



we make memory better MOSAID ANNUAL REPORT 2004

**MOS
AID**

Whether we're providing memory macrocells, inventing new technology or helping customers put their memory products to the test:

At MOSAID *we make memory better.*

Just as the human mind's performance is enhanced by rapid access to volumes of information, memory in electronic systems is the critical factor that complements microprocessors, network processors and graphics processors to yield powerful systems.

Since the early 1970s, memory has been the semiconductor product

driving the relentless advance of semiconductor technology to larger numbers of transistors per chip, higher performance and lower cost per function. In addition to its role as a technology driver, memory is a key enabler in digital electronic systems ranging from consumer electronics to personal computers and the Internet.

For nearly three decades MOSAID has worked with semiconductor companies worldwide to improve the quality, reliability and functionality of their memory-related products.

Whether we're providing memory macrocells, inventing new technology or helping customers put their memory products to the test – at MOSAID, we make memory better.

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FELLOW SHAREHOLDERS

Fiscal year 2004 was a year of transition for MOSAID: the multi-year depression in our markets had finally run its course ... and we completed major corrections to our business model which led to significantly improved resource utilization. As a result, for continuing operations, MOSAID recorded sequentially improving quarterly results throughout the year, and achieved profitability in the second half of the year.

Our primary market is the Dynamic Random Access Memory (DRAM) market, but Flash memory is an equally important market for our tester business. During the second half of calendar year 2003, many semiconductor manufacturers started to report increases in revenues, and a return to profitability. Worldwide DRAM revenues grew 13 percent year-over-year and industry analysts expect continued improvement in 2004, with a growth rate of 49 percent. Flash memory revenues increased by 33 percent in calendar year 2003, and are forecast to continue to grow at an even faster rate in 2004.

In the second quarter of fiscal year 2004 we made significant changes to our business model.

We terminated our unprofitable fabless semiconductor operations targeted at the Content Addressable Memory (CAM) market. Given the sustained depression in the overall networking market and a CAM market segment that was growing much more slowly than originally expected, it simply made little economic sense to continue to invest in this business. Therefore, we closed down our Semiconductor Division. We transferred some of our key engineering resources from this Division to our Intellectual Property Division, which now has the expanded mandate of

designing and licensing embedded memory and high performance memory interface IP blocks, in addition to its traditional patent licensing business. While still in the start-up phase, this new Design Licensing business has already gained traction with customers.

The restructuring of our operations also included lowering our cost structure across the rest of the Company, and resulted in the reduction of MOSAID's total workforce by 38 percent over the course of the year. With strict cost control and hard-nosed business management, we believe that MOSAID exited fiscal 2004 as a significantly stronger company.

Revenues for fiscal year 2004 were \$29,396,000, compared to revenues of \$37,981,000 reported for fiscal year 2003. Net loss for the year was \$8,581,000 or \$0.83 per diluted share, compared to a net loss of \$19,897,000 or \$1.94 per diluted share reported for fiscal 2003. Net loss for fiscal 2004 before discontinued fabless operations was \$916,000 or \$0.09 per diluted share, compared to a loss before discontinued operations of \$407,000 or \$0.04 per diluted share for the previous year.

We recorded net restructuring charges of \$3.8 million in fiscal year 2004, largely related to the discontinuation of our Semiconductor business, compared to \$6.5 million in fiscal year 2003. In both years we reduced our headcount, cost structure and the number of opportunities pursued. As a result of these restructuring measures, the cash decline in the first two quarters of fiscal 2004 was arrested and reversed during the second half of the year. At the close of fiscal 2004, our cash balance and short-term marketable securities totaled \$38.2 million, compared with

\$42.3 million at the end of fiscal 2003. The decline was largely attributable to restructuring costs.

Philips Electronics is our Tenth Patent Licensee

Philips Electronics, one of the world's largest electronics companies, is the third company, after Sony and Matsushita, to license MOSAID's patent portfolio specifically for embedded memory applications. It is clear that embedded DRAM is increasingly being adopted by manufacturers in various system-on-a-chip applications.

Signed in our fourth fiscal quarter, Philips is the second manufacturer to agree to a running royalty rate based patent license with MOSAID. The first of this type of license was announced with the signing of Winbond in fiscal 2003. We believe that an increased focus on running royalty agreements will provide greater long term reward and return than a licensing strategy based on lump sum payments. The agreement with Philips is also significant because it is the first European company to license MOSAID's patents. With this latest agreement we now have a total of ten patent licensees, and are engaged in licensing discussions with a number of the fifteen companies on notice for patent infringement. MOSAID's patent portfolio grew by five percent during the year and at year-end comprised 526 issued, allowed, or pending patents.

New Design Licensing Group Signed Two Lead Customers

MOSAID's Design Licensing program is capitalizing on our expertise in DRAM design and memory related products, offering specialized IP

blocks and custom chip solutions to the marketplace.

Since its inception in our second quarter, the Design Licensing group has already signed two lead customers for semiconductor IP products. The first agreement was a multi-million dollar contract with a major semiconductor manufacturer for a high-speed embedded DRAM macrocell to be used in its embedded processor products. The second customer, a leader in advanced ASIC technology, signed a multi-use license for MOSAID's complete memory controller solution consisting of the 333 MHz QDR® II SRAM Controller, HSTL I/O library and Delay Locked Loop (DLL).

Lawsuits Advanced Against Samsung and Infineon

Our patent infringement cases against Samsung and Infineon progressed during the year on a number of fronts. Key milestones in both cases included advancement through fact discovery, and the joint claims construction, or Markman hearing, which was held in January 2004 before Judge Martini of the U.S. District Court for New Jersey. The Court issued its Markman Order and Opinion in March 2004, establishing the meaning of the patent claim terms in dispute between the parties.

Fact discovery proceedings in the Infineon litigation are now largely complete, and we are currently

entering the expert discovery phase. That case will eventually be transferred back to the Northern District of California for trial, but the date of transfer is unknown at this time. In the Samsung case, we are now exchanging expert reports, and the trial date is scheduled for December 7, 2004.

We remain confident in the strength of our cases against Samsung and Infineon and are focused on continued progress during fiscal year 2005.

Systems Division Returned to Profitability

During the second half of our fiscal year the MOSAID tester business returned to profitability. We drove a sequential increase in revenues and substantially improved margins, delivering pre-tax profits of 19 percent in each of the last two quarters.

Our shipments of the MS4205 and MS4205e^x test systems improved on a sequential basis along with an increase in backlog throughout the year. This reflects growing demand for our high performance testers as manufacturers are once again acquiring test equipment for the latest high-speed Flash and DRAM memories.

The Systems Division released the latest version of its Test Control Software (TCS 6.0) at the end of the fiscal year. TCS is an integral part of each MOSAID MS4205 and

MS4205e^x test system, providing full bitmap capture, display and analysis for densities up to 4-Gigabit memories. We believe MOSAID is the first company to offer such leading test and analysis capabilities for these latest high-density devices.

Looking Ahead

Cutting back on some of our business ambitions this past fiscal year was difficult. Nevertheless, the changes we made to our business model have made our Company stronger and positioned it well to seize the opportunities before us.

For nearly 30 years, MOSAID has made significant contributions to the advancement of the semiconductor memory industry. Our continued success has always been driven by excellence in memory design and by an intimate understanding of customer requirements – attributes we are committed to maintaining.

The expectations of industry analysts for continued recovery in the memory markets is clearly a positive trend for our business. As we look ahead through fiscal 2005, we believe that we have the highly skilled and committed people, the correct business model, and the firm financial footing required for success in our chosen business segments: the design and licensing of memory intellectual property, and the provision of automatic test equipment for the industry's most advanced memory products.



George J.J. Cwynar
President and Chief Executive Officer

Thomas I. Csathy
Chairman

*we make memory better
by enabling semiconductor
manufacturers to tap into
powerful MOSAID IP*

Patent Licensing



In fiscal 2004, Royal Philips Electronics signed a worldwide, royalty-bearing patent license agreement with MOSAID. Philips, a world leader in digital technologies for television and displays, wireless communications, speech recognition, video compression, storage and optical products, recognized the value of MOSAID embedded memory intellectual property for the continued development of its products.

Since the Company's inception in 1975, MOSAID intellectual property has made vital contributions to the world of memory design. From the earliest DRAM to the latest system-on-a-chip technology, MOSAID has been a leader in memory circuit design techniques, resulting in many patented inventions.

The MOSAID patent portfolio is the result of more than 50 DRAM and embedded DRAM designs completed for our customers over the years. Many of the new techniques developed in these designs address technological challenges or emerging market requirements, and are in common use in the industry today. MOSAID's early expertise in DRAM allowed it to recognize fundamental limitations of conventional circuit design techniques as manufacturing technology advanced. For example, more than a decade ago MOSAID engineers realized that

traditional DRAM circuits would exceed the reliability limits of deep sub-micron technologies by generating high transient voltages that could potentially damage thin transistor gate oxides. MOSAID developed and patented a solution that eliminated those high voltages and helped ensure the reliability of today's DRAM products.

MOSAID is confident that DRAM manufacturers require a license to its patented technology to make state-of-the-art DRAM products and, that its reputation as an intellectual property powerhouse will be maintained through continued leadership in DRAM development and other memory-related design activities.

*we make memory better
by delivering
high performance
semiconductor IP solutions*

Design Licensing



In September 2003, MOSAID created the Design Licensing group – a new line of business and a new opportunity for MOSAID’s skilled team of design engineers. Based on its expertise in memory and system-on-a-chip design, the group offers customers a compelling solution: proven MOSAID semiconductor IP blocks and customized solutions.

The MOSAID Design Licensing group has much to offer its customers: nearly 30 years of experience in memory design, a significant portfolio of intellectual property, system-on-a-chip expertise and a talented group of design engineers. But it doesn’t stop there. The Design Licensing group pairs a comprehensive package of specialized application specific memory design services with a unique approach to doing business – reinforcing MOSAID’s reputation not only as design experts, but as a reliable partner dedicated to advancing memory technology.

In a business where many IP providers favour secrecy, MOSAID invites open collaboration with customers to produce the optimum solution. MOSAID offers customers the latest in DRAM, embedded DRAM, embedded CAM and high performance memory interface design, along with the customization capabilities to suit their specific needs.

After only seven months in operation, MOSAID’s Design Licensing group signed agreements with two lead customers. MOSAID is providing one with a state-of-the-art embedded DRAM macrocell and the other with a high-speed QDR memory interface solution. MOSAID can provide these customers what others can’t – customized solutions that enable them to reach the peak performance they are seeking, the ability to utilize the most advanced memory technology available, and the flexibility of foundry independence.

With its unique mix of technology licensing and specialized services, MOSAID is enabling its customers to introduce industry-leading products into the marketplace and is contributing to continued innovation in semiconductor memory.

*we make memory better
by equipping engineers
with superior test
and analysis tools*

Memory Test Systems



Keeping up with the pace of memory technology advancement is a significant challenge for semiconductor equipment manufacturers. MOSAID has continuously improved the capabilities of its MS4205 and MS4205e^x engineering test systems to test faster, larger and more complex memories. During early fiscal 2004, MOSAID doubled the memory bitmap capacity of its testers to 2-Gigabits, and then doubled it again to 4-Gigabits before the year was out – ensuring that MOSAID customers have the ability to test the latest and largest memory devices available anywhere.

Gone are the days when simply having the newest semiconductor technology guaranteed commercial success. After two decades of experience in memory test, we know that successful semiconductor manufacturers require not only technological innovation, but superior performance in product definition, time-to-market, quality, efficiency and cost control. The MOSAID MS4205 family of engineering memory test systems helps customers achieve success by providing cost effective test and analysis tools that directly impact engineering productivity.

MOSAID testers push products, not engineers, to their limits – by providing easy to use, intuitive features that are geared to an engineering environment. MOSAID testers not only provide the required hardware performance, but also a user interface and test development environment which dramatically improves user productivity. Engineers can run more tests and get more information in less time and at lower cost by using a MOSAID tester.

While increased productivity translates into lower engineering cost, even more dramatic is the leverage of increased engineering productivity on total business performance. When memory manufacturers solve engineering problems faster, it translates into faster time-to-market, improved quality, better yields and more efficient manufacturing – all factors that figure heavily in business success.

The simple result? More profit for our customers and better memories for the world.



Management's Discussion and Analysis of Financial Condition and Results of Operations



Richard Boadway, Executive Vice President and Chief Financial Officer

Introduction

MOSAID: Through Management's Eyes

We have continued to make changes to our MD&A this year, in response to the guidelines released by the Canadian Institute of Chartered Accountants (CICA) in November 2002 aimed at improving the usefulness and clarity of MD&As. According to the CICA, the purpose of the discussion and analysis is to give readers the ability to look at a company "... through the eyes of management. An effective MD&A integrates historical and prospective information and financial statement and business analyses that, together with the financial statements, impart useful knowledge to investors and other readers." In keeping with this prescription:

- We have explained our performance within our view of the realities of our marketplace, our core business objectives and our strategies.
- We have tried to complement facts with insight; and financial information with non-financial information.
- It has been written by management, and reviewed and approved by the board of directors, allowing you to see MOSAID through our eyes.

Our goal is to provide investors with the information we believe they need to make informed investment decisions.

Corporate Profile

We make memory better

Throughout MOSAID's 29 year life, the constant in our corporate development has been the engineering of memory through

- the design of many generations of dynamic random access memory (DRAM)
- the development and manufacture of automatic test equipment (ATE), to assist engineers in the analysis and improvement of DRAM, Flash and other memory designs
- the development, as a fabless semiconductor provider, of systems-on-a-chip products, which exploited the sophisticated integration of memory and logic for graphics and communications applications
- the design and licensing of intellectual property blocks, either memory or memory-related, which permit semiconductor companies to make improved systems-on-a-chip (SOCs).

Each of these endeavours has been matched with a business model whose intended purpose has been to yield ongoing, readily generated revenues from a core engineering effort

- the DRAM design efforts provided royalties (if the resulting memory product entered into production) and a patent portfolio, developed over time, suitable to being broadly licensed
- the ATE development yielded product lines which have served memory producers and other users since the early 1980s
- the chips developed under the fabless business model and manufactured by foundries were intended to serve large volume graphics or communications markets
- the intellectual property blocks carry with them a royalty model driven by their use by customers

Throughout the years, MOSAID has protected its innovations and business model by building an extensive portfolio of patents, covering key techniques critical to the design of DRAM chips and embedded DRAM in SOCs, as well as other technologies such as packet classification, Ethernet switching and data encryption. Patents have also been issued, to a lesser extent, on novel elements of our test systems, including specialized chips and software such as the Graphical Sequence Editor which makes our testers easy to use and operate.

At the outset of fiscal 2004, MOSAID operated through three Divisions:

- The Intellectual Property (IP) Division, a licensor of intellectual property to the electronics industry, primarily the semiconductor manufacturers worldwide.
- The Semiconductor Division, building upon MOSAID's position as a leader in memory design, a fabless provider of networking chips, offering Content Addressable Memory (CAM) products targeted at the networking market.
- The Systems Division, a supplier of engineering memory test and analysis systems to memory manufacturers, foundries and fabless chip companies throughout the world.

However, during the year, the Company shut down the Semiconductor Division as a result of its continued significant losses and its failure to secure the requisite customer base and design win traction that would lead to a profitable future. On its closing, a team of design engineers was transferred from the Semiconductor Division to the IP Division, to broaden its mandate from that of licensing the MOSAID patent portfolio to now include the development and licensing of memory and memory-related intellectual property blocks, for incorporation into customers' SOC products. The first two lead customers for such memory related intellectual property blocks were signed near the end of the fiscal year.

Our headquarters, manufacturing facility and design centre are in Ottawa, Canada, supported by sales and marketing offices in Ottawa; Santa Clara, California; Newcastle upon Tyne, England; and Tokyo, Japan. We also utilize contracted sales representatives and distributor companies in the U.S., Canada, Europe, Israel, Taiwan, Korea, Japan, Hong Kong, Malaysia, Singapore and China.

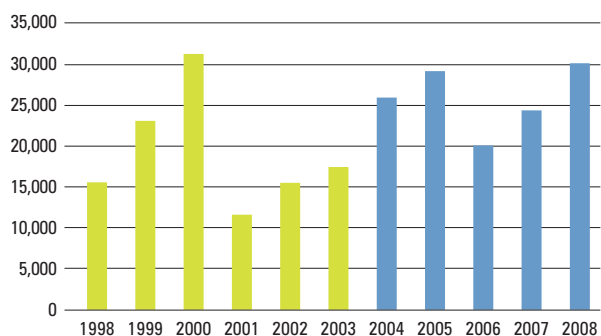
Market overview

DRAM, Flash and System-on-a-chip markets improving

In 2003, the DRAM market posted its second year of growth following the devastating 2001 decline of 63%. Revenues in the DRAM industry in 2003 (\$17.5 US billion) increased by 13% over revenues in 2002 (\$15.5 US billion), following 2002's increase over 2001 of 33%, but this growth has still not yielded a recovery to the year 2000 level of DRAM revenues of \$31.6 US billion. 2004 has shown continued growth, forecasted at 49%, but memory prices remain volatile, and growth in bit shipments as opposed to DRAM revenues, remains significantly lower than the average annual growth of 61% in the previous four years. Nevertheless, it is significant that most DRAM manufacturers are now profitable.

Worldwide DRAM Revenues and Forecast

(in millions of US dollars)



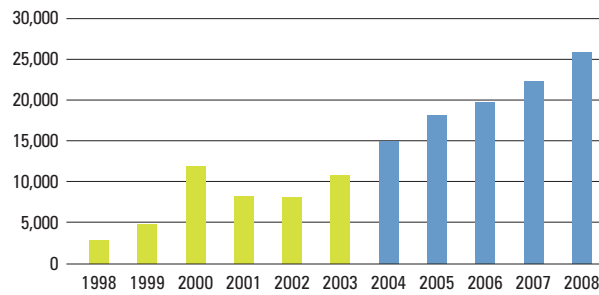
Gartner Dataquest; Forecast: Memory, Worldwide 2004 Update; Richard Gordon and Andrew Norwood; May 2004

The Flash market (NAND and NOR types of flash) continues to improve in a less volatile fashion than the DRAM market, primarily driven by the requirements of consumer electronics. Demand for Flash in 2003 grew 33% over 2002 and, at \$10.9 billion, is beginning to approach the size of the DRAM market. This market has been increasingly demanding more sophisticated ATE products as the size, speed and complexity of these memories have increased.

The System-on-a-chip market continued to grow in 2003 and is expected to continue strong growth as the capacity of these chips increases to incorporate a greater number of functions in a cost effective fashion.

Worldwide Flash Revenues and Forecast

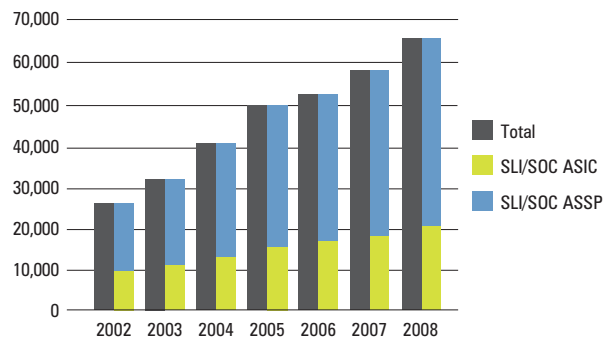
(in millions of US dollars)



Gartner Dataquest; Forecast: Memory, Worldwide 2Q04 Update; Richard Gordon and Andrew Norwood; May 2004

Worldwide SLI/SOC ASIC and ASSP Consumption*

(in millions of US dollars)

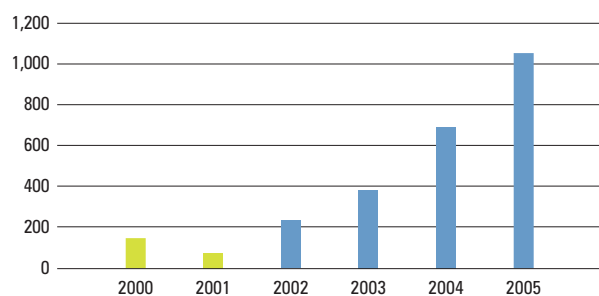


Gartner Dataquest; Forecast: ASIC/ASSP, FPGA/PLD and SLI/SOC Applications, Worldwide, 2002–2008, 2Q04 Update; Serena Hsu and Bryan Lewis, June 2004

*SLI (system-level integration); SOC (system-on-a-chip); ASIC (application-specific integrated circuit); ASSP (application-specific standard product)

Search Engine/Content Addressable Memory Market Forecast

(in millions of US dollars)



Semico Research, December 2001 Forecast

The network search engine, or Content Addressable Memory (CAM) market, on which MOSAID had focused its most recent chip offerings, grew 14% in 2003, according to the Linley Group, from \$83 million to \$95 million. However, this is dramatically lower than the levels forecast by Semico in 2001 when MOSAID was vigorously developing products for this market.

The impact of these market dynamics on MOSAID's businesses has been as follows:

IP Division – the improving DRAM and SOC markets have a positive impact on the Division's business, as more Design Licensing opportunities arise and the financial health of prospective patent licensees (both DRAM and embedded DRAM) improves.

Semiconductor Division – the lower than anticipated addressable market for CAMs, and the competitive conditions in the market contributed to our decision to discontinue our CAM development effort and to shut down the Division.

Systems Division – the improving DRAM and Flash memory markets have a positive impact on the Division's business, since its ATE equipment is sold to manufacturers in both of these two principal markets.

Operating Division Overview

MOSAID's operations: revenues declined, Systems revenues and margins improved, product breadth expanded, Semiconductor Division closed

Intellectual Property Division



James D. Skippen,
Senior Vice President,
Patent Licensing and
General Counsel

Peter B. Gillingham,
Vice President,
General Manager,
Intellectual Property
Division

The IP Division is focused on licensing MOSAID's intellectual property, particularly its memory patent portfolio, to semiconductor companies selling state-of-the-art DRAM or chips utilizing embedded memory. Over the last five years the IP Division has signed comprehensive patent licensing agreements with 10 leading electronics companies: Fujitsu Limited ("Fujitsu"), NEC Limited ("NEC"), Toshiba Corporation ("Toshiba"), Hitachi Ltd. ("Hitachi"), Mitsubishi Electric Corporation ("Mitsubishi"), Oki Electric Industry Co., Ltd. ("Oki"), Matsushita Electric Industrial Co., Ltd. ("Matsushita"), Winbond Electronics

Corporation (“Winbond”), Sony Corporation (“Sony”) and Royal Philips Electronics (“Philips”).

In September 2003, the Division broadened its mandate to include the design and licensing of memory and memory-related intellectual property blocks for use in system-on-a-chip products. Two announcements were made near year-end, reporting the first customers signed for the Design Licensing business.

Key FY04 business objectives:

- Continue transition to a running royalty-based term licensing model that will more effectively deliver the long-term value inherent in MOSAID’s patent portfolio.
- Continue to broaden the target market from commodity DRAM to embedded DRAM.
- Continue to build and strengthen MOSAID’s portfolio of patents.
- Achieve significant progress in the patent infringement litigations against Samsung and Infineon.
- Solidify initial position as a semiconductor IP macrocell provider and demonstrate traction with Design Licensing customers.

Key FY04 results:

- Signed a patent license agreement with Philips. Philips is the third company to negotiate a license with MOSAID for the use of our IP primarily in embedded memory applications. Furthermore, Philips is the first European licensee, and the second licensee to provide royalties based on the sales volume of its products rather than the payment of fixed sums over a fixed period of time.

We believe the signing of the Philips agreement signifies continued endorsement of the strength, validity and effectiveness of our patent licensing program, by demonstrating our ability to sign new patent licensing deals while engaged in two significant ongoing litigation cases.

- Placed four additional companies on notice for patent infringement, with 10 licenses in place and 15 companies on notice. MOSAID ended fiscal 2003 with nine licenses in place and 11 companies on notice.
- Filed 39 patent applications, bringing our portfolio to 526 patents issued, allowed or pending, with patents granted in 14 countries and patent applications pending in many international jurisdictions.
- Began asserting new patents in licensing negotiations. The development of new patents allows us to assert a greater number of patents, strengthen our negotiating position, and derive value from our IP portfolio more effectively.

- Achieved significant progress in the litigation against Infineon and Samsung for infringement of seven patents. The cases were consolidated for the discovery phase of the litigation, in New Jersey, where MOSAID had initiated its infringement case against Samsung. During the fiscal year the bulk of the discovery phase was completed, including the Markman hearing, where the Court construed the meaning of patent claim terms in dispute between the parties.
- The IP Division’s Design Licensing group announced the availability of a variety of intellectual property blocks and signed two lead customers for new product offerings (one just before and one just after year-end). Good progress was made in developing sales prospects and in forming strategic relationships to promote the licensing of MOSAID’s IP offerings.

Financial performance

Although we did sign one additional licensing agreement in FY04, revenues continue to be negatively affected in the short-term as we migrate from lump-sum payments to more long-term, royalty payment arrangements that are based on the ongoing actual sales volume of products which utilize our patents.

In fiscal 2004, IP Division revenues declined by 47% to \$12.1 million (FY03 – \$22.9 million), as the stream of fixed payments from earlier licensees continued to decline and was not wholly replaced by revenues from new licensees. Division expenses increased by 50% in FY04, in spite of a reduction in patent and reverse engineering expenses, due to:

- a significant increase in litigation expense, stemming from the substantial legal activities associated with the fact discovery and Markman hearing phases of the Company’s infringement cases against Samsung and Infineon; and
- the expenses associated with the creation of the Design Licensing group in September 2003, to license memory and memory-related intellectual property blocks.

In total, expenses in the Division increased to \$13.2 million in FY04 (FY03 – \$8.8 million). The IP Division contributed a segment loss of \$1.1 million to operating earnings (FY03 – \$14.1 million profit).

Strategies

During fiscal 2004, MOSAID’s patent portfolio grew by 5% to 526 patents (209 issued and 317 allowed or pending) compared to 500 patents (156 issued and 344 allowed or pending) at the end of FY03. The issued patents relate primarily to commodity and embedded DRAM, while the pending patents include many that are related to networking chips and applications. The low rate of increase in

patents, and the decrease in patents allowed or pending, reflects the cessation of design activity in the Semiconductor Division and the abandonment of a number of patents. Patents were abandoned either to reduce expenses or as a result of their lower strategic importance due to the cessation of the Semiconductor Division's fabless semiconductor activities.

We believe that all companies that manufacture state-of-the-art DRAM products, including single and double data rate Synchronous DRAM as well as Rambus DRAM, use MOSAID's patented circuit technology and require licenses to use this IP. We are also finding use of our IP by companies making chips that utilize embedded DRAM. The IP Division is committed to generating revenues through the licensing of our patent portfolio to all such companies. Despite improving DRAM market conditions, the Division did not license a new DRAM manufacturer in FY04, although licensing discussions are continuing with a number of companies. There has been continued concentration within the DRAM manufacturing industry, with the top four producers now representing 78% of the industry. This results in a licensing market that is essentially split into a few very large and several quite small DRAM producers.

During fiscal 2004, we continued the transition from a fixed payment license structure to a running royalty rate structure, with the signing of the license agreement with Philips. Under the terms of the two running royalty rate agreements signed to date, MOSAID will receive a percentage of the sale proceeds of every Philips embedded DRAM and Winbond branded DRAM sold over the term of the license. With fixed payment licenses, MOSAID receives a series of fixed payments over an agreed period of time, and the licensee obtains a license to use the patents until they expire. It is management's belief that revenues from royalty-based licenses may be more volatile and less predictable, but such licenses are generally more effective at realizing greater value, over a longer term, from our patent portfolio.

Licensing memory technology to non-DRAM companies in embedded memory applications has offered MOSAID a new licensing opportunity. Embedded memory is key to enabling more functionality on a single piece of silicon, and yielding such benefits as lower power, improved performance and lower cost. Different chips with different functions – usually logic processors, memory circuits and other elements – are combined on a single integrated circuit called a system-on-a-chip (SOC). Not only do many of MOSAID's DRAM patents also apply to SOCs, but MOSAID also holds patents on techniques specifically applicable to embedded DRAM. To date three companies have licensed MOSAID's patent portfolio expressly for use in SOCs. It is believed that there are other companies that are, or will be, using embedded memory in a variety of SOC products. Embedded memory applications are found in consumer electronic devices such as televisions, cell

phones, portable video recorders, DVD players and recorders, PDAs and electronic game consoles, as well as computing and networking devices. MOSAID is now using reverse engineering techniques to establish which other companies in the electronics industry, aside from DRAM manufacturers, may be using MOSAID patents.

MOSAID has 15 companies on notice for infringement of patents, and is in active licensing discussions with several of them. In licensing negotiations, MOSAID has provided incentives to encourage users of its IP to come to an agreement, generally through more favourable terms to earlier licensees. However, we believe there are other natural incentives for a company to sign an agreement without litigation. First, a company on notice for patent infringement that continues to infringe could be subject to substantial damages if the courts ultimately determine infringement. Second, to wait for the outcome of the two current litigations involves risk, since MOSAID's success in asserting its claims with Samsung or Infineon could prove to be a watershed event that may lead to substantially increased royalty rates for future licensees. Third, MOSAID is documenting infringement on a number of patent families which are not part of the litigation.

Samsung litigation

In September 2001 MOSAID launched an action in the New Jersey District Court against Samsung Electronics for infringement of seven MOSAID U.S. patents. During the 31 months leading to the end of FY04, the fact discovery stage of the case was completed, including the deposition of fact witnesses. During this process, MOSAID and Samsung exchanged documents and interviewed each other's witnesses.

In fiscal 2004, the Markman hearing was completed, determining how the claim terms in dispute in MOSAID's patents are to be interpreted. For details on the events of the Samsung litigation please see MOSAID's web site at www.mosaid.com. We believe Samsung has infringed and continues to infringe upon several MOSAID patents by manufacturing and selling its semiconductor products, including DRAMs.

Infineon litigation

In February 2003, MOSAID filed a suit against Infineon Technologies in the U.S. District Court for Northern California for infringement of seven of its United States patents. The suit is in response to a Request of the Courts by Infineon, seeking a judgment of patent non-infringement, invalidity and unenforceability with respect to MOSAID's patents. The seven patents covered by the Infineon complaint are the same seven patents that are the

subject of MOSAID's lawsuit against Samsung. For details on the events of the Infineon litigation please see MOSAID's web site at www.mosaid.com. We believe Infineon has infringed and continues to infringe upon several MOSAID patents by manufacturing and selling its semiconductor products, including DRAMs.

During the fiscal year Infineon sought to have the Samsung and Infineon cases consolidated in the Northern District of California; but, in September 2003, following a ruling by the Judicial Panel on Multidistrict Litigation, pre-trial proceedings were ordered to be consolidated and concluded in New Jersey. Fact discovery and the Markman hearing proceeded apace in the District Court of New Jersey. Judge Martini's Markman Orders were issued on March 23, 2004. Both the Infineon and Samsung cases are now proceeding through the expert testimony phase of the litigation, following which there may be motions tabled with respect to summary judgement in the Fall of 2004. On the matter of Samsung and Infineon's alleged infringement, the Samsung trial date is set for December 7, 2004, while the Infineon schedule has yet to be determined.

Design Licensing

With the closure of the Semiconductor Division, MOSAID transferred nine designers into the Intellectual Property Division to initiate and form the core of a Design Licensing business focused on the design and licensing of memory or memory-related intellectual property blocks. The target market for this business is companies that are seeking to develop system-on-a-chip products. Management believes that MOSAID brings to this market a unique combination of design experience, intellectual property, and an aptitude to integrate DRAM memory and logic to yield superior performance in SOCs. It is the intention of this group to identify and exploit attractive SOC development opportunities, preferably with lead customers that can contribute to both the development effort and the quality of the specification. Further, we intend to license the resulting IP blocks to such customers, as well as to other customers, using a royalty-based model. We expect the Design Licensing activity to become a source of new patents which may also be licensed under the patent licensing business model.

During the period from September 2003 to fiscal year-end, the Design Licensing group developed into licensable products a variety of IP blocks, generally based on the development efforts of the former Semiconductor Division. The group also built a pipeline of Design Licensing opportunities and signed its first two lead customers (one before and the other just after fiscal year-end).

Semiconductor Division

The Semiconductor Division was a fabless developer and provider of networking chips since 1998. Initially it developed, in combination with lead customers, an encryption chip and a switch-on-a-chip, targeted at networking equipment vendors. While these designs resulted in working prototypes, the markets for these chips were severely eroded by the telecom downturn, resulting in the cancellation of these two chip programs in 2001.

The third product offering of the Division's intended family of communications chips was a family of content addressable memories (CAMs), otherwise known as network search engines. The Semiconductor Division announced its CAM program in September 1999 and, during the period from September 1999 to September 2003, it developed a series of CAM product offerings targeted at the networking equipment vendors. As noted in the figures shown earlier, the CAM market did not develop as originally forecast. Furthermore, networking equipment vendors were concerned about being supplied by fabless companies with a narrow range of product offering.

In September 2003, MOSAID announced the discontinuation of its Semiconductor Division, the termination of its CAM development activity and, with it, its attempt to become a fabless semiconductor company. The restructuring involved a work force reduction of 26 employees from the Division, and a restructuring expense of \$4.1 million. Nine employees were also transferred to the IP Division. As a result of exiting the fabless semiconductor business and discontinuing operations of the Semiconductor Division, the Company revised certain previously disclosed results of operations and amended its financial presentation in accordance with Canadian generally accepted accounting principles.

Financial performance

Semiconductor Division revenues in FY04 were \$48,000 compared to \$194,000 in FY03. Revenues were driven by the sale of sample chips to customers who were developing prototype networking equipment. These customers had not advanced to the point of requiring volume production of either of MOSAID's two available CAM products, the DC9288 and the DC18288, before the Division was shut down.

The Division's expenses declined to \$7.7 million in FY04 (FY03 – \$19.7 million), due to:

- closure of the business in September 2003;
- lower R&D costs due to the reduced number of employees resulting from the narrower focus in chip development (FY04 – \$3.2 million; FY03 – \$15.1 million);

- lower sales and marketing expense (FY04 – \$0.5 million; FY03 – \$1.5 million); and
- greater restructuring charges than in FY03 (FY04 – \$4.1 million; FY03 – \$3.1 million).

The loss associated with the discontinued operations of the Semiconductor Division for FY04 was \$7.7 million, compared to a loss of \$19.5 million for the Division in FY03.

Systems Division



G. Glenn Evans
Senior Vice President,
General Manager,
Systems Division

The Systems Division is a leading supplier of engineering memory test and analysis systems to memory manufacturers, foundries and fabless chip companies around the world. It has shipped more than 500 memory test systems to 80 customers in 19 countries.

Key FY04 business objectives:

- Maintain our tradition of providing effective test and analysis systems for the latest and most advanced memory devices.
- Focus developmental efforts on incremental improvements to the current product line.
- Improve the gross margin on testers through reduced manufacturing costs and a more favorable product mix.
- Lower the break-even level of operations by reducing both fixed and variable costs.
- Continue to improve the quality of tester products through our Quality Management System, and monitor results through such industry standard metrics as Mean Time Between Failures.

Key FY04 results:

- Introduced major software upgrades for the current models of our fifth generation of memory test systems, the MS4205 and MS4205e^x.
- Succeeded in significantly reducing manufacturing costs and improving manufacturing efficiencies. This result, along with a more favourable product mix and higher volumes, yielded improving gross margins in the Systems Division from 53% at the end of fiscal 2003 to 63% at the end of fiscal 2004 (both normalized for the sales of refurbished units and inventory adjustments).

- Continued to improve quality, resulting in continued improvement in customer satisfaction.

Financial performance

The demand for engineering test and analysis systems in the semiconductor memory industry is driven by capacity requirements and technological advances. It is also profoundly influenced by the ability of the manufacturers to make capital investments. FY04 saw improvements in both the DRAM and Flash memory markets. Higher volumes and a better supply/demand balance in the DRAM market, in particular, led to the restoration of profits to most DRAM manufacturers and an increase in their spending on capital equipment, including ATE.

Revenues from sales of the Systems Division's engineering tester products increased by 17% to \$16.3 million in FY04, up from \$14.0 million in FY03. During the year, the Division continued to drive manufacturing costs down and quality up through more efficient manufacturing processes and by partnering with its suppliers for improvements in both cost and quality of supplies. Gross margin, normalized for the sales of refurbished units and inventory adjustments, improved over the year from 50% in Q1 to 63% by the end of Q4. As a result, beginning in the third quarter, the Systems Division became profitable, returning a profit on revenues in excess of 19% in the final two quarters of FY04. For the full fiscal year the Division recorded a profit of \$467,000 (FY03 – a loss of \$13.0 million).

While strict cost control was a significant factor in the improvement, the higher margin in later quarters was also driven by

- higher volumes, which lowered fixed costs per unit,
- the shift in the mix of products shipped to a larger proportion of higher priced systems, and
- better pricing from suppliers, made possible through volume purchasing and strong supplier relationships.

Strategies

While the state of the DRAM industry has improved and the Flash memory producers continue to prosper, the Systems Division continues to deal with industry consolidation. Manufacturers merge, yielding a rationalization of resources within the resulting firms, allowing the use of consolidated equipment more efficiently. Nonetheless, the increasing performance and functionality requirements of memory testing continue to drive significant interest in our products.

The Systems Division continues to invest in the enhancement of its well-accepted MS4205 product line of memory test systems. These testers are widely used for testing higher performance Flash devices as well as DDR

DRAM and other memory types. The latest model in this line, the MS4205e^x, addresses new and advanced high-speed memories, such as DDR2 SDRAM, at data rates up to 832 Mbits per second. The Division also introduced a new software release that supports the bitmapping of very large memories (up to 4-Gigabits), particularly relevant to Flash devices. The Division continues to provide strong technical support to its customers for hardware, software and custom test solutions, through its Customer Technical Support unit, which contributed approximately 12% of the Division's revenues in fiscal 2004.

In fiscal 2003, the Division responded to weak capital spending for automatic test equipment by resizing its manufacturing capabilities, as well as its sales and marketing functions, twice during the year in order to better align capacity with immediate and projected market needs. We also reduced investment in R&D, concentrating on the ongoing support and enhancement of the MS4205 product line. The result of these actions has been a substantially lower break-even point and higher product margins, while preserving continued customer satisfaction during FY04.

Consolidated financial performance

MOSAID: focused on reducing costs

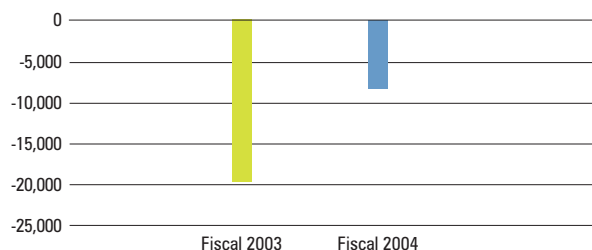
Key variances between FY04 and FY03:

- Operating revenues declined 23% to \$28.4 million (FY03 – \$36.9 million), as patent licensing revenues continued to decline, although partially offset by increased Systems Division revenues.
- Operating expenses declined 20% to \$28.8 million (FY03 – \$36.1 million), reflecting lower costs and tighter controls on expenditures.
- The closure of the Semiconductor Division in September 2003 resulted in a reduction of MOSAID's workforce by 34 people, or 32% of the employees MOSAID had at the beginning of the fiscal year.
- Litigation costs increased to \$7.6 million (FY03 – \$4.3 million), as the cases against Samsung and Infineon advanced through fact discovery and the Markman hearing.

MOSAID reported a net loss for the year ended April 23, 2004 of \$8.6 million, or \$0.83 per share. This compares to a loss of \$19.9 million, or \$1.94 per share, in fiscal 2003. Before discontinued operations, the net loss for fiscal 2004 was \$916,000, or \$0.09 per share, versus a loss of \$407,000 or \$0.04 per share in fiscal 2003.

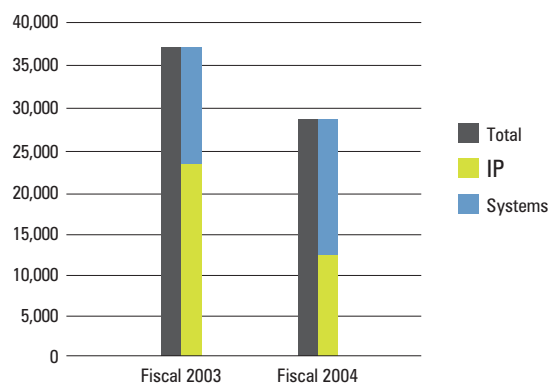
Consolidated Earnings

(in thousands)



Consolidated Revenues from Operations by Division

(in thousands)

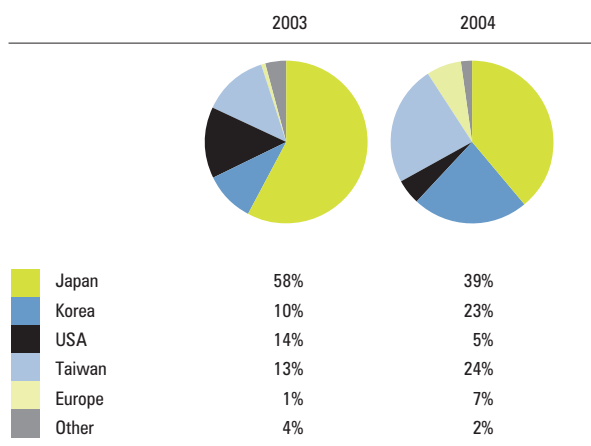


Consolidated earnings

The weighted average number of shares increased to 10,300,763 in fiscal 2004 from 10,238,808 in fiscal 2003. Share transactions in fiscal 2004 included the issue of 36,298 shares under the Employee Stock Purchase Plan (FY03 – 66,982), 62,559 shares issued as a result of options exercised (FY03 – 2,725), and 25,700 shares purchased and cancelled under the Normal Course Issuer Bid (FY03 – 63,600).

Geographically, Japan represented 39% of sales (FY03 – 58%), the United States 5% (FY03 – 14%), Taiwan 24% (FY03 – 13%), Korea 23% (FY03 – 10%), Europe 7% (FY03 – 1%) and the rest of the world 2% (FY03 – 4%). The reduced relative strength of the Japanese market reflects the decline in payments from our patent licensing program in Japan, somewhat offset by an improvement in Systems Division sales.

Revenues from Operations by Country (%)



Expenses for the year declined 20% to \$28.8 million (FY03 – \$36.1 million). Every area of MOSAID was affected by stringent cost constraints, although the IP Division again significantly increased its litigation costs and added new Design Licensing R&D expenses. Our ability to reduce losses despite the continued decline in revenue reflects management's determination to reduce spending and improve operating efficiency, while maintaining a strong patent and product portfolio.

Labour and materials expense declined 24% to \$5.9 million (FY03 – \$7.8 million). This reduction was driven primarily by the decline in the unit cost of products shipped by the Systems Division, despite the increase in Systems Division revenues year-over-year, as margins have steadily improved over the last two years. We continue to use our significant purchasing power to secure supplies, including chips and board level systems, at reduced prices.

Research and development expenses declined 30% to \$6.2 million (FY03 – \$8.9 million) as a result of the restructuring in the Systems Division in fiscal 2003 and lower patent and reverse engineering costs in the IP Division, offset, in part, by the new Design Licensing development costs in the IP Division.

Sales and marketing expenses increased 30% to \$12.0 million (FY03 – \$9.2 million). The increase was partly the result of higher sales commissions due to greater revenues in the Systems Division. However, the principal source of the increase was the higher litigation expenses in the IP Division, driven by the higher levels of activity in the Samsung and Infineon cases. Litigation costs are a necessary component of our endeavour to license our intellectual property on reasonable terms.

General and administrative expenses declined 28% to \$5.0 million (FY03 – \$6.9 million), reflecting our efforts to lower our cost structure to better match revenue expectations. Cost reductions centred on the reduction of headcount and subcontract costs. The favourable resolution of a dispute with a utility also contributed to the decline.

Restructuring in fiscal 2004 resulted in a recovery of \$288,000 (FY03 – \$3.4 million expense), and is described in Note 10 to the financial statements. Restructuring expenses (or recoveries) are related to restructuring activities exclusive of those taken with respect to the Semiconductor Division. The restructuring expenses associated with the termination of the Semiconductor Division are incorporated in the discontinued operations expenses and are described in Note 12 to the financial statements.

Other items affecting net income

MOSAID incurred a loss of \$580,000 as a result of the write-down of its investment in Acuid Corporation Ltd., based on the valuation placed on Acuid in conjunction with a financing which closed after year-end.

MOSAID's combined basic Canadian Federal and Provincial income tax rate for fiscal 2004 was 36.45% (FY03 – 37.95%), reflecting lower federal and provincial tax rates during the year. However, throughout the year, since the Company sustained losses, the income tax expense reflected only any withholding taxes resulting from international royalty income. In fiscal 2004, the Company did not record investment tax credits earned (FY03 – \$1.8 million, of which \$593,000 is attributable to continuing operations), nor related income taxes (FY03 – \$641,000). This change in treatment of investment tax credits and the related income taxes tends to bias research and development expense higher and income tax expense lower.

As a result of the Company's decision to exit the fabless semiconductor business and to discontinue operations of the Semiconductor Division in September 2003 and consistent with Canadian generally accepted accounting principles, we have reclassified the revenues and expenses for both the current year and the comparative reporting period to results from discontinued operations. We disclose the various line item details in Note 12 to the consolidated financial statements. With a much higher level of activity in 2003 and the termination of the Division in the second quarter of fiscal 2004, the expenses of the Division in fiscal 2004 were \$7.7 million, compared with \$19.7 million in fiscal 2003.

Liquidity and capital resources

We believe that MOSAID maintains a strong financial position and adequate liquidity to meet its obligations.

In fiscal 2004, MOSAID generated a positive cash flow of \$4.9 million, compared to a negative cash flow of \$5.2 million in fiscal 2003. Operations consumed \$1.9 million, with a negative working capital contribution of \$2.0 million. In fiscal 2003, MOSAID consumed \$13.3 million, with a positive working capital contribution of \$1.3 million.

The net cash inflow in fiscal 2004 was driven by the following factors:

- cash flow operating loss: (\$3.9 million),
- net liquidation of short-term marketable securities to cash and cash equivalents: \$9.0 million,
- proceeds on disposal of Chrysalis-ITS: \$620,000, and
- capital expenditures: (\$933,000).

At April 23, 2004, MOSAID maintained cash, cash equivalents and short-term marketable securities of \$38.2 million, compared to \$42.3 million at April 25, 2003. Working capital decreased to \$38.7 million at the end of fiscal 2004, from \$41.0 million at the end of fiscal 2003. The decrease was driven primarily by the net loss. On December 18, 2003, MOSAID initiated a normal course issuer bid to repurchase up to 200,000 common shares. By the end of the fiscal 2004, it had repurchased 25,700 shares at an average price of \$10.38 per share. In fiscal 2003, MOSAID repurchased 63,800 common shares at an average price of \$5.65 under a normal course issuer bid. All repurchased shares were cancelled.

During Q2 of fiscal 2004, MOSAID sold its interest in Chrysalis-ITS for net cash proceeds of \$620,000, recognizing a loss of \$162,000 on the disposal of the investment. During the year we also reassessed the carrying value of our ownership in Acuid Corporation Ltd. and recorded a \$580,000 write-down on that investment, based on Acuid's most recent financing. Acuid is a supplier of technology to MOSAID's Systems Division.

MOSAID has available lines of credit of \$10.0 million to cover fluctuations in cash requirements, but they were not used during the fiscal year. A mortgage of \$6.0 million at a fixed rate of 8.24% per annum for a 10-year term is in place to finance MOSAID's principal physical facility in Ottawa. The remaining principal amount on this mortgage at year-end was \$5.0 million. The cost of the land and building is \$7.9 million, less amortization of \$1.7 million.

Accounts receivable decreased by \$1.6 million to \$6.0 million at the end of fiscal 2004, from \$7.6 million at the end of fiscal 2003, primarily due to lower revenue levels in Q4FY04 compared to Q4FY03.

MOSAID employs financial instruments, principally forward exchange contracts, in the management of its foreign currency exposures. We have committed to sell US \$5.0 million at an average rate of 1.3179 by October 18, 2004.

At April 23, 2004 a balance of \$12.0 million was recorded for future income taxes recoverable, compared to \$12.7 million at April 25, 2003. The reduction during the year reflects the actual carryback of losses to recover taxes paid in prior years. The future income taxes recoverable balance reflects management's estimate of loss carry-forwards, investment tax credits and other tax balances that are more likely than not to be used in future periods to offset income taxes payable.

Inventory levels decreased to \$3.2 million from \$3.5 million at the end of fiscal 2003. This reflects improved inventory procurement and management.

Accounts payable and accrued liabilities decreased by \$5.0 million to \$7.5 million at April 23, 2004, from \$12.5 million at April 25, 2003, principally reflecting lower operating expenses and the reduction in accruals related to restructuring events.

Capital expenditures for fiscal 2004 declined 60% to \$0.9 million (FY03 – \$2.3 million). During the year MOSAID invested \$0.5 million in semiconductor fabrication related items (mask costs, primarily, incurred before the termination of the Semiconductor Division), and \$0.4 million in Systems Division customer support and production equipment.

Risk management

Factors affecting

MOSAID's performance

The following are identified risks to MOSAID's business performance and profitability.

1. Market risk. Most of MOSAID's revenue comes from the memory industry, either in the form of test equipment sales (primarily driven by DRAM or Flash memory manufacturers' requirements) or through licensing revenues primarily associated with DRAM and embedded DRAM. The DRAM market grew during 2003 and early 2004, but is still recovering from a 63% decline in 2001. The DRAM market is volatile and cyclical, and the current positive cycle is in its third year.

Any weakness in the DRAM market would place pressure on both revenues and margins in MOSAID's Systems business; in the IP Division it would tend to suppress royalty-based revenues and would also make it more difficult to sign additional IP licensing agreements.

MOSAID has now signed three agreements with companies where the license was driven exclusively by embedded memory applications, but we remain at an early stage of exploring the potential of this market. Embedded memory is typically found in consumer electronic goods. The process of identifying MOSAID IP in these products is more expensive and complex than in commodity DRAM. The extent of embedded DRAM proliferation in the system-on-a-chip market is not well known at this time, and therefore there is risk involved with our investment in this initiative.

The generation of licensing revenue for the IP Division is dependent on being able to reach an acceptable settlement with the parties with whom MOSAID negotiates. There can be no assurance that MOSAID will be able to settle with these parties.

The IP Division's Design Licensing business is a new venture for the Company. As such, it presents a largely untested value proposition to its customers. Furthermore, the period of marketing of this offering has been limited, and as a result the base of sales prospects is in the early stages of development.

2. Legal risk. Much of MOSAID's future growth and profitability rests on our ability to generate value from our patent portfolio. An unfavourable ruling in MOSAID's lawsuits against Samsung or Infineon could damage our ability to generate future royalties and profits from our intellectual property.

3. Foreign currency risk. MOSAID's sales are denominated in U.S. dollars or Euros. We use derivative instruments to manage risks associated with currency fluctuations. These instruments allow MOSAID to fix the rate at which foreign currencies will be converted to Canadian dollars at the time that sales are forecasted or contracts are negotiated. However, the term of such instruments is limited, therefore not offering a long term hedge against adverse foreign currency fluctuations.

4. Risk of non-payment. MOSAID is a global company with customers in 19 countries around the world. Sales of our memory testers are generally insured through Export Development Canada or supported by letters of credit. Licensing revenues and revenues from Design Licensing, however, are not insured; we rely on the reputation and credit-worthiness of our customers.

5. Loss of key employees. The sustainability of MOSAID growth depends on the quality of our employees. The loss of key employees could pose a threat to the degree of success of MOSAID. We strive to maintain a competitive level of salaries and benefits, and provide incentives for superior performance and inventiveness, as well as an employee stock option plan.

6. Maintenance of a minimum cash position. The litigation actions require that MOSAID continue to be well financed to pose a credible litigation threat to its adversaries. We believe that the Company is adequately capitalized to meet this and other financial requirements of its business, with the closure of the Semiconductor Division having eliminated a significant cash drain.

7. Customer concentration. Three of MOSAID's customers contributed roughly 54% of our revenues in FY04. One of these customers is a licensee of MOSAID's patent portfolio and the nature of the IP Division's fixed payment license structure can lead to such customer concentration in any given year. Furthermore, the consolidation in the DRAM industry can lead to customer concentration in MOSAID's business as well.

8. Technology risk. It is the nature of our offerings that there is a risk of obsolescence, or of product developments being inappropriately targeted to markets that fail to materialize as forecasted. We rely on the expertise of our employees, our customer relationships and a significant commitment to R&D to address these risks.

9. Nature of the Patent License Agreements. MOSAID commenced its patent licensing program by licensing companies on a basis whereby the licensees, through a series of fixed payments, would enjoy a license to the patents for their life. Several of these agreements have no further payments associated with them. More recent licensees have secured term licenses or a running royalty rate basis, which carry with them a volatility related to the ongoing shipments of licensed products.

AUDITORS' REPORT

To the Shareholders of
MOSAID Technologies
Incorporated

We have audited the consolidated balance sheets of MOSAID Technologies Incorporated as at April 23, 2004 and April 25, 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain

reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 23, 2004 and April 25, 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Ottawa, Ontario
May 28, 2004

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Management of MOSAID Technologies Incorporated is responsible for the integrity of the accompanying Consolidated Financial Statements and all other information in this Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Their preparation necessarily involves the use of estimates and careful judgement, particularly in those circumstances where transactions affecting a current period depend on future events. All financial information in the Annual Report is consistent with the Consolidated Financial Statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control that provide reasonable assurance that the financial records are reliable and for a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable

assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further ensures the quality of the financial records through careful selection and training of personnel, and the adoption and communication of financial and other relevant policies.

The Board of Directors discharges its responsibilities for the financial statements primarily through the activities of its Audit Committee, which is composed primarily of directors who are not employees of the Company. This committee meets quarterly with management, and twice annually with independent auditors, to review performance and to discuss audit, internal control, accounting policy and financial reporting matters. The Consolidated Financial Statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by Deloitte & Touche LLP, who were appointed by the shareholders at the Annual General Meeting. Their report is presented herein.



George J.J. Cwynar
President and Chief Executive Officer



Richard D. Boadway
*Executive Vice President and
Chief Financial Officer*

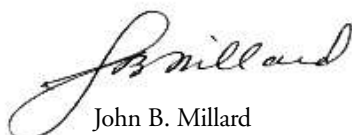
June 17, 2004

MOSAID TECHNOLOGIES INCORPORATED *(Incorporated under the Ontario Business Corporations Act)***CONSOLIDATED BALANCE SHEETS**

(In thousands)

As at	April 23, 2004	April 25, 2003
Current Assets		
Cash and cash equivalents	\$ 9,021	\$ 4,144
Short-term marketable securities (Note 2)	29,140	38,167
Accounts receivable	6,020	7,635
Inventories (Note 3)	3,201	3,517
Prepaid expenses	292	802
	47,674	54,265
Capital Assets (Note 4)	9,108	13,402
Long-Term Investments (Note 5)	670	2,032
Future Income Taxes (Note 11)	12,025	12,708
	\$ 69,477	\$ 82,407
Current Liabilities		
Accounts payable and accrued liabilities	\$ 7,466	\$ 12,461
Deferred revenue	1,265	659
Mortgage payable (Note 6)	207	191
	8,938	13,311
Mortgage Payable (Note 6)	4,815	5,022
	13,753	18,333
Contingency (Note 17)		
Shareholders' Equity		
Share capital (Note 7)	84,556	84,268
Contributed surplus	108	165
Deficit	(28,940)	(20,359)
	55,724	64,074
	\$ 69,477	\$ 82,407

See accompanying Notes to the Consolidated Financial Statements.


Thomas I. Csathy
Director

John B. Millard
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(In thousands, except per share amounts)

Year ended	April 23, 2004	April 25, 2003
Revenues		
Operations	\$ 28,417	\$ 36,874
Interest	979	1,107
	29,396	37,981
Expenses		
Labour and materials	5,912	7,793
Research and development (Note 9)	6,218	8,877
Selling and marketing	11,951	9,177
General and administration	4,984	6,932
Bad debts (recovery)	–	(70)
Restructuring (Note 10)	(288)	3,378
	28,777	36,087
Income from operations	619	1,894
Write-down of long-term investment (Note 5)	(580)	(518)
Loss on disposal of long-term investment (Note 5)	(157)	(426)
(Loss) income before income tax expense and discontinued operations	(118)	950
Income tax expense (Note 11)	798	1,357
Loss before discontinued operations	(916)	(407)
Discontinued operations (net of tax) (Note 12)	(7,665)	(19,490)
Net Loss	(8,581)	(19,897)
Deficit, beginning of year	(20,359)	(462)
Deficit, end of year	\$ (28,940)	\$ (20,359)
Loss per share (Note 13)		
Basic – before discontinued operations	\$ (0.09)	\$ (0.04)
Diluted – before discontinued operations	\$ (0.09)	\$ (0.04)
Basic – net loss	\$ (0.83)	\$ (1.94)
Diluted – net loss	\$ (0.83)	\$ (1.94)
Weighted average number of shares		
Basic	10,300,763	10,238,808
Diluted	10,300,763	10,238,808

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Year ended	April 23, 2004	April 25, 2003
Operating		
Net loss	\$ (8,581)	\$ (19,897)
Items not affecting cash		
Amortization	2,972	5,692
Loss on disposal of capital assets	7	369
Future income taxes	683	(2,384)
Write-down of long-term investment	580	518
Loss on disposal of long-term investment	162	426
Non-cash restructuring	2,266	2,015
	(1,911)	(13,261)
Change in non-cash working capital items (Note 14)	(1,966)	1,371
	(3,877)	(11,890)
Investing		
Acquisition of capital assets – net	(933)	(2,310)
Acquisition of short-term marketable securities	(42,168)	(64,060)
Proceeds on maturity/disposal of short-term marketable securities	51,195	69,949
Proceeds on disposal of long-term investment	620	3,221
	8,714	6,800
Financing		
Repayment of mortgage	(191)	(178)
Repurchase of shares	(267)	(359)
Issue of common shares	498	397
	40	(140)
Net cash inflow (outflow)	4,877	(5,230)
Cash and cash equivalents, beginning of year	4,144	9,374
Cash and cash equivalents, end of year	\$ 9,021	\$ 4,144

See accompanying Notes to the Consolidated Financial Statements.



Notes to the Consolidated Financial Statements

years ended April 23, 2004 and April 25, 2003
(tabular dollar amounts in thousands, except per share amounts)

1. Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Year-end

The Company's fiscal year is exactly 52 weeks in duration. As such, the year-end date may vary slightly from year to year.

Consolidation

These consolidated financial statements include the accounts of MOSAID Technologies Incorporated and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated.

Recent Accounting Pronouncements

Disposal of Long-lived Assets and Discontinued Operations

The Accounting Standards Board issued a new accounting recommendation CICA 3475, *Disposal of long-lived assets and discontinued operations*, providing accounting guidance for long-lived assets to be disposed of other than by sale, long-lived assets to be disposed of by sale, and the presentation and disclosure for discontinued operations. The effective date of the guidance is May 1, 2003. The Company has adopted this recommendation in preparing the fiscal 2004 and comparative financial statements.

Revenue Recognition

In December 2003, the Accounting Standards Board's Emerging Issues Committee issued EIC-141, *Revenue Recognition* and EIC-142, *Revenue Arrangements with Multiple Deliverables*, to provide interpretation guidance on the application of CICA Handbook Section 3400. The provisions of EIC-141 and EIC-142 are to be applied to sales transactions recognized in the first interim or annual period beginning subsequent to the date of issue of EIC-141. The Company has adopted EIC-141 and EIC-142 effective February 25, 2004, the beginning of Q4 FY04. Adoption of the EIC-141 and EIC-142 had no material effect on revenue recognition.

Cash and cash equivalents

Cash and cash equivalents includes all liquid marketable securities with an original maturity of three months or less.

Short-term marketable securities

Short-term marketable securities include bonds, debentures and discount notes with original maturities in excess of three months and less than 12 months and are carried at the lower of cost and market value.

Inventories

Inventories are valued at the lower of cost and replacement cost. Cost is determined using the average cost method.

Capital assets

Capital assets are recorded at cost. Amortization is provided over the estimated useful lives of the assets as follows:

Building	25 years straight-line
Equipment	2.5–6.0 years straight-line
Leasehold improvements	Straight-line over the term of the lease
Furniture and fixtures	20% declining balance

Long-term investments

Investments in other companies when the Company exercises significant influence but does not own a controlling interest are accounted for using the equity method. When the Company does not exercise significant influence, the investments are carried at cost. Where there has been a decline in value of a long-term investment that is other than a temporary decline, the investment is written down to net realizable value.

Research and development

Research costs are expensed as incurred. Development costs are deferred once technical feasibility has been established and all criteria for deferral under generally accepted accounting principles are met. Such costs are amortized commencing when the product is released, over the expected life of the product. To date, no development costs have met the criteria for deferral.

Government assistance and investment tax credits

Government assistance and investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. The benefits are recognized when the Company has complied with the terms and conditions of the approved grant program or applicable tax legislation.

Revenue recognition and warranties

Revenue from fixed payments associated with long-term license agreements is recognized as payments become due from the customer. Royalty revenue from long-term license agreements, which is typically based upon sale of product by the licensee, is recognized upon notification of the sale by the licensee.

Revenue from product sales is generally recognized on shipment provided that all significant contractual obligations have been satisfied and collection is reasonably assured. Arrangements that include multiple elements are unbundled and each element is recognized as revenue separately based upon that element's separate fair value. The Company does not provide any rights of return or refund provisions in regards to product sales. A provision for potential warranty claims against shipments is provided for at the time of sale, based on warranty terms and prior claims experience.

Service revenue is recognized when the service is performed, or, in the case of maintenance contracts, is recognized on a straight-line basis over the term of the contract.

Revenue from design contracts, including monetary contributions from lead customers and others for the development of chips or IP blocks, is recognized on a percentage of completion basis.

Deferred revenue arises as a result of cash received in advance of services being provided for services, maintenance and customer support.

Foreign currency translation

The accounts of foreign subsidiaries, which are considered to be fully integrated subsidiaries, and accounts in foreign currencies have been translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at rates in effect during the year except for amortization, which is translated at the same rate as the assets to which it relates. Gains and losses are included in earnings in the year in which they occur unless the transaction is hedged. The Company uses forward exchange contracts to hedge certain transactions denominated in foreign currencies. Gains and losses on hedged transactions are deferred until the contract is settled.

Income taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the future income tax asset and liability is to be included in income. Future tax assets and liabilities are measured using

enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The Company recognizes future income tax assets to the extent that they are more likely than not to be utilized.

Stock-based compensation plans

The Company has stock-based compensation plans as described in Note 8. Effective April 27, 2002, the Company adopted the new recommendations of Section 3870 of the CICA Handbook ("CICA 3870") with respect to stock-based compensation.

The Company records an expense only when the exercise price of the option is lower than the market price of the stock on the date of grant. To date, no option grants have met the criteria for expense recognition. The Company discloses in Note 8 the pro forma effect of the options on the net loss as if they were valued using a fair value method.

Employee share purchase plan

The Company has an Employee Share Purchase Plan ("ESPP") as described in Note 7 to these financial statements. Funds received over the six-month period are credited to share capital when received by the Company.

Shares are considered to be issued by the Company at the end of the six-month period. The Company does not recognize any compensation expense for the ESPP shares but includes the pro forma effect of the ESPP shares on the net loss as if they were valued using a fair value method.

Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates made by management.

2. Short-Term Marketable Securities

Short-term marketable securities comprise the following:

	2004	2003
Bonds and debentures	\$ 20,585	\$ 24,849
Discount notes	8,555	13,318
	\$ 29,140	\$ 38,167

Carrying values of bonds and debentures and discount notes include accrued interest and approximate market value. Investment in bonds and debentures and discount notes represent holdings in corporate and government short-term marketable securities as at April 23, 2004; all have a maturity date of one year or less.

3. Inventories

Inventories comprise the following:

	2004	2003
Raw materials	\$ 1,564	\$ 1,537
Work in process	1,311	1,193
Finished goods	326	787
	\$ 3,201	\$ 3,517

4. Capital Assets

	Cost	Accumulated Amortization	Net Book Value	
			2004	2003
Land	\$ 961	\$ –	\$ 961	\$ 961
Building	6,973	1,748	5,225	5,504
Equipment	45,501	42,807	2,694	6,524
Leasehold improvements	105	105	–	–
Furniture and fixtures	2,490	2,262	228	413
	\$ 56,030	\$ 46,922	\$ 9,108	\$ 13,402

Investment tax credits of nil for the year-ended April 23, 2004 (2003 – \$70,000) were recorded as reductions of the cost of capital assets used in research and development.

5. Long-Term Investments

Long-term investments represent the Company's net equity position for those investments in which the Company does not have a controlling interest. Such investments are accounted for using either the cost method or the equity method in accordance with generally accepted accounting principles. Portfolio investments, which are accounted for using the cost method, at year-end were as follows:

	2004	2003
Net Investment		
Investment in Chrysalis – ITS Incorporated	\$ –	\$ 782
Investment in Acuid Corporation Ltd. ⁽¹⁾	670	1,250
	\$ 670	\$ 2,032

⁽¹⁾ Common shares.

During fiscal 2004 the Company sold all of its investment in Chrysalis-ITS Corporation for cash proceeds of \$620,000. Under terms of the sale, 5% of the proceeds remain in escrow. The funds in escrow, net of the Company's estimate of its share of the post-transaction claims, is presented as part of the accounts receivable balance.

During fiscal 2004 the Company recorded a \$580,000 write-down in the value of its portfolio investment in Acuid Corporation Ltd. ("Acuid"). The write-down reflects the Company's assessment that an "other than temporary" decline in the carrying value of the investment has occurred as a result of the continued significant decline in both the industry and economic environments.

6. Mortgage Payable

	2004	2003
The mortgage bears 8.24% interest per annum, due 2008 and is secured by an office and manufacturing facility	\$ 5,022	\$ 5,213
less: amounts due within 1 year	207	191
Long-term portion	\$ 4,815	\$ 5,022

Future payments against the principal amount of the obligation are as follows:

FY 2005	\$ 207
FY 2006	225
FY 2007	244
FY 2008	4,346
	\$ 5,022

7. Share Capital

Authorized

Unlimited number of common shares.

Issued	Common Shares	
	Number	Amount
Outstanding April 26, 2002	10,229,697	\$ 84,395
Exercise of employees' options	2,725	10
Employee stock purchase plan	66,982	387
Purchases under normal course issuer bid	(63,600)	(524)
Outstanding April 25, 2003	10,235,804	84,268
Exercise of employees' options	62,559	340
Employee stock purchase plan	36,298	158
Purchases under normal course issuer bid	(25,700)	(210)
Outstanding April 23, 2004	10,308,961	\$ 84,556

During the third quarter of fiscal 2004, the Company began a normal course issuer bid, as approved by the Toronto Stock Exchange. Under the terms of the normal course issuer bid, the Company has the right to purchase up to a maximum of 200,000 common shares (representing 1.94% of the issued and outstanding common shares of the Company as at December 19, 2003). During fiscal year 2004, the Company repurchased 25,700 common shares (2003 – 63,600) in accordance with the normal course issuer bid for a total cost of \$267,000 (2003 – \$524,000). Of this amount paid, \$57,000 was charged to contributed surplus as a premium (2003 – \$328,000 charged to retained earnings as a premium) on redemption of common shares, with the balance charged to share capital. All repurchased shares were cancelled.

Employee Stock Purchase Plan

Effective December 22, 1998, the Company instituted an Employee Stock Purchase Plan program ("ESPP") 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 deduction. The shares are not considered to be issued by the Company until the end of the six month period. During fiscal 2004, 36,298 (2003 – 66,982) common shares were issued as part of the ESPP. As at April 23, 2004 \$80,000 (2003 – \$141,000) were committed under the ESPP but the shares were unissued. This amount is presented as part of cash and cash equivalents on the Consolidated Balance Sheet.

Employee Stock Option Plans

Upon becoming a public company, MOSAID established an Employee and Director Stock Option Plan (the "Plan"). Under the Plan, the Company may grant up to 1,407,231 options, of which 1,022,455 are outstanding at April 23, 2004. The exercise price is to be fixed by the Compensation Committee but shall not be lower than the market price at the date of grant. Options granted under the plan expire within a period of six years of granting, with vesting periods determined by the Compensation Committee.

A summary of the status of the Company's fixed stock option plans as of April 23, 2004 and April 25, 2003 and changes during the years ending on those dates is presented below:

	2004		2003	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at start of the year	1,238,733	\$ 12.46	1,339,376	\$ 12.89
Granted	302,741	\$ 10.55	41,430	\$ 6.08
Exercised	(62,559)	\$ 5.44	(2,725)	\$ 4.01
Forfeited	(456,460)	\$ 14.15	(139,348)	\$ 14.42
Outstanding at end of year	1,022,455	\$ 11.57	1,238,733	\$ 12.46
Options exercisable at year-end	605,634	\$ 12.45	795,358	\$ 12.48

FY04

Options Outstanding

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 3.90 – \$ 5.95	114,195	1.55	\$ 4.42
\$ 6.06 – \$ 6.06	1,500	4.44	\$ 6.06
\$ 10.25 – \$ 13.90	664,044	3.96	\$ 10.85
\$ 16.35 – \$ 24.35	242,716	1.84	\$ 16.94
\$ 3.90 – \$ 24.35	1,022,455	3.19	\$ 11.57

Options Exercisable

Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
\$ 3.90 – \$ 5.95	90,986	\$ 4.12
\$ 6.06 – \$ 6.06	375	\$ 6.06
\$ 10.25 – \$ 13.90	272,907	\$ 11.27
\$ 16.35 – \$ 24.35	241,366	\$ 16.94
\$ 3.90 – \$ 24.35	605,634	\$ 12.45

FY03

Options Outstanding

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 3.90 – \$ 5.70	165,600	2.1	\$ 4.37
\$ 6.05 – \$ 9.05	28,600	3.2	\$ 7.63
\$ 10.50 – \$ 15.00	631,726	3.6	\$ 11.71
\$ 16.00 – \$ 23.50	409,807	2.8	\$ 17.07
\$ 31.00 – \$ 31.00	3,000	3.9	\$ 31.00
\$ 3.90 – \$ 31.00	1,238,733	3.1	\$ 12.46

Options Exercisable

Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
\$ 3.90 – \$ 5.70	129,634	\$ 4.03
\$ 6.05 – \$ 9.05	14,525	\$ 7.41
\$ 10.50 – \$ 15.00	352,342	\$ 11.88
\$ 16.00 – \$ 23.50	297,357	\$ 17.04
\$ 31.00 – \$ 31.00	1,500	\$ 31.00
\$ 3.90 – \$ 31.00	795,358	\$ 12.48

8. 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. The shares are purchased at a 10% discount from the lower of the fair market value at the beginning of the plan and the end of the plan. 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 Compensation Committee.

CICA 3870 requires pro forma disclosures of the net income (loss) and earnings (loss) per share, as if a fair value based method of accounting had been applied. The disclosures in the following table show the Company's net loss and loss per share on a pro forma basis using the fair value method, amortized on a straight line basis over the vesting period, as determined using the Black-Scholes option pricing model:

		2004	2003
Net loss	As reported	\$ (8,581)	\$ (19,897)
	Pro forma	\$ (8,907)	\$ (20,053)
Basic and diluted loss per share	As reported	\$ (0.83)	\$ (1.94)
	Pro forma	\$ (0.86)	\$ (1.96)

The weighted average fair value of options granted during the year was calculated as follows using the Black-Scholes option pricing with the following assumptions:

	2004	2003
Risk free interest rate	3.8%	4.78
Expected life in years	4.6	4.6
Expected dividend yield	—	—
Volatility	97.11%	90.72%

9. Research and Development

Investment tax credits were applied to reduce current research and development expenses in the statements of earnings and retained earnings as summarized below.

	2004	2003
Total current research and development	\$ 6,218	\$ 9,470
Less: Investment tax credits	—	(593)
Net research and development	\$ 6,218	\$ 8,877

As part of a Research and Development Contribution Agreement with the Government of Canada, the Government contributed \$6.2 million, during fiscal years 1999–2001, towards research and development work. The terms of the Agreement require the Company to pay royalties to the government based upon the revenues of the resulting products, for a period extending no later than March 31, 2011. During the year-ended April 23, 2004, the Company recorded repayments in the amount of \$236,000 (2003 – \$192,000). To date, the Company has recorded repayments in the amount of \$1,236,000.

10. Restructuring

The restructuring charge during fiscal 2003 represents severance and other related payments to terminated employees, the write-down of inventory and capital assets, contract settlement costs related to the termination of products under development and other related costs.

During fiscal 2004, the Company reviewed the remaining balance of the provision and determined that an amount of \$288,000 should be reversed through the income statement as a restructuring reversal.

	2004	2003
Severance and related payments	\$ (209)	\$ 2,933
Write-down of capital assets and contract settlement costs related to cancellation of products under development	21	365
Other related costs	\$ (100)	80
	\$ (288)	\$ 3,378

At year-end, the remaining unpaid balance of the provision was \$120,000 (2003 – \$2,328,000), of which \$120,000 (2003 – \$2,261,000) is scheduled to be paid next year.

11. Income Taxes

The following are components of the provision for income taxes for the fiscal years ended:

	April 23, 2004	April 25, 2003
Current	\$ 817	\$ 2,424
Future	(19)	(1,067)
	\$ 798	\$ 1,357

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to income before taxes for the following reasons:

	2004	2003
Loss before income tax expense	\$ (7,783)	\$ (18,540)
Combined basic Canadian Federal and Provincial income tax at 36.45% (2003 – 37.95%)	(2,837)	(7,036)
Increase (decrease) resulting from:		
Manufacturing credit	236	732
Tax rate differential on foreign income	12	118
Unrecorded tax loss carry-forwards	2,550	4,638
Increase in future income tax valuation allowance	–	799
Permanent difference relating to foreign withholding taxes	1,086	2,077
Other	(249)	29
	\$ 798	\$ 1,357

Future income taxes consist of the following temporary differences:

	2004	2003
Investment tax credits	\$ 4,419	\$ 4,419
Reserves deductible in future periods	269	269
Unclaimed research and development expenses	6,080	6,080
Loss carryforwards to reduce future taxable income	912	1,595
Difference between tax and book value of capital assets	345	345
	\$ 12,025	\$ 12,708

12. Discontinued Operations

During fiscal 2004, the Company announced the closure of its fabless semiconductor operation and the creation of a design licensing group in its Intellectual Property Division. Accordingly, the results of operations of the Semiconductor Division have been segregated in the accompanying consolidated financial statements. The result of discontinued operations are as follows:

	2004	2003
Revenues		
Operations	\$ 48	\$ 194
Expenses		
Labour and materials	17	34
Research and development	3,175	15,111
Selling and marketing	460	1,507
Bad debts (recovery)	–	(108)
Restructuring	4,061	3,140
	7,713	19,683
Discontinued operations (net of tax)	\$ (7,665)	\$ (19,490)

The restructuring charge represents severance and other related payments to terminated employees, the write-down of inventory and capital assets and other related costs.

At year-end, the remaining unpaid balance of the provision was \$448,000 (2003 – \$2,037,000), of which \$419,000 (2003 – \$1,584,000) is scheduled to be paid next year.

13. Loss Per Share

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

	2004	2003
Net loss	\$ (8,581)	\$ (19,897)
Weighted average number of common shares outstanding	10,300,763	10,238,808
Effect of dilutive stock options ¹	–	–
Weighted average number of common shares outstanding – dilutive	10,300,763	10,238,808
Basic loss per common share	\$ (0.83)	\$ (1.94)
Diluted loss per common share	\$ (0.83)	\$ (1.94)

¹ For FY2004 and FY2003, excludes the effect of 1,058,753 (2003 – 1,305,715) options and unissued ESPP shares as they are anti-dilutive due to the loss.

14. Changes in Non-Cash Working Capital Items

	2004	2003
Decrease (increase) in current assets		
Accounts receivable	\$ 1,615	\$ (2,616)
Inventories	316	964
Prepaid expenses	492	150
	2,423	(1,502)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	(4,995)	2,889
Deferred revenue	606	(16)
	\$ (1,966)	\$ 1,371
	2004	2003
Interest and income taxes paid		
Interest paid	\$ 415	\$ 431
Taxes paid	\$ 817	\$ 241

15. Financial Instruments

The Company uses financial instruments, principally forward exchange contracts, in its management of foreign currency exposures. These contracts primarily require the Company to purchase and sell certain foreign currencies with or for Canadian dollars at contractual rates.

At year-end, the Company had committed to sell by October, 2004 to various financial institutions US \$5,000,000 in exchange for Canadian dollars at an average rate of 1.3179. The unrecognized foreign exchange loss based on market forward rates as at April 23, 2004 was \$6,000 (2003 – \$85,000).

During the year, the Company recorded a foreign exchange gain of \$320,000 (2003 – foreign exchange loss of \$349,000).

Canadian chartered banks are counterparties to the Company's forward exchange contracts. It is Company practice to monitor the financial standing of the counterparties and limit the amount of exposure to any one institution. The Company may be exposed to a credit loss in the event of non-performance by the counterparties to these contracts, but does not anticipate such non-performance.

With respect to accounts receivable, credit risk is limited through the use of export insurance and letters of credit.

16. 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 memory intellectual property.

Systems: A supplier of engineering memory test and analysis systems to memory manufacturers, foundries and fabless chip companies.

The significant accounting policies of the above segments are the same as those described in Note 1. Inter-segment 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 interest revenue, foreign exchange gains or losses, gains or losses on long-term assets or income tax expense in the determination of operating segment profit.

FY04

	IP Division	Systems Division	Unallocated Amounts	Before Discontinued Operations	Discontinued Operations	Totals
Revenues	\$ 12,084	\$ 16,333	\$ 979	\$ 29,396	\$ 48	\$ 29,444
Segment profit (loss)	\$ (1,134)	\$ 467	\$ (249)	\$ (916)	\$ (7,665)	\$ (8,581)
Segment capital assets	\$ 238	\$ 1,075	\$ 7,795	\$ 9,108	\$ –	\$ 9,108
Expenditures on segment assets	\$ 7	\$ 373	\$ 79	\$ 459	\$ 474	\$ 933
Amortization and write-down of capital assets	\$ 276	\$ 1,247	\$ 687	\$ 2,210	\$ 3,010	\$ 5,220

FY03

Revenues	\$ 22,897	\$ 13,977	\$ 1,107	\$ 37,981	\$ 194	\$ 38,175
Segment profit (loss)	\$ 14,105	\$ (12,962)	\$ (1,550)	\$ (407)	\$ (19,490)	\$ (19,897)
Segment capital assets	\$ 10	\$ 1,957	\$ 8,511	\$ 10,478	\$ 2,924	\$ 13,402
Expenditures on segment assets	\$ 12	\$ 810	\$ 104	\$ 926	\$ 1,384	\$ 2,310
Amortization and write-down of capital assets	\$ 11	\$ 1,953	\$ 997	\$ 2,961	\$ 4,651	\$ 7,612

Revenues are attributed to countries based upon the location of the customer.

FY04	Revenue from Operations	Capital Assets
Japan	\$ 11,098	\$ –
Korea	6,557	–
USA	1,416	186
Taiwan	6,925	–
Canada	–	8,922
Europe	2,004	–
Other	417	–
	\$ 28,417	\$ 9,108

FY03

Japan	\$ 21,479	\$ –
Korea	3,609	–
USA	5,049	1,178
Taiwan	4,936	–
Canada	(7)	17,895
Other	1,808	–
	\$ 36,874	\$ 19,073

In fiscal year 2004, revenue from three of the Company's customers amounted to more than 10% of consolidated revenue from operations. Revenue from one customer was 31.3%, revenue from another was 11.9% and revenue from the third was 11.0%.

In fiscal year 2003, revenue from two of the Company's customers amounted to more than 10% of consolidated revenue from operations. Revenue from one customer was 37.7% and revenue from the other was 12.7%.

17. Contingency

As at April 23, 2004, the Company had outstanding letters of guarantee totaling \$163,000 (2003 – \$253,000).

The Company enters into standard design and license agreements in the ordinary course of business. Although the Company does not indemnify most of its customers, there are times when an indemnification is a necessary means of doing business. Indemnifications cover customers for losses suffered or incurred by them as a result of any patent infringement claim by any third party with respect to the Company's products or services. The maximum amount of indemnification the Company could be required to make under these agreements is generally limited to a portion of any license fees received or royalty payments yet to be received by the Company. The Company estimates the fair value of its indemnification obligation as insignificant, based upon its history of litigation concerning product and patent infringement claims. Accordingly, the Company has no liabilities recorded for indemnification under these agreements as of April 23, 2004.

18. Future Changes to Accounting Pronouncements

Hedging Relationships

Effective April 24, 2004, the Company adopted Accounting Guideline 13, *Hedging Relationships* ("AcG-13"). AcG-13 establishes new criteria for hedge accounting and will apply to all hedging relationships in effect for fiscal years beginning on or after July 1, 2003. To qualify for hedge accounting, the hedging relationships must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The Company will comply with the requirements of AcG-13, such that any hedging relationships entered into will qualify for hedge accounting when the guideline becomes effective. All outstanding hedges that previously qualified for hedge accounting continue to qualify for hedge accounting.

Stock-based compensation and other stock-based payments

Effective April 24, 2004, the Company adopted the fair value provisions in Handbook Section 3870, *Stock-based compensation and other stock-based payments*, on a retroactive basis. The recommendation requires the use of a fair value method for all awards to both employees and non-employees. Using the Black-Scholes option pricing model and amortizing the fair value on a straight-line basis, over the vesting period, the Company expects the following:

- increase in deficit, end of year fiscal 2003 by approximately \$156,000
- increase in compensation cost during fiscal 2004 by approximately \$326,000

19. Comparative Amounts

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

SHARE INFORMATION

Market Listing

Toronto Stock Exchange Symbol: MSD

Weighted average number of shares year ended April 23, 2004

Basic	10,300,763
Diluted	10,300,763

Share trading information

Fiscal Year 2004

TSX (Cdn \$)	High	Low	Closing	Volume
First quarter ended July 25, 2003	\$ 9.65	\$ 6.22	\$ 7.20	1,897,606
Second quarter ended October 24, 2003	\$ 9.95	\$ 6.85	\$ 8.84	969,638
Third quarter ended January 23, 2004	\$14.86	\$ 8.55	\$13.93	1,270,332
Fourth quarter ended April 23, 2004	\$15.44	\$ 9.10	\$10.80	1,488,461
Total				5,626,037

Fiscal Year 2003

TSX (Cdn \$)	High	Low	Closing	Volume
First quarter ended July 26, 2002	\$ 9.50	\$ 6.35	\$ 7.03	3,259,748
Second quarter ended October 25, 2002	\$ 7.22	\$ 5.15	\$ 5.70	3,259,125
Third quarter ended January 24, 2003	\$ 8.15	\$ 5.70	\$ 6.45	1,601,056
Fourth quarter ended April 25, 2003	\$ 6.81	\$ 4.66	\$ 6.81	1,204,271
Total				9,324,200

**Board of Directors
and Officers:**

Thomas I. Csathy ^{1,2,3}
Chairman of the Board
Director

George J.J. Cwynar
President and
Chief Executive Officer
Director

Richard D. Boadway
Executive Vice President
and Chief Financial Officer
Director

Dr. John B. Millard ^{1,2,3}
President, Millard Enterprises
Director

Donnie M. Moore ^{1,2,3}
Consultant
Director

Deborah L. Weinstein
Partner, LaBarge Weinstein
Director

G. Glenn Evans
Senior Vice President,
General Manager, Systems Division

Peter B. Gillingham
Vice President, General Manager,
Intellectual Property Division

James D. Skippen
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Licensing and General Counsel

¹ Audit Committee, ² Governance and Nominating Committee, ³ Compensation Committee

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Stock Exchange Listing:

MOSAID Technologies Incorporated is listed on the Toronto Stock Exchange. The trading symbol is MSD.

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Investor Relations

Persons interested in receiving
financial information on the
Company should direct inquiries to:
MOSAID Investor Relations
11 Hines Road
Kanata, Ontario
K2K 2X1
Email: ir@mosaid.com

**Annual Meeting of
Shareholders:**

The Annual Meeting of Shareholders will be held Friday, September 17, 2004 at 10:30 a.m. at MOSAID headquarters: 11 Hines Road, Kanata, Ontario, K2K 2X1. All shareholders and others interested in the Company are invited to attend.

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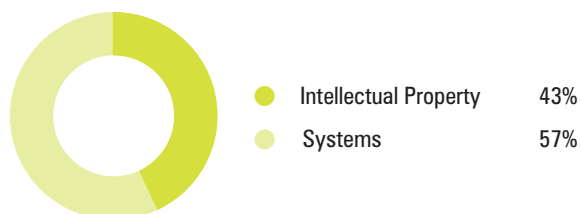
Design: www.RicochetCreativeThinking.ca ++ Photography: Dwayne Brown Studio ++ Printing: Gilmore

FINANCIAL HIGHLIGHTS

(In thousands, except share data)

	April 23, 2004	April 25, 2003
Revenues	\$29,396	\$37,981
Income from operations	619	1,894
Loss before discontinued operations	(916)	(407)
Net loss	(8,581)	(19,897)
Loss per share (\$)		
Basic – before discontinued operations	(0.09)	(0.04)
Diluted – before discontinued operations	(0.09)	(0.04)
Basic – net loss	(0.83)	(1.94)
Diluted – net loss	(0.83)	(1.94)
Weighted average number of shares		
Basic	10,300,763	10,238,808
Diluted	10,300,763	10,238,808
Year ended	April 23, 2004	April 25, 2003
Working capital	\$38,736	\$40,954
Revenue per employee from continuing operations	439	414
Shareholders' equity	55,724	64,074

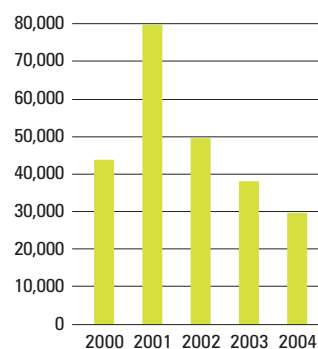
Revenues by Division (Fiscal 2004)



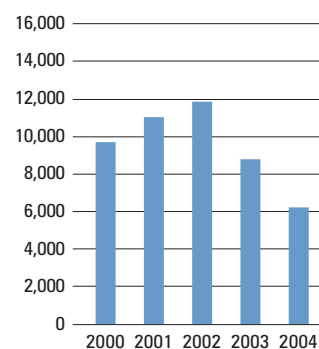
Revenues by Country (Fiscal 2004)



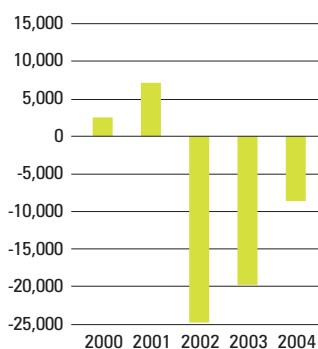
Revenues* (in thousands)



R & D* (in thousands)



Net Earnings (in thousands)



*from continuing operations

we make memory better.



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