecution costs, offset by lower R&D costs in the Systems Division. For the nine months ended January 31, 2007, R&D expenses increased primarily due to the timing of the acquisition of Virtual Silicon Technology, Inc.

(VST) late in Q2 fiscal 2006, increased reverse engineering expense in support of litigation and increased patent prosecution costs.

Investment tax credits reduced gross R&D expenses by \$118,000 during Q3 fiscal 2007, compared to \$142,000 for the same quarter in the prior year. Investment tax credits reduced gross R&D expenses by \$291,000 during the first nine months of fiscal 2007, compared to \$395,000 for the same period in the prior year. Investment tax credits as a percentage of R&D expense has declined as a result of an increased proportion of R&D effort being expended outside of Canada and a reduced level of eligible projects.

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

(Dollar amounts in thousands)

	Quarter Ended		Nine Months Ended	
	January 31, 2007	January 31, 2006	January 31, 2007	January 31, 2006
Selling and marketing	\$3,473	\$3,482	\$9,770	\$8,865
As a percentage of total revenues	19%	21%	16%	19%
Increase from same period last year	0%		10%	

The absolute amount of S&M expense for Q3 fiscal 2007 remained relatively stable as compared to the same period in the prior year. For the nine months end January 31, 2007, S&M costs increased on an absolute basis but declined as a percentage of revenues, compared to the same period in the prior year.

IP Division S&M expense increased during the quarter ended and nine months ended January 31, 2007 as compared to the prior year. The expense increased due to the acquisition of VST and costs associated with the acquisition of patents, offset partially by reduced litigation expenses associated with the patent infringement cases. The reduced litigation expenses are a result of the settlement of the two Infineon cases in June 2006 and the early stage of the action launched by MOSAID against Micron Technology, Inc., ProMOS Technologies and Powerchip Semiconductor Corporation in July 2006 (to which Mosel Vitellic was added as a defendant in November, 2006).

The Company expects that litigation expense during the remaining quarter of fiscal 2007 will exceed the level recorded during Q3 fiscal 2007, although due to the nature of the expense, it remains difficult to forecast.

Systems Division S&M expense declined 21% and 18% for the quarter ended and nine months ended January 31, 2006 respectively, in concert with its reduced revenues.

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

(Dollar amounts in thousands)

	Quarter Ended		Nine Months Ended	
	January 31, 2007	January 31, 2006	January 31, 2007	January 31, 2006
General and administration	\$1,866	\$1,542	\$5,691	\$4,693
As a percentage of total revenues	10%	9%	9%	10%
Increase from same period last year	21%		21%	

G&A expenses, excluding foreign exchange costs, during Q3 fiscal 2007 increased 28% as compared to the same period in fiscal 2006, driven primarily by headcount related costs, including the appointment of the Company's first CTO, and professional fees. A foreign exchange gain of \$36,000 was recorded during Q3 fiscal 2007 as compared to a loss of \$54,000 for the same period in the prior year.

For the nine months ended January 31, 2007 as compared to the same period in the prior year, expenses, excluding foreign exchange costs, increased 33% due to headcount related costs and professional fees. A foreign exchange gain of \$130,000 was recorded during the period, as compared to a loss of \$308,000 for the same period in the prior year.

## **Special Committee**

During Q3 fiscal 2007, the Company recorded approximately \$840,000 in out-of-pocket expenses related to the conduct of strategic alternatives initiative. The costs relate primarily to professional advisory charges and fees and expenses for the Special Committee of the Board.

## **Net Interest Income**

Interest income and interest expense amounted to \$670,000 and \$90,000, respectively, in Q3 fiscal 2007, compared to \$492,000 and \$95,000 in Q3 fiscal 2006. For the first nine months ended January 31, 2007, interest income and interest expense amounted to \$2.1 million and \$273,000 respectively, compared to \$1.3 million and \$288,000 for the same period in fiscal 2006. Interest income was higher due to higher cash balances and higher yields.

## **Income Taxes**

Income tax expense of \$2.0 million was recorded for Q3 fiscal 2007, compared to \$1.9 million for Q3 fiscal 2006. During Q3 fiscal 2007, the company recorded a tax recovery of approximately \$277,000 related to a prior year. The effective tax rate during Q3 fiscal 2007, excluding the effect of the tax recovery, is 36.5%. The effective tax rate for the nine months ended January 31, 2007, excluding one time events, such as tax recoveries due to prior year tax amounts and future income tax recoverable re-valuation, is 37.6%.

## **Liquidity and Capital Resources**

In Q3 fiscal 2007, the Company generated a positive cashflow from operations of \$5.5 million, as compared to cashflow of \$4.9 million in Q3 fiscal 2006. Changes in non-cash working capital reduced cashflow by \$2.4 million in Q3 fiscal 2007, primarily due to the timing of accounts receivable from quarter to quarter. Changes in non-cash working capital improved cashflow by \$3.5 million for the same period in the previous year. In Q3 fiscal 2007, the Company declared and paid a dividend of \$0.25 per common share or \$2.7 million, as compared to \$0.20 per common share or \$2.3 million in the same period in the prior year. During Q3 fiscal 2007, the Company did not repurchase any common shares. During Q3 fiscal 2006, the Company repurchased and cancelled 214,000 shares at total cost of \$5.0 million.

In terms of other cashflow items:

### **Cash and marketable securities**

At the end of Q3 fiscal 2007, the Company had cash and marketable securities of \$63.6 million, compared to \$71.3 million at the end of fiscal 2006. Working capital declined marginally to \$73.6 million at the end of Q3 fiscal 2007, from \$75.4 million at the end of fiscal 2006. 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 increased to \$7.6 million at the end of Q3 fiscal 2007, from \$7.1 million at the end of fiscal 2006, mainly due to the timing of sales within each of the quarters.

### **Inventories**

Inventories decreased by \$487,000 to \$1.3 million at the end of Q3 fiscal 2007, from \$1.8 million at the end of fiscal 2006.

### **Prepaid expenses**

Prepaid expenses increased marginally to \$1.8 million at the end of Q3 fiscal 2007, from \$1.7 million at the end of fiscal 2006. The balance at the end of Q3 fiscal 2007 is principally comprised of payments for EDA tool maintenance for engineering activities within the IP Division.

### **Capital assets and acquired intangibles**

During the nine months ended January 31, 2007, the Company purchased \$18.0 million of capital assets and intangibles, primarily patents valued at \$17.0 million. In addition to the patent purchases, the IP Division expended approximately \$149,000 on EDA tools. The Systems Division expended approximately \$619,000 primarily for sales, customer support and R&D tools.

### **Future income taxes recoverable**

At the end of Q3 fiscal 2007, the balance for Future Income Taxes Recoverable was \$35.2 million, compared with \$39.3 million at the end of fiscal 2006. During the quarter, \$118,000 of investment tax credits were recorded as an offset to R&D expense, and \$2.6 million of withholding taxes on international royalty income were added to the future income tax balance, offset by Canadian tax

expense during Q3 fiscal 2007 of \$2.3 million. Income tax installments in the amount of \$114,000 were reclassified from income taxes receivable to the future income taxes recoverable account.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased marginally during the nine months ended January 31, 2007.

Deferred revenue

Deferred revenue decreased by \$8.4 million during the nine months ended January 31, 2007, to \$2.1 million from \$10.5 million at the end of fiscal 2006, primarily related to the recognition of revenue related to the previously announced patent sale and licensing arrangement between the Company and Portal Player.

During Q3 fiscal 2007, the Company deferred revenue on a tester shipment due to certain upgrade provisions related to the sale.

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 2007 was \$4.4 million, of which \$259,000 was due within 12 months. The cost of the land and building was \$8.0 million, less amortization of \$2.5 million, at the end of the quarter.

Other long-term liabilities

The liability is due to the purchase of patents from Infineon and Qimonda by the Company. The purchase is described in Note 2 to the Consolidated Interim Q1 fiscal 2007 Notes to the Financial Statements. Of the remaining liability, \$2.2 million is due within 12 months.

**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, except per share amounts)	Q307	Q207	Q107	Q406	Q306	Q206	Q106	Q405
Net sales	\$18,735	\$19,954	\$22,979	\$16,872	\$16,541	\$16,253	\$14,233	\$16,542
Earnings before discontinued operations	\$4,294	\$4,715	\$6,657	\$3,135	\$3,623	\$4,292	\$4,433	\$4,316
Per share	\$0.39	\$0.43	\$0.59	\$0.28	\$0.32	\$0.37	\$0.39	\$0.38
Per diluted share	\$0.38	\$0.42	\$0.58	\$0.27	\$0.31	\$0.37	\$0.38	\$0.37
Net earnings	\$4,294	\$4,715	\$6,657	\$3,315	\$3,623	\$4,292	\$4,433	\$4,546
Per share	\$0.39	\$0.43	\$0.59	\$0.28	\$0.32	\$0.37	\$0.39	\$0.40
Per diluted share	\$0.38	\$0.42	\$0.58	\$0.27	\$0.31	\$0.37	\$0.38	\$0.39

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>1 year</b>	<b>Less 1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Long term debt	\$4,408	\$259	\$4,149	\$0	\$0
Capital lease obligations	\$0	\$0	\$0	\$0	\$0
Operating leases	\$758	\$176	\$350	\$232	\$0
Purchase obligations	\$0	\$0	\$0	\$0	\$0
Other long term	\$11,678	\$2,224	\$4,449	\$4,449	\$556
<b>Total contractual</b>	<b>\$16,844</b>	<b>\$2,680</b>	<b>\$8,947</b>	<b>\$4,681</b>	<b>\$556</b>

The Other long-term obligations represent the amount due to Qimonda as a result of the purchase of the patents by the Company.

### **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.

### **Transactions with Related Parties**

One of the directors, Mr. Theodore E. Galanthay, was the Acting Senior Vice President, Patent Licensing and General Counsel for the Company between June 20, 2006 and November 12, 2006. During Q3 fiscal 2007 a company of which Mr. Galanthay is a principal was paid \$29,730 related to the performance of those services as compared to nil for the same period in the prior year. For the nine months ended January 31, 2007, such payments totaled approximately \$419,000 as compared to nil for the prior period.

### **Proposed Transactions**

On February 22, 2007, the Company announced that it had purchased a portfolio of WiFi and WiMax patents from Agere Systems (Agere). Under the terms of the agreement, the Company will pay Agere US\$25.0 million during the Company's Q4 fiscal 2007, US\$5.0 million in Q4 fiscal 2008, and eight subsequent annual payments of US\$5.0 million, creditable against Agere's 20% of royalty revenues earned under a revenue sharing formula.

On February 22, 2007, the Company announced that it had signed an agreement to sell certain assets of its Systems Division's automatic test equipment (ATE) business to Teradyne, Inc. (Teradyne) for \$20.0 million in cash. The company anticipates that the transaction will close by the end of the Company's

Q4 fiscal 2007 and will generate a pre-tax gain, including the impact of discontinued operations, of approximately \$13.0 million, and net cash proceeds of approximately \$16.0 million, reportable in Q4 fiscal 2007. The Company intends to wind-down the operations of the Systems division by April 30, 2007.

On February 22, 2007, the Company announced that, due to lower than expected operating performance, it was stopping further development of its SIP Mobilize product family and reducing its cost structure accordingly. The Company estimates the restructuring charge associated with this decision to be \$6.0 million to \$6.5 million Q4 fiscal 2007.

The wind-down of the Systems Division and staff reductions in the SIP and corporate groups will result in a staff reduction of 57 employees from the current base of 116 employees.

On February 22, 2007, the Company declared a quarterly dividend of \$0.25 per share, payable on April 20, 2007 to shareholders of record as of April 2, 2007.

### **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 2006 Annual MD&A are considered critical to the measurement of the financial performance of 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. 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 3. At the end of Q3 fiscal 2007, the Company had committed with various financial institutions to sell US\$20.1 million at an average rate of 1.1385 by October 2007.

### **Outstanding Share Data**

The Company has an unlimited authorized number of shares. At the end of Q3 fiscal 2007, the issued number of shares was 11,010,027. Under the Employee and Director Stock Option Plan, the Company may grant up to 1,075,950 options of which 620,673 were outstanding at the end of Q3 fiscal 2007.

The Company recognizes the total cost of issued deferred share units (DSUs), as determined by the market price of the Company's common shares at the reporting date, and the total cost of its stock option compensation expense, as determined using the Black-Scholes option pricing model, ratably over the appropriate service period, which is the vesting period.

Under limited circumstances, DSUs and stock options may vest immediately. If all DSUs and options existing as at the balance sheet date vested, the incremental stock compensation expense would be \$3.7 million. The number of unvested options at the end of January 31, 2007 was 289,268.

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

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

### **Business Risks and Uncertainties**

As described in the “Risk Factors” section included in the Company’s annual MD&A for the year ended April 30, 2006, numerous factors could cause the Company’s results to differ materially from those in forward-looking statements. These factors have not significantly changed since the end of fiscal 2006.

Dated this 22nd day of February, 2007.

**MOSAID Technologies Incorporated**  
**Unaudited Consolidated Financial Statements**  
**For the three months ended January 31, 2007**

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 of Canadian Dollars)

	As at January 31, 2007 (unaudited)	As at April 30, 2006 (audited)
<b>Current Assets</b>		
Cash and cash equivalents	\$11,471	\$15,542
Marketable securities	52,096	55,788
Accounts receivable	7,642	7,113
Income taxes receivable	-	381
Inventories	1,292	1,779
Prepaid expenses	1,770	1,700
Future income taxes recoverable	11,910	11,910
	<b>86,181</b>	<b>94,213</b>
<b>Capital assets</b>	<b>8,840</b>	<b>9,328</b>
<b>Acquired intangibles</b>	<b>20,629</b>	<b>5,385</b>
<b>Goodwill</b>	<b>1,786</b>	<b>1,786</b>
<b>Future income taxes</b>	<b>23,310</b>	<b>27,439</b>
	<b>\$140,746</b>	<b>\$138,151</b>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$8,007	\$7,653
Income taxes payable	-	381
Deferred revenue	2,111	10,545
Mortgage payable	259	244
Current portion of other long-term liabilities (Note 2)	2,224	-
	<b>12,601</b>	<b>18,823</b>
<b>Mortgage payable</b>	<b>4,149</b>	<b>4,346</b>
<b>Other long-term liabilities (Note 2)</b>	<b>9,454</b>	<b>-</b>
	<b>26,204</b>	<b>23,169</b>
<b>Shareholders' Equity</b>		
Share capital	100,231	102,476
Contributed surplus	3,696	2,630
Retained earnings	10,615	9,876
	<b>114,542</b>	<b>114,982</b>
	<b>\$140,746</b>	<b>\$138,151</b>

See accompanying Notes to the Consolidated Financial Statements

**MOSAID TECHNOLOGIES INCORPORATED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**  
(In thousands of Canadian Dollars, except per share amounts)  
(unaudited)

	Quarter ended January 31, 2007	Quarter ended January 31, 2006	Nine months ended January 31, 2007	Nine months ended January 31, 2006
<b>Revenues</b>	<b>\$18,735</b>	\$16,541	<b>\$61,308</b>	\$47,027
<b>Expenses</b>				
Labour and materials	1,271	2,026	3,665	5,608
Research and development	5,537	4,822	16,175	9,718
Selling and marketing	3,473	3,482	9,770	8,865
General and administration	1,866	1,542	5,691	4,694
Bad debts	-	(446)	83	(386)
Special committee	840	-	1,964	-
	<b>12,987</b>	11,426	<b>37,348</b>	28,499
Income from operations	5,748	5,115	23,960	18,528
Net interest income (Note 3)	580	397	1,840	1,001
Income before income tax expense	6,328	5,512	25,800	19,529
Income tax expense	2,034	1,889	10,134	7,181
Net income	4,294	3,623	15,666	12,348
Dividends	2,748	2,309	8,345	5,183
Normal course issuer bid	-	2,941	6,582	2,941
Retained earnings, beginning of period	9,069	14,014	9,876	8,163
<b>Retained earnings, end of period</b>	<b>\$10,615</b>	\$12,387	<b>\$10,615</b>	\$12,387
<b>Earnings per share (Note 4)</b>				
Basic	<b>\$0.39</b>	\$0.32	<b>\$1.41</b>	\$1.08
Diluted	<b>\$0.38</b>	\$0.31	<b>\$1.38</b>	\$1.07
<b>Weighted average number of shares</b>				
Basic	<b>10,992,524</b>	11,461,391	<b>11,113,973</b>	11,482,501
Diluted	<b>11,204,923</b>	11,593,845	<b>11,329,671</b>	11,573,864

See accompanying Notes to the Consolidated Financial Statements

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

(In thousands of Canadian Dollars)

(unaudited)

	Quarter ended January 31, 2007	Quarter ended January 31, 2006	Nine months ended January 31, 2007	Nine months ended January 31, 2006
<b>Operating</b>				
Net income	\$4,294	\$3,623	\$15,666	\$12,348
Items not affecting cash:				
Amortization	1,185	696	3,085	1,654
Stock option expense	387	340	1,066	951
Loss on disposal of capital assets	142	24	142	24
Future income tax recoverable	(512)	187	4,129	2,034
	<b>5,496</b>	4,870	<b>24,088</b>	17,011
Change in non-cash working capital items	<b>(2,390)</b>	3,454	<b>(8,192)</b>	(180)
	<b>3,106</b>	8,324	<b>15,896</b>	16,831
<b>Investing</b>				
Acquisition of capital assets and acquired intangibles	<b>(3,761)</b>	(468)	<b>(17,983)</b>	(1,159)
Acquisition of marketable securities	<b>(31,832)</b>	(58,197)	<b>(77,982)</b>	(172,414)
Acquisition of shares in Virtual Silicon Technology Inc.	-	(24)	-	(6,388)
Proceeds on disposal/maturity of marketable securities	<b>18,925</b>	57,764	<b>81,674</b>	171,977
	<b>(16,668)</b>	(925)	<b>(14,291)</b>	(7,984)
<b>Financing</b>				
Repayment of mortgage	<b>(62)</b>	(57)	<b>(182)</b>	(168)
Long-term due to Infineon	<b>(555)</b>	-	<b>11,678</b>	-
Repurchase of shares	-	(4,966)	<b>(9,997)</b>	(4,966)
Dividends	<b>(2,748)</b>	(2,309)	<b>(8,345)</b>	(5,183)
Issue of common shares	<b>379</b>	1,112	<b>1,170</b>	1,366
	<b>(2,986)</b>	(6,220)	<b>(5,676)</b>	(8,951)
Net cash (outflow) inflow – continuing operations	<b>(16,548)</b>	1,179	<b>(4,071)</b>	(104)
Net cash (outflow) – discontinued operations	-	-	-	(62)
<b>Net cash (outflow) inflow</b>	<b>(16,548)</b>	1,179	<b>(4,071)</b>	(166)
Cash and cash equivalents, beginning of period	<b>28,019</b>	5,738	<b>15,542</b>	7,083
<b>Cash and cash equivalents, end of period</b>	<b>\$11,471</b>	\$6,917	<b>\$11,471</b>	\$6,917

See accompanying Notes to the Consolidated Financial Statements

**MOSAID TECHNOLOGIES INCORPORATED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Quarter ended January 31, 2007**

(tabular dollar amounts in thousands of Canadian Dollars, except per share amounts)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with Canadian generally accepted 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, 2007.

The accounting policies used in preparing these interim financial statements are consistent with those used in preparing the annual financial statements.

2. Other long-term liabilities

During Q1 fiscal 2007 the Company settled its patent litigations with Infineon Technologies AG (Infineon) and announced that both Infineon and its memory products spin-off, Qimonda AG (Qimonda), licensed the Company's patent portfolio.

Under the settlement terms, Infineon and Qimonda each receive a six-year license to the Company's entire patent portfolio. In addition, Infineon and Qimonda received a 'lives of the patents' license to the Company's patent families in dispute. Payments will be spread over the six-year term of the licenses. Under the terms of the settlement, financial details will be kept confidential.

The Company also purchased 50 patents from Infineon and Qimonda, ranked as one of the world's largest DRAM companies. The portfolio includes patents related to a range of technologies including DRAM memory, power management ICs, semiconductor process technology and digital radio applications. Payments by the Company for these patents will be spread over six years.

The amount on the Consolidated Balance Sheets represents amounts due by the Company as a result of the patents purchased by the Company, net of any current amounts due by Infineon and Qimonda as a result of the patent license arrangement with the Company.

3. Net Interest Income

Net interest income comprises the following:

	<b>Quarter ended January 31, 2007</b>	Quarter ended January 31, 2006	<b>Nine months ended October 31, 2007</b>	Nine months ended January 31, 2006
Interest income	<b>\$670</b>	\$492	<b>\$2,113</b>	\$1,289
Interest expense	<b>90</b>	95	<b>273</b>	288
	<b>\$580</b>	\$397	<b>\$1,840</b>	\$1,001

#### 4. Earnings per Share

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

	<b>Quarter ended January 31, 2007</b>	Quarter ended January 31, 2006	<b>Nine months ended January 31, 2007</b>	Nine months ended January 31, 2006
Net income	<b>\$4,294</b>	\$3,623	<b>\$15,666</b>	\$12,348
Weighted average number of common shares outstanding	<b>10,992,524</b>	11,461,391	<b>11,113,973</b>	11,482,501
Net effect of stock dilutions	<b>212,399</b>	132,454	<b>215,698</b>	91,363
Weighted average diluted number of common shares outstanding	<b>11,204,923</b>	11,593,845	<b>11,329,671</b>	11,573,864
Earnings per share				
Basic	<b>\$0.39</b>	\$0.32	<b>\$1.41</b>	\$1.08
Diluted	<b>\$0.38</b>	\$0.31	<b>\$1.38</b>	\$1.07

For the quarter and nine months ended January 31, 2007, 11,000 and 19,000 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 this period and were therefore anti-dilutive.

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 this period and were therefore anti-dilutive.

There were 620,673 and 810,091 options issued and outstanding as at January 31, 2007 and January 31, 2006 respectively.

#### 5. Stock-based Compensation

The Company has an Employee Stock Purchase Plan (ESPP) whereby employees may elect to designate up to 5% of their annual salary to purchase common shares of the Company (Shares). For two six month periods commencing on the second business day after the Company's second quarter or fiscal year end financial results are publicly announced (each an "Offering Period"), eligible employees are given an opportunity to request that a percentage of their salary be deducted each pay period for the purpose of acquiring Shares. The purchase price under the ESPP is the lesser of 90% of the fair market value of the Shares, as determined by calculating the weighted average sale price for board lots as posted on the TSX the ten trading days immediately preceding (i) the first day of the Offering Period in which the purchase date falls or (ii) the purchase date. The Shares are not considered to be issued by the Company until the end of the six month period.

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 Resource 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:

	<u>Quarter ended January 31, 2007</u>	<u>Quarter ended January 31, 2006</u>
Risk free interest rate	4.05 %	3.41 %
Expected life in years	5.5	5.5
Expected dividend yield	3.6 %	3.4 %
Volatility	60.48 %	76.05 %

#### 6. 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 Canadian Dollars)

Nine months ended January 31, 2007	IP Division	Systems Division	Unallocated amounts	Totals
Revenues from external customers	\$ 51,245	\$ 10,063	\$ -	\$ 61,308
Segment profit (loss)	\$ 27,569	\$ (1,775)	\$ (10,128)	\$ 15,666
Segment assets *	\$ 21,057	\$ 1,930	\$ 6,482	\$ 29,469
Expenditure on segment assets *	\$ 17,149	\$ 619	\$ 215	\$ 17,983
Amortization and write-down of segment assets *	\$ 1,935	\$ 795	\$ 497	\$ 3,227
Goodwill	\$ 1,786	\$ -	\$ -	\$ 1,786

Nine months ended January 31, 2006	IP Division	Systems Division	Unallocated amounts	Totals
Revenues from external customers	\$ 30,678	\$ 16,349	\$ -	\$ 47,027
Segment profit (loss)	\$ 16,834	\$ 1,966	\$ (6,452)	\$ 12,348
Segment assets *	\$ 6,029	\$ 1,951	\$ 6,951	\$ 14,931
Expenditure on segment assets *	\$ 6,157	\$ 863	\$ 171	\$ 7,191
Amortization and write-down of segment assets *	\$ 569	\$ 663	\$ 422	\$ 1,654
Goodwill	\$ 1,791	\$ -	\$ -	\$ 1,791

Quarter ended January 31, 2007	IP Division	Systems Division	Unallocated amounts	Totals
Revenues from external customers	\$ 14,775	\$ 3,960	\$ -	\$ 18,735
Segment profit (loss)	\$ 6,503	\$ 50	\$ (2,259)	\$ 4,294
Segment assets *	\$ 21,057	\$ 1,930	\$ 6,482	\$ 29,469
Expenditure on segment assets *	\$ 3,658	\$ 79	\$ 24	\$ 3,761
Amortization and write-down of segment assets *	\$ 798	\$ 295	\$ 234	\$ 1,327
Goodwill	\$ 1,786	\$ -	\$ -	\$ 1,786

Quarter ended January 31, 2006	IP Division	Systems Division	Unallocated amounts	Totals
Revenues from external customers	\$ 10,991	\$ 5,550	\$ -	\$ 16,541
Segment profit (loss)	\$ 4,842	\$ 328	\$ (1,547)	\$ 3,623
Segment assets *	\$ 6,029	\$ 1,951	\$ 6,951	\$ 14,931
Expenditure on segment assets *	\$ 72	\$ 363	\$ 133	\$ 568
Amortization and write-down of segment assets *	\$ 347	\$ 204	\$ 145	\$ 696
Goodwill	\$ 1,791	\$ -	\$ -	\$ 1,791

\* Segment assets includes acquired intangibles but not goodwill