



MOSAID annual report 2007

focused

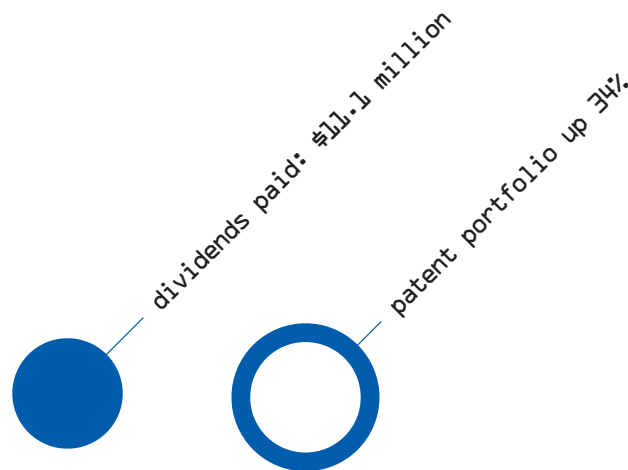
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Focused:

MOSAID develops
and licenses
intellectual
property.

Letter to Shareholders



Dear fellow shareholders:

It gives us great pleasure to write our first Letter to Shareholders in our roles as MOSAID's new Chairman of the Board of Directors and new President and Chief Executive Officer. The theme for the 2007 Annual Report is "focused" because this single word best captures the culmination of a period of dramatic change for your Company. A year ago, MOSAID was operating in three different areas: patent licensing, memory test equipment manufacturing (the Systems Division), and Semiconductor IP product development. For several years, only patent licensing had been delivering consistent revenue and profit growth, and the impact was a dilution of MOSAID's resources. After significant restructuring, MOSAID is now moving forward as a pure-play intellectual property company focused on patent licensing and the development of innovative memory technology. Equally pleasing to us is that in this watershed year, MOSAID is reporting the best financial operating results in its 32 year history.

We enter fiscal 2008 on solid financial ground with sound strategic and operational plans, a new management team, a streamlined organizational structure, and a dedicated team of ambitious employees. Reflecting our new structure, MOSAID's financial statements now report the Systems Division and the Semiconductor IP product businesses as discontinued operations, leaving the patent licensing business, including memory technology R&D, as MOSAID's sole ongoing operation.

Record financial operating results

Revenues for fiscal 2007 were \$60 million, up 56% from \$38.5 million in fiscal 2006. Income before discontinued operations in fiscal 2007 was \$20.5 million, up 40% from \$14.6 million the year before. Net income for fiscal 2007, which includes a \$4.2 million contribution from discontinued operations, was \$24.7 million or \$2.18 per diluted share, up 60% from net income of \$15.5 million or \$1.34 per diluted share in fiscal 2006.

In fiscal 2006, MOSAID declared its first-ever quarterly dividend of \$0.125 per share and by year end

had raised the dividend to \$0.25 per share, resulting in dividend payments totaling \$7.5 million. In fiscal 2007, MOSAID maintained its \$0.25 per share quarterly dividend and paid a total of \$11.1 million to shareholders. MOSAID will continue to pay quarterly dividends to shareholders in fiscal 2008.

A year of change

In fall 2006, a proxy contest resulted in the expansion of the Board and the formation of a Special Committee of the Board to oversee MOSAID's strategic alternatives initiative, which was established to examine the optimum business direction for the Company. Subsequent restructuring proceeded on two fronts: divesting non-core assets, while investing in additional patent assets and memory technology to drive forward MOSAID's licensing programs.

In February 2007, we sold certain assets of the Systems Division to Teradyne, Inc. for \$20 million in cash, then closed the business after arranging for customer support through EPM Test Incorporated, a new company founded by former MOSAID employees. Subsequent to year end, in July 2007 we signed an agreement to sell certain assets of our Semiconductor IP product business to Synopsys, Inc. for approximately \$15 million in cash.

Patent licensing success

MOSAID has achieved remarkable success in licensing its Dynamic Random Access Memory (DRAM) technology to the world, having signed 16 patent licensing agreements since 1999. In fiscal 2007, MOSAID signed a patent licensing agreement with Infineon Technologies AG and Qimonda AG and also entered into litigation with Micron Technology, Inc., ProMOS Technologies, Powerchip Semiconductor Corporation and Mosel Vitelic Corporation, companies representing virtually all of the global DRAM market not yet licensed to MOSAID's patents. In June 2007, MOSAID licensed its patent portfolio to Etron Technology, Inc., the first fabless semiconductor company to license MOSAID's portfolio.

These developments made it clear that MOSAID's DRAM-based patent licensing activity was approaching

Best operating results in 32-year history

the peak of its current cycle and that we needed to prepare a stronger foundation for the next stage of revenue growth. In fiscal 2007, we expanded our patent assets using a tripartite strategy: through patent acquisitions, patent licensing partnerships, and patents obtained on internally developed technology. By year end, MOSAID's patent portfolio reached 784 patents and applications, up 34% from a year ago, not including patents for which we have exclusive sub-licensing rights but do not hold title.

Our most significant transaction was acquiring a portfolio of 20 wireless patents and three patent applications from Agere Systems Inc., now LSI Corporation (LSI), which laid the foundation for a new wireless licensing program. MOSAID has informed more than 20 companies of its ownership of these patents and is actively corresponding with most of these companies. We anticipate signing our first wireless licensing agreement in fiscal 2008, and are confident that these patents will deliver licensing revenues well in excess of those achieved by MOSAID's memory patents.

MOSAID also entered into agreements to become the exclusive licensee with sub-licensing rights for two significant patent portfolios. Our agreement with the California Institute of Technology gives MOSAID exclusive rights to certain patents relating to technologies used in wireless communications chips and systems, power management chips, and light emitting diodes. We then announced an agreement with LSI, giving MOSAID exclusive rights to license a portfolio of more than 50 LSI patents relating to memories, digital signal processors and other technology. These agreements strengthen our existing semiconductor portfolio and open up new licensing opportunities in new markets.

Generating patents on internally developed technology is the third part of our patent portfolio expansion strategy. We recently introduced HyperLink NAND (HLNAND™), a new Flash memory architecture and interface that helps solve a key engineering challenge: how to overcome performance degradation and reliability issues that are hampering the use of NAND Flash memory in emerging Flash applications such as solid state drives, which are poised to replace today's magnetic, rotating hard

disk drives. We have already filed 42 patent applications on HLNAND, and our goal is to encourage its adoption by licensing the architecture to the manufacturers of memory chips and controllers.

The next phase of growth

Fiscal 2007 was a year of fundamental transition, during which we delivered record financial operating results while beginning to build the "new" MOSAID. We view fiscal 2008 as a critical foundation year for the next wave of growth, based on a broader and stronger patent portfolio.

Building a successful patent licensing business depends on having the right patent assets that are managed by highly trained professionals with sufficient resources to close licensing agreements, whether by negotiation or litigation. This year, while we work to sign new patent licensing agreements, we will consider additional patent acquisitions and patent partnerships while continuing to develop our own memory technology as a source of new patents. We are committed to seeing MOSAID realize its goal of building a strong, focused intellectual property company that can deliver sustainable, high net income growth.



A handwritten signature in black ink, appearing to read "John Lindgren".

John Lindgren
President and Chief Executive Officer



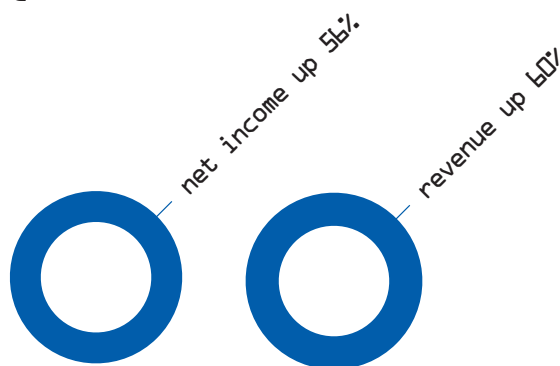
A handwritten signature in black ink, appearing to read "Carl P. Schlachte".

Carl Schlachte
Chairman of the Board

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



Joseph R. Brown,
Executive Vice President and
Chief Financial Officer



Introduction

This discussion and analysis is dated July 27, 2007. It should be read in conjunction with the audited consolidated financial statements and notes thereto for MOSAID Technologies Incorporated (the Company or MOSAID) for the fiscal year ended April 30, 2007, as well as with Management's Discussion and Analysis (MD&A) for the Company's audited consolidated financial statements and notes for the prior year. Unless otherwise stated, all amounts are in Canadian dollars.

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

Forward-looking Information Statements in MD&A

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

- MOSAID's continued expansion of its patent portfolio and of its opportunities for future patent licensing revenue as a result of MOSAID's acquisition of patents from third parties and from development of new inventions;
- semiconductor and wireless product vendors continuing to infringe MOSAID's patents;
- the timing and amount of MOSAID's litigation expenses;
- MOSAID's ability to sign new licensees;
- current assumptions as to the identification of products that are unlicensed to MOSAID's wireless patents; and
- the timing and amount of MOSAID's Research and Development expenses.

MOSAID moves forward with a clear focus.

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

- MOSAID's ability to negotiate settlements with licensees;
- legal rulings and/or regulatory investigations or complaints having an adverse impact on the validity, enforceability, potential royalty rates, and strength or breadth of coverage of MOSAID's essential and/or nonessential patents (including, but not limited to, adverse results from litigation or proceedings in patent offices and government regulatory agencies in various countries around the world);
- judicial, legislative or regulatory changes that impair the ability of patent holders to earn licensing revenues;
- economic, social, and political conditions in the countries in which MOSAID or patent licensees operate, including security risks, health conditions, possible disruptions in transportation networks and fluctuations in foreign currency exchange rates;
- non-payment or delays in payment by licensees;
- variability in patent licensees' sales of licensed products, failure to maintain and enforce MOSAID's existing patent portfolio, or failure to obtain valuable patents as a result of research and development activities, or failure to acquire valuable patents from third parties;
- MOSAID's ability to recruit and retain skilled personnel;
- change in MOSAID's financial position;
- consolidation of MOSAID's licensees;
- natural events, such as severe weather and earthquakes in the locations in which MOSAID or patent licensees operate;
- changes in the tax rate applicable to MOSAID as the result of changes in the tax law in the jurisdictions in which profits are determined to be earned and taxed, the outcome of tax audits and the ability to realize deferred tax assets; and

- adverse impacts of the current strategic alternatives initiative on employee morale, or management's capacity to focus on business execution.

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

Vision, Core Businesses and Strategy

Vision

The Company's vision is to be a global leader in intellectual property licensing, focused on the licensing and development of semiconductor and communications technologies.

Core Business

At the beginning of fiscal 2007, MOSAID was operating in three different areas: patent licensing; the design, manufacture and sale of engineering memory test equipment through the Systems Division; and the design and licensing of logic and memory-related Semiconductor Intellectual Property (Semiconductor IP) circuit blocks through the Company's Semiconductor IP product business. During the year, MOSAID established a strategic alternatives initiative to examine the optimum business direction for the Company, and subsequently decided to restructure as a pure-play intellectual property (IP) company focused on a single core business: patent licensing with memory technology research and development (R&D).

To achieve this goal, in February 2007, MOSAID sold certain assets of its Systems Division to Teradyne, Inc. for

\$20 million and then as planned, exited the business. In April 2007, MOSAID announced a strategic review of its Semiconductor IP product business and subsequent to year end, in July 2007 signed an agreement to divest certain assets of this business for approximately US\$15 million to Synopsys, Inc., and will exit this business. Reflecting this new structure, MOSAID's financial statements report the Systems Division and Semiconductor IP product business as discontinued operations. The Company's sole ongoing operation is now its patent licensing business, complemented by memory technology R&D.

Operationally, MOSAID conducts its business through its Patent Licensing Group, consisting of the Semiconductor Licensing Team, the Wireless/Wireline Licensing Team, the Patent Acquisition Team, the Patent Administration Team, and the Technology R&D Group. The primary mandate of the Licensing teams is to monetize the patent portfolio assets by entering into patent licensing agreements with third parties. The mandate of the Patent Acquisition and Administration teams is to evaluate and acquire new patents and maintain existing patent filings. The primary mandate of the Technology R&D group is to generate patented technology for future benefit to the Company.

MOSAID will pursue licensing opportunities through two licensing programs, Semiconductor Licensing Program and the Wireless/Wireline Licensing Program. These two licensing programs, operating in parallel, have the potential to significantly surpass the Company's licensing successes to date.

The Semiconductor Licensing Program focuses on licensing MOSAID's memory portfolio and other semiconductor patents. Under this program, the Company continues to license DRAM vendors and is preparing for license agreement renewals with its major semiconductor licensees. MOSAID will also seek to license the additional portions of its portfolio that are applicable to semiconductor devices. In addition, MOSAID has acquired rights to patents applicable to Digital Signal Processors (DSPs), Application Specific Integrated Circuits (ASICs), and other semiconductor technologies.

The Wireless/Wireline Licensing Program was established in fiscal 2007 with the acquisition of a portfolio of 20 wireless patents and three patent applications from Agere Systems Inc. (Agere), now LSI Corporation (LSI). As part of this program, MOSAID will continue to license the wireline networking patents already in its portfolio.

Since its founding in 1975, continual innovation in semiconductor technology has strengthened MOSAID's patent portfolio. The Company's patented DRAM and embedded DRAM inventions were widely adopted throughout the DRAM industry and became a key source of licensing revenue for MOSAID, as has more recent activity in developing Double Data Rate (DDR)

Synchronous DRAM (SDRAM) memory and controller applications. Going forward, the goal of MOSAID's Technology R&D Group is to generate patents, which may result in future licensing revenues, based on inventions in advanced semiconductor memory technology.

The Company's headquarters are located in Ottawa, Ontario, Canada.

Strategy

MOSAID intends to drive revenue and profit growth by pursuing the following strategies:

1. Continue to license the remainder of the global DRAM industry to MOSAID's patented technology. The Company estimates that it has licensed approximately 80% of the DRAM industry.
2. Enter into new markets that provide the Company with licensing opportunities.
3. Continue to assess or 'mine' the existing patent portfolio for licensing opportunities in embedded DRAM, semiconductor, wireless and wired communications applications.
4. Continue to return value to shareholders through a balance of reinvestment in the business, operational performance, dividends, and/or other appropriate methods.

The Company's ability to drive revenue growth by renewing existing patent licensing agreements and entering into new agreements depends, to a great extent, on its ability to continually strengthen and broaden its portfolio of patent assets. MOSAID is strengthening its patent portfolio through a three-part strategy:

- by selectively acquiring new patents in technology areas that supplement or complement the Company's current focus on semiconductor and wireless/wireline technologies;
- by entering into new licensing partnerships, or expand existing partnerships, to further extend the technological and geographic reach of its licensing programs; and
- by developing and filing patent applications on internally developed memory technology in order to yield new patents.

As a result of pursuing this strategy, MOSAID's patent portfolio, including both patents to which the Company holds title as well as patents to which the Company does not hold title but controls all licensing rights, changed significantly in the past year. During fiscal 2007 the Company began to diversify and expand its portfolio beyond the DRAM and wired networking markets, and can now address significant new semiconductor markets. MOSAID has new wireless communications licensing opportunities in market segments such as handheld devices, notebook computers, gaming consoles and wireless

routing equipment. Also, MOSAID filed a number of patent applications relating to its HLNAND™ Flash memory technology.

MOSAID's strategy includes continuing to mine its portfolio to identify additional patent families that are being used in targeted market segments. MOSAID's ability to uncover additional market adoption of its patented inventions, using patent and infringement analytical techniques, sets the Company apart from many other licensing organizations. Based on this mining activity, MOSAID expects to identify new key patent families in the future.

As part of this patent mining activity, MOSAID may periodically identify non-core patents that it may sell or exchange for other patent holdings that better fit the Company's licensing plans. There is a rapidly developing market for buying and selling patents, in which MOSAID has begun to participate and anticipates becoming more active, as it refines and strengthens its portfolio to ensure greater licensing success in targeted market segments.

A significant element of MOSAID's strategy to enforce its intellectual property rights is engaging in vigorous litigation, if required.

Key Performance Drivers

Markets

The Company's licensing performance is driven by its ability to license intellectual property into the following markets:

- DRAM
- Pseudo SRAM (PSRAM)
- Complementary Metal Oxide Semiconductor (CMOS) image sensors
- Microcomponents – microprocessors, microcontrollers, DSPs
- Wireless and wireline Application Specific Standard Products (ASSPs) and ASICs
- NAND Flash memory

The following table shows the actual and anticipated growth rates in the Company's target markets.

\$B (U.S.)	2005 (Actual)	2006 (Actual)	2007 (Est.)	2008 (Est.)	2009 (Est.)	2010 (Est.)	2011 (Est.)	CAGR 2006–2011
DRAM	25.2	34.3	30.5	29.9	35.8	27.9	32.4	(1.1%)
Pseudo SRAM	1.2	1.7	1.7	1.8	1.8	1.5	1.4	(3.8%)
NAND Flash	12.0	13.6	14.2	18.9	21.1	20.0	20.0	8.0%
CMOS Image Sensors	2.8	3.7	4.2	4.8	5.2	5.9	6.3	11.6%
Microcomponents	48.6	46.5	46.6	50.0	53.0	54.7	55.9	3.8%
Wireless ASICs/ASSPs	24.2	28.3	29.3	31.0	32.3	34.6	38.5	6.4%
Wireline ASICs/ASSPs	8.4	9.3	9.6	10.5	11.0	11.8	12.3	5.8%

(sources: Gartner Dataquest, November 2006 and May 2007)

The DRAM market grew 36% in 2006 with strong demand and smaller than expected price declines. The market forecast for 2007 is for a decrease of 11%, mainly due to lower prices, with a return to growth in the market expected in 2009. The DRAM market has traditionally been quite volatile. This volatility is usually attributable to swings in worldwide DRAM manufacturing capacity that takes several years to come on-stream and that, historically, has not been practical to convert to the manufacture of other semiconductor products. This leads to periods of product oversupply and undersupply, resulting in price volatility. Recently, this volatility has been reduced somewhat with the growth of NAND Flash technology that does allow re-allocation of capacity between the technologies. In 2006 the NAND Flash market experienced severe price erosion that despite strong bit growth led to a revenue increase of just 14%. This market scenario is forecast to continue through 2007 with market growth of only 4%. Revenue for PSRAM, which is used in mobile handsets, grew by 36% to US\$1.7B in 2006. For 2007 through 2009 growth is expected to be in the 3%–4% range. Mobile handsets are the largest market for CMOS image sensors, a market that grew over 30% from 2005 to 2006.

In addition to the semiconductor markets listed above, the Wireless/Wireline Licensing Program will focus on licensing mobile wireless technology end products, including laptops, handsets, access points, and game consoles. According to Gartner Dataquest, from 2006 to 2011 the percentage of handsets with WiFi capability is projected to increase to over 30%, while 100% of notebook computers are expected to be WiFi-enabled. The overall handset market reached one billion units in 2006 with revenues of US\$145B. The notebook market was US\$86B. WiFi capability will also be added in products such as mobile printers, digital cameras and personal media players.

Financial Condition

Financial strength, measured in terms of a maintaining a solid balance sheet with strong cash reserves, is a critical element in MOSAID's ability to execute on its strategy of signing patent licensing agreements while simultaneously strengthening its patent portfolio through patent acquisi-

tions, entering into patent partnerships, and generating patents on internally developed technology.

Currently, the Company enjoys a multi-year base of predictable revenues, primarily as a result of signing fixed payment term licenses with DRAM vendors Samsung and Hynix in fiscal 2005 and Infineon/Qimonda in fiscal 2007.

Financial strength is important when MOSAID engages in litigation in order to enforce its intellectual property rights. Litigation costs are often significant. The Company believes that maintaining a substantial cash reserve is an important factor in convincing companies to enter into agreements and avoid protracted litigation.

License Renewal with Major DRAM Vendors

An important medium-term performance driver is MOSAID's ability to renew its existing licenses with the major DRAM manufacturers. These licenses come up for renewal in the 2010 to 2012 timeframe and the Company is actively preparing for these negotiations.

Professional and Systematic Approach to Patent Licensing

In the patent licensing area, a professional and systematic approach based on a solid understanding of the technology and market, close attention to patent administration, careful management of reverse engineering subcontractors, excellent infringement assessment and monitoring, fair and reasonable licensing practices, and a full commitment to successful litigation when necessary, have produced strong results and established the reputation of MOSAID's licensing programs. MOSAID will continue this approach as the Company expands into new market segments.

Advances in Technology

MOSAID has an excellent track record in anticipating and developing innovative memory technology solutions. The Company's patent portfolio reflects this ability to anticipate technology challenges and create solutions that become widely adopted. By maintaining an in-house R&D organization, MOSAID will retain a competitive technological edge over other licensing organizations, while continuing to contribute new solutions to the semiconductor industry.

In fiscal 2007, MOSAID attracted industry attention with its breakthrough HLNAND Flash memory architecture and interface, which has resulted in more than 40 patent applications. HLNAND is designed to improve performance in products that use Flash memory, including Solid State Drives (SSDs), Flash memory cards and USB Flash drives. The Company will encourage the widespread adoption of HLNAND by memory manufacturers,

offering licenses on favorable terms to the significant portfolio of patents covering this innovative technology.

Strategic Partnerships

The ability to form partnerships or other arrangements with third parties will be an increasingly important performance driver for the Company's licensing success over the long-term. Based on MOSAID's licensing success, third parties are increasingly interested in entering into licensing partnerships with the Company. In these arrangements, MOSAID licenses third party IP either separately or together with its own portfolio, and shares the royalty revenues with the third party. Through this licensing model, the Company gains cost-effective access to a wider variety of patent assets, thereby strengthening, diversifying and customizing its patent portfolio according to those technologies that are most relevant to its licensing roadmap.

In fiscal 2007, MOSAID entered into two important patent sub-licensing agreements that follow this model. MOSAID signed a patent licensing agreement with the California Institute of Technology (Caltech) to exclusively license certain Caltech patents relating to technology used in wireless communications chips and systems, power management chips and light emitting diodes. Subsequent to year end, MOSAID signed a 10-year patent licensing agreement with LSI, giving MOSAID the exclusive right to sub-license more than 50 LSI patents relating to memories, DSPs, microprocessors, ASICs, and semiconductor processing technologies.

The company anticipates entering into additional partnership and other similar arrangements in fiscal 2008.

Capability to Deliver Results

MOSAID believes it is well positioned to deliver continued strong financial performance due to its: strong and growing patent portfolio; professional and systematic approach to licensing intellectual property; management team; track record of granting patent licenses; and solid financial position.

Strength of Patent Portfolio and Ability to Derive Value from Patents

As a result of patent acquisitions, licensing partnerships and internal technology development, the Company's patent portfolio has continued to grow in numbers, technological diversity – primarily as a result of acquired wireless patents, sub-licensing agreements and internal R&D – and breadth of geographic coverage. As of April

30, 2007, MOSAID held title to 784 patents, issued or pending, compared with 585 at the end of fiscal 2006. The geographic and technological diversity of the portfolio helps to ensure that the Company will continue to be able to grant worldwide portfolio licenses.

Each of the sixteen companies that have signed license agreements with MOSAID sought and was granted a portfolio-wide license. Based on its DRAM portfolio, MOSAID has a number of companies on notice for infringement and is in active licensing discussions with several of them. To date, with respect to its wireless and wireline portfolio, the Company has informed more than 20 companies of its acquisition of the wireless patent portfolio from Agere/LSI and is in active discussions with several of them. MOSAID has also informed additional semiconductor companies of its recent exclusive license agreement with LSI, and is offering licenses to those patents.

Systematic Approach to Patent Licensing

The Company's approach to patent licensing is systematic and has historically been based on offering more favorable terms to earlier licensees. To convince companies to take a license, it is necessary to provide compelling evidence of infringement of a significant number of diverse patents. A company will consider taking a license typically if the infringement case and market exposure are sufficiently large to represent a significant risk should they continue using unlicensed patented technology, and if the licensing terms and conditions are fair and reasonable. Accordingly, MOSAID approaches potential licensees with multiple patent assertions while offering reasonable and competitive licensing terms and conditions. If licensing discussions are stalled or abandoned, MOSAID will pursue the protection of its intellectual property through vigorous litigation. Without the willingness and capability to enforce patent rights through the courts, a licensing program cannot gain respect and credibility. MOSAID understands this dynamic and is prepared to use the court system to protect its intellectual property rights.

Patent Administration

MOSAID's licensing success also depends on a strong record of patent administration (also known as patent prosecution), i.e. the process of filing and obtaining patents from official patent offices around the world. The Company protects an invention in the broadest sense over its entire useful life and dedicates significant effort to ensuring that filed patent applications reflect the high quality standards needed when proactively licensing such patented technology. MOSAID will maintain a carefully

balanced mix of internal and external patent administration resources to optimize patent quality.

Workforce and Management

MOSAID's workforce carries the proud tradition of 32 years of professional excellence and technological innovation. Inventiveness and market insight have made a potent combination, whether it is in sophisticated memory design or patent licensing. MOSAID employs individuals with unique skill sets and a proven ability to conclude patent license agreements. This is important since strong patents are only part of what is needed to derive substantial revenues from a patent portfolio. Having expertise in the relevant markets, patent portfolio development, patent licensing and litigation are as critical as having good patents. MOSAID's reputation and expertise, together with its proven ability to negotiate licensing agreements and litigate, if necessary, all contribute significantly to MOSAID's ability to deliver patent licensing results.

In fiscal 2007, MOSAID underwent a significant management restructuring, with the appointment of a new President and Chief Executive Officer who was formerly a licensing executive with Texas Instruments, and the promotion of long-serving MOSAID senior managers to the following positions: Vice President and Chief Financial Officer; Vice President, General Counsel and Corporate Secretary; Vice President, Licensing and Intellectual Property; and Vice President, Research and Development. Together with the Company's Vice President and Chief Technology Officer, this team – many of whom have played significant roles in the Company's licensing and innovation success to date – are well qualified to lead MOSAID forward as a pure-play intellectual property company.

Licensing Reputation

MOSAID is well known for developing and licensing innovative semiconductor memory technology. The Company's reputation as a major licensing organization has been secured by signing 16 patent licensing agreements covering approximately 80% of the global DRAM market since 1999. MOSAID has also developed a reputation for being fair and reasonable with companies showing a genuine interest in taking a license, while vigorously defending its patent rights through litigation, if necessary. The Company will continue to conduct its licensing activities guided by these principles.

Financial Strength

A strong financial position is an important underpinning for MOSAID's success. As a result of the progress in its patent licensing program, the Company has been able to raise funds in the capital markets, both in fiscal 2001 when

technology related financings were difficult to complete, and in fiscal 2005 with the equity investment by the Ontario Teachers' Pension Plan Board. Further, the signing of fixed payment and running royalty licenses in fiscal 2005, 2006 and 2007 strengthened MOSAID's financial position by ensuring predictable cash flows over the period of these licenses.

While the Company has incurred debt to finance certain patent acquisitions, it has attempted, to some extent, to match the debt period with the benefit period of the purchased assets and thereby minimize the impact to working capital. Notwithstanding the new debt, the Company continues to enjoy a very strong financial position.

In light of the strength of its financial position and the prospect of continued revenue growth, MOSAID's management declared, on June 23, 2005, the Company's first dividend and instituted a normal course issuer bid which resulted in the purchase and cancellation of approximately 4% of the outstanding shares of the Company. As the Company's financial performance improved in fiscal 2006, the dividend rate was increased, then increased again on June 22, 2006 to \$1.00 per share per year. A new normal course issuer bid program was also initiated at that time, to acquire up to an additional 4% of the outstanding shares of the Company. During fiscal 2007, the Company purchased and cancelled 375,400 shares, or approximately 3.3% of the 11,324,468 shares outstanding at the inception of the program, at an average cost of \$26.63 per share. In fiscal 2007, MOSAID maintained its dividend at \$1.00 per share per year.

Results

During the fourth quarter of fiscal 2007, MOSAID completed the sale of certain assets of its Systems Division test equipment business to Teradyne, Inc. and, as planned, exited the business. MOSAID also announced the focused strategic review of its Semiconductor IP product business and subsequently decided to divest the assets of this business. Accordingly, the financial results for both the Systems Division and Semiconductor IP product business have been reported as discontinued operations in the current and comparative periods, leaving the patent licensing business, including memory technology R&D, as the sole continuing operation.

Overall Performance

The principal elements of the Company's financial performance for fiscal 2007 are noted below. The table shows the structure of the Consolidated Statements of Operations for fiscal 2007 and fiscal 2006.

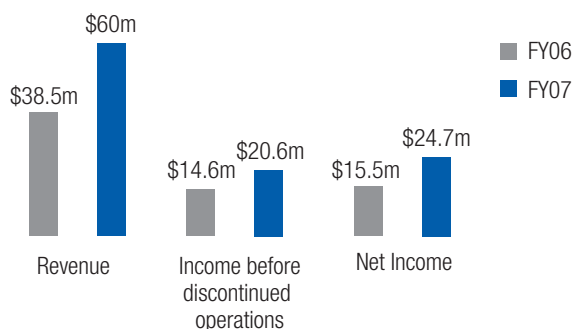
- Revenues increased by 56% to \$60.0 million in fiscal 2007 from \$38.5 million in fiscal 2006.
- Income from operations was \$31.3 million for fiscal 2007, compared to \$21.4 million for the prior year.
- Income before discontinued operations was \$20.5 million for fiscal 2007, compared to \$14.6 million for fiscal 2006.
- Discontinued operations, net of tax, produced a profit of \$4.2 million for fiscal 2007, compared to \$851,000 for fiscal 2006.

Business Structure

(Dollar amounts in thousands)

Year ended	April 30, 2007		April 30, 2006	
	\$	%	\$	%
Revenues	59,981	100	38,528	100
Expenses				
Research and development	7,335	12	4,169	11
Selling and marketing	8,928	15	6,351	16
General and administration	6,827	11	6,561	17
Restructuring	2,764	5	—	—
Special Committee	2,812	5	—	—
	28,666	48	17,081	44
Income from operations	31,315	52	21,447	56
Net interest income	2,399	4	1,422	3
Write-down of investment	—	—	67	—
Income before income tax expense and discontinued operations	33,714	56	22,802	59
Income tax expense	13,189	22	8,170	21
Income before discontinued operation	20,525	34	14,632	38
Discontinued operations (net of tax)	4,184	7	851	2
Net income	24,709	41	15,483	40

- Net income was \$24.7 million or \$2.18 per diluted share for fiscal 2007, compared to \$15.5 million or \$1.34 per diluted share for the prior year.
- Cash, cash equivalents and marketable securities decreased to \$50.3 million at April 30, 2007 from \$71.3 million at April 30, 2006.



Continuing Operations Overview

During fiscal 2007, the Patent Licensing Group was focused primarily on licensing MOSAID's semiconductor patent portfolio to semiconductor companies selling state-of-the-art DRAM chips or chips utilizing embedded memory. Over the last nine years the Patent Licensing Group has signed comprehensive patent licensing agreements with 16 leading electronics companies: Fujitsu Limited (Fujitsu), NEC Corporation (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), Koninklijke Philips Electronics N.V. (Philips), Samsung Electronics Co., Ltd. (Samsung) and Hynix Semiconductor Inc. (Hynix), an unnamed Taiwanese DRAM manufacturer, PortalPlayer Inc. (PortalPlayer), Infineon Technologies AG (Infineon) and its DRAM spin-off, Qimonda AG (Qimonda). Subsequent to year end, the Company executed a license with Etron Technology, Inc. (Etron).

Key FY07 Business Objectives

- Develop new markets through patent acquisitions and partnering with other companies.
- Build and strengthen MOSAID's portfolio of patents through R&D programs, patent mining and the acquisition of patent portfolios. Add appropriate levels of patent acquisition, analysis and reverse engineering staff.
- Continue to license the balance of the DRAM industry.
- Achieve significant progress in the litigation of patents.

Key FY07 Results

- Acquired 20 wireless patents and three patent applications from Agere/LSI, opening up exciting new market opportunities for the Company.
- Acquired 50 US patents and foreign counterparts from Infineon and Qimonda. The portfolio includes patents related to a range of technologies, including DRAM memory, power management ICs, semiconductor process technology and digital radio applications.
- Entered into an exclusive licensing agreement with Caltech, granting MOSAID exclusive licensing rights for several patents relating to wireless communications chips and systems, power management chips, and light emitting diodes (LEDs).
- Entered into an exclusive licensing agreement with LSI, granting MOSAID exclusive licensing rights for 50 US patents and foreign equivalents relating to memories, DSPs, and semiconductor processing technology.
- Acquired a portfolio of patents from a private company, relating to PSRAM technology.
- Unveiled HLNAND Flash, a breakthrough Flash memory architecture and interface that will dramatically improve the performance of computer products that use Flash memory, including SSDs, Flash memory cards and USB Flash drives.
- Settled all patent litigation with Infineon, whereby Infineon and Qimonda licensed the MOSAID patent portfolio.
- Initiated litigation against Micron Technology Inc., Powerchip Semiconductor Corporation and Promos Technologies for infringement of patents related to DRAMs, CMOS image sensors and PSRAMs. Later in fiscal 2007 Mosel Vitelic Inc. was added as a defendant.

Infineon Litigations

In February 2003, MOSAID filed a suit against Infineon in the U.S. District Court for Northern California (California Court) for infringement of seven of its United States patents from two patent families. The suit was in response to Infineon seeking a declaratory judgment from the California Court of non-infringement, invalidity and unenforceability with respect to MOSAID's patents. The seven patents covered by the Infineon complaint were the same seven patents that were the subject of MOSAID's lawsuit against Samsung in the District Court of New Jersey (New Jersey Court).

In March 2003, Infineon sought to have the Samsung and Infineon cases consolidated before the California Court 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 the

New Jersey Court. Fact discovery and the Markman hearing proceeded apace in the New Jersey Court. Judge Martini's Markman Order was issued on March 23, 2004, and, following expert witness testimony, the summary judgment hearing resulted in Judge Martini's ruling on April 4, 2005. The results of this ruling were mixed. The case then returned to the California Court for trial. However, based on a motion by the parties, the trial was not held. Instead, the parties agreed and petitioned the California Court to proceed immediately to appeal before the U.S. Court of Appeals (Appellate Court). On April 6, 2005, MOSAID initiated litigation against Infineon over the infringement of three other patent families in the U.S. District Court for the Eastern District of Texas (Texas Court), Tyler Division. This case was proceeding through the Texas Court system and was about to proceed with the Markman hearing, when the Texas Court instructed the parties to enter into mediation. While the mediation effort was not successful, there were enough constructive points tabled by both parties that, on May 31, 2006, they jointly asked the Texas Court to delay the Markman hearing while they proceeded to attempt to negotiate a settlement of all matters between them. A comprehensive license agreement was reached and announced on June 14, 2006.

On July 20, 2006, the parties' joint motion before the Appellate Court for remand to the California Court to permit consideration of the parties' joint request that the summary judgment and Markman orders be vacated was granted. In August 2006, Micron Technology, Inc. (Micron) and ProMOS Technologies (ProMOS) filed motions before the California Court to intervene or alternatively to appear as amici curiae. The California Court denied the motions to intervene, but granted the motions to appear as amici curiae in October 2006. In November 2006, Micron filed a notice of appeal with the Appellate Court appealing the order denying its motion to intervene. On February 5, 2007, the California Court issued an order denying Infineon's and MOSAID's joint motion to vacate the Markman and summary judgment orders. The action was then dismissed with prejudice by the California Court in March 2007 and, in April 2007, the Appellate Court granted Micron's motion to dismiss its appeal.

Micron, Mosel, Powerchip and ProMOS Litigations

On July 24, 2006, Micron filed a complaint for declaratory judgment in the California Court seeking a declaration of non-infringement and invalidity with respect to 14 of MOSAID's U.S. patents. On July 26, 2006, MOSAID filed a complaint in the Marshall Division of the Texas Court against Micron, Powerchip Semiconductor Corporation (Powerchip) and ProMOS for infringement of nine of its U.S. patents. Mosel Vitelic (Mosel) was subsequently added as a defendant. On July 27, 2006,

MOSAID filed a motion in the California Court to dismiss Micron's complaint, which was granted on October 23, 2006. Micron filed a notice of appeal with the Appellate Court on November 17, 2006. On April 27, 2007, Micron filed a motion to stay proceedings in the Texas Court pending a decision by the Appellate Court. Powerchip, ProMOS and Mosel filed a similar motion on May 11, 2007. On May 17, 2007, the Texas Court denied the defendants' motion to stay proceedings. The trial before the Texas Court is currently anticipated to occur in October 2008.

For more details on the events of MOSAID's active and previous litigations, please see MOSAID's website at www.mosaid.com

Financial Position

Working capital of the Company decreased to \$47.6 million at the end of fiscal 2007 from \$75.4 million at the end of fiscal 2006, driven primarily by the use of cash to acquire patents, restructuring liabilities, and an increase in the near-term portion of the mortgage payable. The working capital ratio declined from 5.0 at the end of fiscal 2006 to 2.8 at the end of fiscal 2007. While the Company was very profitable and yielded significant free cash, the repurchase of shares (approximately \$10.0 million) and the dividends paid (approximately \$11.1 million) used cash and contributed to the decrease in working capital.

Cash, cash equivalents and marketable securities decreased from \$71.3 million at the beginning of fiscal 2007 to \$50.3 million at the end of fiscal 2007. Given the Company's expected budget for capital expenditures, including patent acquisitions and partnerships, and in the absence of any acquisitions or special distributions to shareholders, the Company believes that, during fiscal 2008, cash balances will increase.

Accounts receivable increased from \$7.1 million at the end of fiscal 2006 to \$12.6 million at the end of fiscal 2007. The increase is due primarily to an escrow amount of approximately \$4.0 million related to the sale of certain Systems Division assets to Teradyne, and the timing of Systems Division sales.

During fiscal 2008, the Company expects the balance of accounts receivable to decrease not only due to the collection of the amount in escrow and the collection of amounts related to the final tester sales by the Company but also due to the nature of the Company's continuing operations. A majority of the Company's revenues are derived from multi-year licensing arrangements whereby revenues are recognized as amounts become due; as such, revenues are, for the most part, recognized in the same reporting period as the cash is collected from the licensee.

Inventory balances declined to nil during fiscal 2007 from \$1.8 million. The reduction is a result of the Company transferring certain automatic test equipment

related assets and liabilities to Teradyne and EPM Test Incorporated (EPM Test) and exiting the tester business.

Future Income Taxes Recoverable, short-term and long-term, declined by \$4.6 million to \$34.7 million at the end of fiscal 2007 from \$39.3 million at the end of fiscal 2006. The decrease reflects the net effect of incremental additions to the tax asset, by way of withholding taxes and investment tax credits, offset by income tax expense and a revaluation of the asset due to substantially enacted decreased future income tax rates. On an ongoing basis, management applies the "more likely than not" criterion to determine the appropriate valuation of the asset. The process requires management to estimate future profitability, the future income taxes payable associated with that estimate of future profitability, and to assess how much, if any, of the existing income tax assets available to the Company are more likely than not to be utilized to offset the estimated future income taxes payable. As at April 30, 2007, the Company had recorded virtually all of such potential assets available to the Company in Canada, and none of the potential assets related to other taxation jurisdictions.

The net book value of the capital assets decreased by approximately \$8.3 million during fiscal 2007. The cost of capital asset additions were \$978,000, primarily sales and customer support items and R&D equipment. Amortization and write-downs totaled \$3.6 million. Assets, principally land and building, with net book value of \$5.7, million were reclassified as assets held for sale.

The net book value of acquired intangibles increased by approximately \$71.4 million during fiscal 2007. Additions, principally patent acquisitions from Infineon/Qimonda and Agere/LSI, totalled \$79.5 million, amortization totalled \$3.8 million, an impairment charge of \$2.9 million was recorded against the intangibles acquired as part of the purchase of Virtual Silicon Technology, Inc. and \$1.4 million of assets, were transferred to assets held for sale.

Of the \$10.3 million of amortization expense, write-downs and impairment charges for capital assets and acquired intangibles, \$4.8 million related to assets for continuing operations and \$5.5 million related to assets for discontinued operations.

The long-term receivable, which is the present value of \$2.0 million, relates to an amount in escrow, associated with the sale of Systems Division assets to Teradyne, which may take longer than 12 (twelve) months to collect.

Long-term assets held for sale, of which \$5.7 million and \$1.4 million were transferred from capital assets and acquired intangibles respectively, include capital and intangible assets related to the Company's discontinued operations and the Company land and building. Subsequent to April 30, 2007, the Company sold its land and building,

which had a net book value of approximately \$5.4 million at April 30, 2007, for proceeds of \$14 million.

Accounts payable and accrued liabilities increased to \$16.1 million at the end of fiscal 2007 from \$7.7 million at the end of fiscal 2006. The increase is due primarily to increases in normal trade payables of \$3.1 million, deferred stock unit (DSU) liabilities of \$1.2 million, and restructuring accruals of \$4.2 million. During fiscal 2008, the Company expects the level of accounts payable and accrued liabilities to decrease significantly as the DSU and restructuring liabilities are settled.

The principal portion of the mortgage payable, now all short-term, decreased during fiscal 2007 from \$4.6 million at the beginning of the year to \$4.3 million at the end of the year. The mortgage is fully due within 12 (twelve) months of the Company's fiscal year-end and will be extinguished upon receipt of the proceeds from the sale of the land and building.

The other long-term liabilities, both the current portion and long-term portion, represent the future cash flow obligations, adjusted for the time value of money, related to the purchase of patents by the Company.

Shareholders equity increased by \$7.2 million during fiscal 2007, from \$115.0 million at the end of fiscal 2006 to \$122.2 million at the end of fiscal 2007. The increase in shareholders' equity is due to income before stock-based compensation of \$26.5 million (stock-based compensation is added back as it reduces net income but has no net effect on total shareholders' equity) and proceeds of \$1.7 million from the exercise of employee stock options and purchases through the employee stock purchase plan, partially offset by dividends of \$11.1 million and the cost of the normal course issuer bid program during fiscal 2007 of approximately \$10.0 million. Under the normal course issue bid program, announced by the Company on June 22, 2006, the Company purchased and cancelled 375,400 shares, or 3.3% of the 11,324,468 shares existing at the time of the inception of the program, at an average cost of \$26.63 per share.

The Company intends to continue its dividend program but, at this time, has no plans to institute a new normal course issuer bid program.

Annual Results

Revenues

Revenues increased by 56% from \$38.5 million in fiscal 2006 to \$60.0 million in fiscal 2007. Revenues are derived entirely from patent licensing activities. Results of discontinued operations, including their revenues and expenses, are discussed below in this MD&A.

The increase in revenues is due primarily to the patent licensing arrangement with Infineon and Qimonda. Another significant contributor to the increase was the one-time fixed amount of \$8.9 million from PortalPlayer.

The Company derives revenues primarily using two financial models: a multi-year fixed term renewable licensing arrangement with fixed payment dates and amounts; and a fixed-term renewable running royalty arrangement, whereby the Company derives revenues based upon sales by the licensee. During fiscal 2007, the vast majority of the Company's revenues were derived from the former type of arrangement. The Company expects this trend to continue for fiscal 2008.

A significant percentage of the Company's revenues are derived from relatively few licensees. In fiscal 2007, five of the Company's licensees amounted to more than 10% of consolidated revenues. Revenues from one licensee amounted to 28.7%; revenues from other licensees were 25.3%, 18.0%, 14.7% and 12.5%. In fiscal 2006, revenue from two of the Company's licensees amounted to more than 10% of consolidated revenues. Revenue from one licensee was 46.9% and revenue from the other was 41.3%.

While the signing of each new license agreement typically reduces the Company's economic dependence on any one licensee, the Company expects for fiscal 2008 to continue to be dependent upon relatively few licenses for its revenues.

The geographical distribution of fiscal 2007 revenues is shown in the exhibit below. Revenues from countries in the Asia Pacific region were 66% of revenues, while revenue from Europe and North America were 19% and 15% respectively. During fiscal 2008, the Company expects the percentage contribution from Asia Pacific and Europe to increase due to new patent licensing arrangements and because the amount from North America in fiscal 2007 was due primarily to the recognition of the one-time fixed payment from PortalPlayer.

The approximate geographic breakdown of revenues is as follows:

Year ended	April 30, 2007	April 30, 2006
Korea	54%	88%
Taiwan	12%	9%
Germany	18%	—%
Netherlands	1%	3%
U.S.A.	15%	—%

Expenses

Research and Development (R&D)

(Dollar amounts in thousands)

Year ended	April 30, 2007	April 30, 2006
Research and Development	\$7,335	\$4,169
As a percentage of total revenues	12%	11%
Increase from the same period last year	76%	

Overall, R&D expenses increased 76% in fiscal 2007 compared to the prior year.

R&D expenses are comprised of the cost of patent filings and administration costs, the cost of reverse engineering activities, and research costs related to Flash memory technology development.

Patent filing and administration costs increased 83%, year over year, due to patent filing and administrative costs associated with a substantially larger patent portfolio. At April 30, 2007, the Company had 784 patents issued, pending or allowed, up 199 or 34% from 585 at April 30, 2006. These figures do not include patents for which the Company has exclusive sub-licensing rights but does not have title.

Reverse engineering costs increased 77% year over year, primarily in preparation for the litigation against Micron, Promos, Powerchip and Mosel Vitelic. Changes in United States patent litigation procedures, which requires substantially more documentation to be provided by a plaintiff earlier in the court process, required the Company to accelerate reverse engineering activities.

Research costs related to Flash memory technology development increased 57%, year over year. The increase in costs was due primarily to increased subcontract activity associated with technical and market support related to the launch of HLNAND.

The Company expects fiscal 2008 patent filing and administration and reverse engineering costs to approximate fiscal 2007 levels. The Company expects costs related to the development of Flash memory technology to double from fiscal 2007 levels but still be less than \$3.0 million for fiscal 2008.

Selling and Marketing (S&M)

(Dollar amounts in thousands)

Year ended	April 30, 2007	April 30, 2006
Selling and Marketing	\$8,928	\$6,351
As a percentage of total revenues	15%	16%
Increase from the same period last year	41%	

MOSAID's S&M expenses in fiscal 2007 increased by 41% compared to the prior year.

Selling and marketing is comprised of licensing and litigation costs and the cost of acquiring patents.

Licensing and litigation costs decreased 26%, year over year, due to settlement of the litigations with Infineon and the timing of litigation against Micron and others.

Patent acquisition costs, which includes the amortization of patents and any imputed interest costs as a result of discounting future payments associated with patent acquisitions, increased from virtually nil in fiscal 2006 to approximately \$4.2 million in fiscal 2007. Of this amount, approximately \$3.4 million is due to amortization and

imputed interest expense. There were no such costs in the previous year.

The Company expects litigation costs in fiscal 2008 to increase substantially over the amount in fiscal 2007 as the Company continues its litigation against Micron and others in Texas. Litigation expenses can vary significantly from period to period, as the effort expended by or on behalf of the Company to enforce its IP rights via the court system varies.

The Company expects patent acquisition costs to increase three to four times over the amount expensed in fiscal 2007. Virtually all of the increase is due to increased amortization costs and imputed interest costs associated with the acquisition of patents from Agere, which were purchased part way through the fourth quarter of fiscal 2007, and anticipated new arrangements for fiscal 2008.

General and Administration (G&A)

(Dollar amounts in thousands)

Year ended	April 30, 2007	April 30, 2006
General and administration	\$6,827	\$6,561
As a percentage of total revenues	11%	17%
Increase from the same period last year	4%	

G&A expenses, which include the impact of foreign exchange (FX) fluctuations, increased 4% in fiscal 2007 compared to the prior year. G&A expenses, before the impact of FX, increased 33% to \$8.0 million in fiscal 2007 from \$6.0 million in fiscal 2006. During fiscal 2007 the Company recognized an FX gain of \$1.2 million. The FX loss in fiscal 2006 was \$569,000. During fiscal 2007, G&A expenses were offset in the amount of \$316,000 (fiscal 2006 – \$521,000) as a result of leasing space in the Company's primary facility.

As a percentage of all revenues, continuing operations and discontinued operations, G&A expenses, before the impact of the FX, increased slightly from 9.4% in fiscal 2006 to 9.7% in fiscal 2007.

During fiscal 2008, the absolute value of G&A expenses is expected to decline significantly as the Company continues to streamline its operations.

Restructuring

Restructuring expense represents the cost of reorganization within the corporate group of the Company, primarily driven by the departure of the former Chief Executive Officer and the former Chief Financial Officer. There were no such expenses in the prior year.

As the Company continues to execute its strategic alternative initiatives, there could be further such restructuring expenses.

Special Committee

Special Committee costs, prior to the Company's last Annual General Meeting (AGM) in September 2006, relate to proxy contest costs. After the AGM, the costs relate primarily to professional and other advisory costs required to develop and execute the Company's strategic alternatives initiative. There were no such costs in the prior year.

The Company expects such costs during fiscal 2008 to be substantially less than those incurred in fiscal 2007.

Other Items Affecting Net Income

Net interest income increased 68% in fiscal 2007, compared to the prior year, reflecting higher cash balances and higher interest rates. Net interest income is expected to decrease during fiscal 2008, due to lower average cash balances due to the payment of US\$25 million to Agere in the fourth quarter of fiscal 2007.

The Company's effective tax rate on income before discontinued operations was 39.1%, as compared to 35.8% for the prior year. The reason for the increase in the rate is that the current year expense includes an amount related to revaluing the Company's Future Income Taxes recoverable asset, and increased non-deductible stock-based compensation. The effective tax rate in fiscal 2007, after removing these items, was 36.3%.

The Company expects its effective tax rate for continuing operations in fiscal 2008 to be approximately 36% to 38%.

In Canada, the Company has loss carry forwards of timing differences totaling \$87.5 million and \$45.9 million available to reduce federal and provincial taxable income, respectively, in future years. These loss carry forwards have a remaining life varying from two years to an indefinite period. Further, the Company has \$12.7 million of investment tax credits available to reduce federal taxes payable in future years. The credits have a remaining life varying between one and ten years. Based upon the Company's current projections, it does not expect that a significant portion, if any, of these carry forwards will expire in the near term.

During fiscal 2007, income from discontinued operations was due primarily to a gain on sale of assets of \$17.8 million and a tax recovery of \$2.2 million, partially offset by a loss from operations of \$15.9 million in the Systems Division and Semiconductor IP product business. The gain on sale of assets relates to the sale of Systems Division assets to Teradyne.

Capital and Liquidity

Cash, cash equivalents and marketable securities decreased to \$50.3 million at the end of fiscal 2007 from \$71.3 million at the end of fiscal 2006. The decrease was driven

Payments Due by Period

(in thousands)

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations					
Long term debt	\$ 4,346	\$ 4,346	—	—	—
Capital lease obligations	—	—	—	—	—
Operating leases ⁽¹⁾	\$ 680	\$ 160	\$ 340	\$ 180	—
Purchase obligations	—	—	—	—	—
Other long term obligations ⁽²⁾	\$60,869	\$ 7,747	\$15,494	\$15,494	\$22,134
Total contractual obligations	\$65,895	\$12,253	\$15,834	\$15,674	\$22,134

⁽¹⁾ Operating leases represent leased premises in the United States.

⁽²⁾ Includes imputed interest cost.

primarily by a payment by the Company of US\$25 million related to the acquisition of patents from Agere, partially offset by a \$14 million receipt related to the sale of assets to Teradyne.

Cash from continuing operations generated \$29.9 million during fiscal 2007 compared to \$26.1 million during the previous year. The Company expects to continue to generate cash from operations in fiscal 2008.

Cash from financing activities reduced cash balances during fiscal 2007 as a result of the Company's dividend payments and its repurchase of shares under its normal course issuer bid. The Company expended approximately \$11.1 million on dividend payments during fiscal 2007, as compared to \$7.4 million in the prior year. In each of fiscal 2007 and fiscal 2006, the Company expended approximately \$10.0 million in share repurchases, under the normal course issuer bid programs.

Cash consumed to purchase capital assets and intangible assets for continuing operations amounted to \$36.2 million, the rest of the purchase price being financed by debt. The comparable amount in the prior year was \$153,000.

Expenditures for patent acquisitions and exclusive patent licensing rights are expected to be substantially lower in fiscal 2008 than in fiscal 2007. However, such expenditures could be higher than anticipated if the requisite business case supports such acquisitions.

Net cash generated by discontinued operations in fiscal 2007 amounted to \$4.8 million, as compared to cash used of \$6.0 million in fiscal 2006. Net cash from discontinued operation in fiscal 2007 was generated by income of \$4.2 million, amortization and write-downs of capital assets of \$5.5 million, offset partially by expenditures on capital assets of \$798,000 and a negative change in non-cash working capital items of \$4.1 million.

The Company expects discontinued operations to generate a substantial amount of cash in fiscal 2008 due to the sale of the Company's land and building, and the sale of the Semiconductor IP product business.

The Company continues to have a \$10.0 million bank credit facility, less the off balance sheet arrangements

discussed below, available to cover fluctuations in cash requirements. The Company had no borrowings against this facility in fiscal 2007 or fiscal 2006. The available operating line within this credit facility is calculated using a formula based on accounts receivable.

NI 51-102 (Continuous Disclosure Obligations) prescribes that the above chart, Payments due by Period, be incorporated into the MD&A presentation, concerning the contractual obligations to which the Company is bound over the following five years.

Management believes that the Company is sufficiently capitalized to meet its operating cash flow requirements in fiscal 2008.

Off Balance Sheet Arrangements

As part of its sales and marketing activities, the Company, from time to time, imports demonstration tester units into various countries using a Carnet document. Under the terms of the Carnet, the Company does not pay customs duties or taxes at the time of importation, in exchange for providing limited irrevocable access to a portion of the Company's line of credit to the destination country's taxation authority. When the tester is removed from the country of importation, without modification, access to the line of credit is relinquished by the taxation authority. At the end of fiscal 2007, existing Carnets totaled \$202,000 compared to \$321,000 at the end of fiscal 2006. The Company does not expect to have such an amount at the end of fiscal 2008, as the Company has exited the tester business.

The Company leases premises in one location in the United States. Office space in California is used to support the Semiconductor IP product development and S&M functions. As part of exiting the Semiconductor IP business, in fiscal 2008 the Company may be required to pay an early termination fee to terminate the lease, which has a term ending in calendar year 2011.

Transactions with Related Parties

Between June 20, 2006 and November 12, 2006, one of the directors, Mr. Theodore E. Galanthay, was the Acting Senior Vice President, Patent Licensing and General Counsel for the Company. During such time, a company of which Mr. Galanthay is a principal was paid \$419,000 for his services. There were no such payments in the prior year.

As part of exiting the tester business, approximately \$1.7 million of inventory and customer support equipment was sold to EPM Test Incorporated, a corporation owned by former employees of the Company, in return for a share of certain future tester revenues. At April 30, 2007, MOSAID had not recorded any revenues from EPM Test.

Fourth Quarter Fiscal 2007 Results

Revenues increased 24% compared to the fourth quarter of fiscal 2006, primarily due to revenues associated with the Infineon and Qimonda patent licensing agreement.

R&D expenses increased 29% compared to the same quarter in fiscal 2006. The increase is due to increased patent filing and administration costs and increased costs related to developing Flash memory technology, offset partially by lower reverse engineering costs.

S&M costs increased 76% compared to the same quarter in fiscal 2006. The increase is due to the increase in patent amortization (nil in Q4 fiscal 2006) expense, partially offset by a decline in litigation expense.

G&A expenses increased 37% compared to the fourth quarter of fiscal 2006. G&A expenses, before the impact of FX, increased by 41%, driven by headcount related costs, increased professional and advisory fees for governance, and increased capital taxes due to changes in the Company's financial structure. Further, the prior year facility costs were abnormally low due to a \$214,000 non-recurring refund of property taxes.

Restructuring expense in the fourth quarter of fiscal 2007 relates primarily to the departure of executives. There were no such costs in the comparable period.

Special Committee costs in the fourth quarter of fiscal 2007 relate to professional and other advisory services associated with the Company's strategic alternative initiative. There were no such costs in the comparative period.

Net interest income increased 33% compared to the same quarter in fiscal 2006, reflecting increased cash balances available for investment and higher interest rate levels and lower interest costs on the Company's mortgage.

Tax expense for the fourth quarter of fiscal 2007 was 44% of income before tax and discontinued operations. The higher than normal effective tax rate was driven by non-recurring non-deductible stock-based compensation expense in the quarter related primarily to the departure of

executives. Without such expense, the effective tax rate would have been approximately 33%. The effective tax rate for the comparable period was 38%.

Discontinued operations, net of tax, contributed \$7.7 million of profit towards net income. The profit was driven by a \$17.8 million gain on the sale of assets to Teradyne, offset partially by a \$10.2 million operating loss from the Systems Division and Semiconductor IP product business. The operating loss was due primarily to lower than expected revenues in the Semiconductor IP business and restructuring costs in both the Systems Division and the Semiconductor IP product business.

Cash generated by operations during the quarter amounted to \$19.4 million, reflecting cash generated from current quarter operations of \$5.9 million and a change in non-cash working capital items of \$13.4 million. The change in non-cash working capital items was driven primarily by the conversion of marketable securities into cash equivalents. During the quarter, the exercise of employee and director stock options generated proceeds of \$575,000.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares. As of June 30, 2007, there are 11,046,689 common shares issued and outstanding. As of June 30, 2007, the Company can grant up to 982,413 options under the Company's Employee and Director Stock Option Plan, of which 492,323 have been granted and are outstanding.

Proposed Transactions

Subsequent to year-end, the Company signed a definitive agreement to sell its land and building to an unrelated third party for approximately \$14.0 million. The agreement is expected to close in October 2007 and is subject to normal closing conditions for such a transaction. As part of the agreement, the Company has leased a portion of the facility for a period of five years at current market rates.

Subsequent to year-end, the Company signed a definitive agreement to sell certain of its Semiconductor IP assets to an unrelated third party for approximately US\$15 million. The agreement is expected to close in August 2007, with payment subject to a US\$2.0 million holdback for one year. As part of the agreement, the third party will hire the Semiconductor IP engineering team and will receive an exclusive license to certain patents and patents pending associated with the Company's Semiconductor IP product lines. As part of the sale, the Company expects to incur restructuring and contract cancellation charges.

Critical Accounting Estimates

Revenue Recognition

The Company recognizes revenue from fixed payments associated with long-term license arrangements as payments become due from the customer. In determining the amount of revenue to be recognized in each period, the Company relies on CICA Handbook Section 3400, Revenue, CICA Emerging Issues Committee Extract EIC-141, *Revenue Recognition*, U.S. Statement of Position (SOP) No. 97-2, *Software Revenue Recognition* and the presumption that the fee is not fixed and determinable when extended payment terms have been granted to the customer.

In certain long-term patent licensing arrangements, the Company has granted price protection to licensees regarding future payments if lower prices are subsequently granted to other customers for comparable license terms. Determining whether such terms are comparable requires the use of judgment by the Company. In the Company's judgment, to date, no such comparable terms have been granted. While the Company endeavors to ensure such circumstances do not occur, there can be no assurance that such circumstances will not occur in the future.

The Company recognizes revenue on design contracts using the percentage of completion methodology. This method requires management to compare actual expenses incurred to the reporting date against the estimated total expense to perform the contract. Financial and operational management regularly review the progress of each contract on an individual basis and update the estimate of total cost to perform the contract. Management relies on its experience and the Company's historical record with specific types of design contracts and customers to accurately estimate the total costs. At April 30, 2007 there were five (5) such contracts in progress.

Systems Division sales contracts commonly include products and services. Each contract requires careful analysis to ensure that all of the individual elements in the transaction have been identified, along with the fair value of each element. Revenue from product sales is generally recognized on shipment, provided that all significant contractual obligations have been satisfied and collection is reasonably assured. In accordance with CICA Emerging Issues Committee Abstract EIC-142, *Revenue Arrangements with Multiple Deliverables*, arrangements that include multiple elements are unbundled, and each element is recognized as revenue separately based upon that element's separate fair value.

Allowance for Doubtful Accounts and Bad Debts

The Company has extensive commercial history upon which to base its provision for bad debts. Due to the nature of the industry in which the Company operates, the

Company does not create a general provision for bad debts but rather determines bad debts on a specific account basis. Credit risk is limited through the use of export credit insurance and letters of credit. At April 30, 2007, the provision for bad debts was \$117,196, and at the end of fiscal 2006, it was \$37,500.

Warranty Provisions

It is the Company's policy to provide for estimated warranty expenses when product sales are recognized. The Company relies upon its commercial history to establish its provision for warranty expenses, and monitors the build-up and draw-down of the warranty accrual, as well as any unanticipated deviations from prior historical trends. Deviations from the expected results are reviewed and explained. In the Systems Division the warranty provision is affected by tester failure rates, while in the Semiconductor IP product business, warranty provision is based on whether a product is silicon proven or not. At April 30, 2007, the warranty accrual included as part of accrued liabilities on the Company's Balance Sheet was \$146,000, down from the fiscal 2006 level of \$321,000, as the Company has exited the tester business.

Accounting for Income Taxes

As an entity that operates in multiple taxation jurisdictions globally, the Company calculates its income tax liabilities separately in each of the jurisdictions in which it conducts business. The Company's tax rate, therefore, is affected by the relative profitability of its operations in various geographic regions. Tax planning strategies are employed which, by their nature, involve complicated transactions. Those transactions are subject to review or audit by taxation authorities, and the ultimate tax outcome bears a measure of uncertainty. As such, the Company must make estimates and judgments based on its knowledge and understanding of local and international tax legislation in determining its worldwide tax provision. It may take a considerable period of time for the ultimate tax outcome to be known. In the past, the Company has made adjustments as a result of these changes in circumstance. These adjustments have been accounted for as changes in estimate, and the effect of these changes have not been significant on the Company's results of operations and financial condition. The Company believes that its estimates are reasonable; however, it will adjust its estimates as circumstances change. Therefore, the ultimate tax outcome could differ materially from the amounts recorded in the financial statements. These differences could have a material effect on the Company's financial position and net income in the period such determination is made.

The Company recognizes a future income tax asset to the extent that it is more likely than not to be utilized to offset

estimated future income taxes payable. The main factors considered in determining the value of the asset include:

- Cumulative losses in recent years;
- History of loss carry forwards and other tax assets expiring;
- The carry forward period associated with the deferred tax assets;
- The nature of the income that can be used to realize the deferred tax assets;
- Current period net earning/loss; and
- Future earnings potential determined through the use of internal forecasts.

In evaluating the positive and negative evidence, the weight given to each must be proportionate to the extent to which it can be objectively verified. If it is the Company's belief that some portion of this asset will not be realized, that portion is not recorded in the financial statements.

Due to the history of losses in the United States, the Company has not recorded any of the potential income tax assets related to that jurisdiction.

Valuation of Acquired Intangibles

When appropriate, the Company engages an independent professional valuator to assist in the calculation of the fair value of certain identifiable assets, primarily patents, at the time of acquisition. Such valuation typically involves judgment related to items, including but not limited to, timing and magnitude of cash flows, market interest rates and risk premiums. The amortization period for acquired intangibles is established by management after consideration of factors including legal life remaining for the intangible asset, potential impact of obsolescence, and the expected useful life of the asset.

During fiscal 2007, the Company engaged an independent valuator to assist in the valuation of the patents acquired by the Company from Infineon.

Impairment of intangible assets

Annually, or more frequently when circumstances warrant, the Company assesses its capital and intangibles assets for potential impairment of carrying value. An impairment is recorded if the asset's net recoverable amount is less than its carrying value. Such an assessment requires management to make estimates regarding the timing and magnitude of cash flows, interest rates and risk premiums.

During fiscal 2007, as a result of such analysis, the Company recorded impairment charges of approximately \$3.0 million related to intangible assets purchased as part of the acquisition of Virtual Silicon Technology, Inc. There were no such charges during fiscal 2006.

Changes in Accounting Policies Including Initial Adoption

The accounting policies used to prepare the financial statements for fiscal 2007 are the same as those used to prepare the financial statements for fiscal 2006.

Future Accounting Pronouncements

Comprehensive Income

The CICA issued section 1530 of the CICA Handbook, Comprehensive Income. The section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as:

- Changes in the currency translation adjustment relating to self-sustaining foreign operations; and
- Unrealized gains or losses on available-for-sale investments.

The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, Comprehensive Income.

When we adopt these sections on May 1, 2007, we will report the following items in the consolidated financial statements:

- Comprehensive income and its components
- Accumulated other comprehensive income and its components.

Financial Instruments Recognition and Measurement

The CICA issued section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*. The section is effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section requires that:

- All financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity;
- All financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes.

Other financial liabilities are measured at their carrying value; and

- All derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, *Financial Instruments – Disclosure and Presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come into effect for fiscal years beginning on or after October 1, 2006.

Hedges

The CICA issued section 3865 of the CICA Handbook, *Hedges*. The section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between:

- Changes in the fair value of a hedged item and an hedging item;
- Changes in the cash flows attributable to a hedged item and a hedging item; or

- Changes resulting from a risk exposure relating to a hedged item and a hedging item.

Hedge accounting makes sure that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period.

The Company is currently assessing the impact of adopting these future accounting pronouncements on its financial position and operations.

Financial Instruments

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

At the end of fiscal 2007, the Company had commitments to sell to various financial institutions US\$20.0 million in exchange for Canadian dollars at an average rate of 1.1433 by February, 2008. The Company has recognized a gain of \$105,000 (2006 – a gain of \$129,000) where the underlying transaction has occurred but the foreign currency forward contract hedging the transaction has not yet expired. The unrecognized foreign exchange gain based on market forward rates as at April 30, 2007 was \$648,000, compared to a gain of \$842,000 at the end of fiscal 2006.

Selected Annual Information

(in thousands of dollars, except per share amounts)

	FY07	FY06	FY05
Net sales	\$ 59,981	\$ 38,528	\$ 26,761
Income (loss) before discontinued operations	\$ 20,525	\$ 14,632	\$ 34,647
Net income (loss)	\$ 24,709	\$ 15,483	\$ 37,585
Earnings (loss) per share			
Basic — before discontinued operations	\$ 1.85	\$ 1.28	\$ 3.20
Diluted — before discontinued operations	\$ 1.81	\$ 1.26	\$ 3.13
Basic — net income	\$ 2.23	\$ 1.35	\$ 3.47
Diluted — net income	\$ 2.18	\$ 1.34	\$ 3.39
Total assets	\$ 186,700	\$ 138,151	\$ 124,207
Total long-term financial liabilities	\$ 38,313	\$ 4,346	\$ 4,590
Cash dividends	\$ 11,102	\$ 7,450	\$ 0

Summary of Quarterly Results

(in thousands of dollars, except per share amounts)

	Q407	Q307	Q207	Q107	Q406	Q306	Q206	Q106
Revenues	\$ 12,204	\$ 13,830	\$ 14,838	\$ 19,109	\$ 9,803	\$ 9,587	\$ 10,014	\$ 9,124
Earnings before discontinued operations	\$ 1,271	\$ 4,950	\$ 5,826	\$ 8,478	\$ 2,972	\$ 3,900	\$ 4,024	\$ 3,736
Per share	\$ 0.12	\$ 0.45	\$ 0.52	\$ 0.75	\$ 0.26	\$ 0.34	\$ 0.35	\$ 0.33
Per diluted share	\$ 0.11	\$ 0.44	\$ 0.52	\$ 0.74	\$ 0.26	\$ 0.34	\$ 0.34	\$ 0.32
Net earnings (loss)	\$ 9,043	\$ 4,294	\$ 4,715	\$ 6,657	\$ 3,135	\$ 3,623	\$ 4,292	\$ 4,433
Per share	\$ 0.82	\$ 0.39	\$ 0.42	\$ 0.59	\$ 0.28	\$ 0.32	\$ 0.37	\$ 0.39
Per diluted share	\$ 0.81	\$ 0.38	\$ 0.42	\$ 0.58	\$ 0.27	\$ 0.31	\$ 0.37	\$ 0.38

During fiscal 2007, the Company recorded a foreign exchange gain of \$1.2 million (2006 – foreign exchange loss of \$509,000) related to unhedged items.

Canadian chartered banks are counterparties to the Company's forward exchange contracts. It is the Company's 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.

The recorded amounts of current assets and current liabilities, except for the mortgage payable, approximate fair value due to their relatively short maturity period. The fair value of the mortgage (short-term and long-term portions), estimated by discounting future cash flows at current market rates for debt of a similar nature, was \$4.6 million. The carrying value of the mortgage was \$4.3 million.

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

Risk Factors

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

Market risk. Most of MOSAID's revenue comes from the memory industry through licensing revenues primarily associated with DRAM. The DRAM market is volatile and cyclical.

Market weakness would suppress royalty-based revenues, and make it more difficult to negotiate and close future IP licensing deals.

MOSAID has now signed four license agreements with companies where the license was driven primarily by system on chip (SOC) applications, but the Company remains at an early stage of exploring the potential of this market. The process of identifying MOSAID IP in these products is more expensive and complex than in commodity DRAM. For example, the extent of embedded DRAM proliferation in the SOC market is not well known at this time and, therefore, there is risk involved with the Company's investment in this initiative.

The generation of licensing revenues is dependent on reaching acceptable settlements with the parties with whom MOSAID is in negotiations. There can be no assurance that MOSAID will be able to settle with these parties.

Legal risk. MOSAID's future growth and profitability rests on its ability to generate value from the Company's patent portfolio. Unfavourable rulings in MOSAID's lawsuits against prospective licensees could damage its ability

to generate future revenues and profits from its IP. Further risks include changes in laws that would limit the rights of patent holders to assert their rights in the most forceful way, as well as legal rulings and/or regulatory investigations or complaints having an adverse impact on the validity, enforceability, potential royalty rates, and strength or breadth of coverage of MOSAID's patents.

Most favourable terms risk. As part of the Company's licensing program, it periodically offers favourable terms to early licensees. In some instances, if future licensees are granted better terms than an early licensee, the Company may be required to adjust the early licensee's payment terms downward. To date, there have been no such circumstances, but there can be no guarantee that, in the future, this situation will not occur.

Foreign currency risk. MOSAID's sales are denominated primarily in US dollars or Euros. The Company uses 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 or contracts are negotiated. However, the term of such instruments is limited, therefore, they are not offering a long-term hedge against adverse foreign currency fluctuations.

Risk of non-payment. MOSAID's revenues are not insured; the Company relies on the reputation and creditworthiness of its licensees.

Loss of key employees. The sustainability of MOSAID's growth depends on the quality of its employees. The loss of key employees could pose a threat to the degree of success of MOSAID. The Company strives to maintain a competitive level of salaries and benefits, and provides incentives for superior performance and inventiveness, as well as an employee stock option plan.

Maintenance of a minimum cash position. Litigation requires that MOSAID continue to be well financed to pose a credible litigation threat to its adversaries. The Company believes that it is adequately capitalized to meet this and other financial requirements of its business.

Licensee concentration. In fiscal 2007, revenue from five of the Company's licensees amounted to more than 10% of consolidated revenues from operations. Revenue from one licensee was 28.7%; revenues from the other licensees were 25.3%, 18.0%, 14.7% and 12.5%.

Arbitrage Risk. The Company has purchased patents and intends to acquire further patents which it believes can be asserted to the Company's advantage. Other companies have similar interests, and the market for such assets may become more competitive, thus, reducing the opportunity for the Company to enjoy superior returns from this avenue for growth.

Evaluation of Internal Controls

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the year ended April 30, 2007 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, was made known to them and reported as required, particularly during the period in which the annual filings were being prepared.

Management is also responsible for the design of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the design of the Company's internal controls and procedures over financial reporting as of the end of the period covered by the annual filings, and believes the design to be sufficient to provide such reasonable assurance.

The Company has identified the need for improvement with regards to segregation of duties and matters of taxation. These matters and their related risks are not uncommon in a company of MOSAID's size. To date, the Company has utilized external advisors and taken such other action as it has considered appropriate to minimize these risks.

During fiscal 2007, the Company made changes to its systems of internal controls that did not materially affect internal control over financial reporting.

Other MD&A Requirements

Additional information relating to the Company, including its Annual Information Form, is available at www.sedar.com

Auditors' Report

To the Shareholders of
MOSAID Technologies Incorporated

We have audited the consolidated balance sheets of MOSAID Technologies Incorporated as at April 30, 2007 and 2006 and the consolidated statements of operations and retained earnings and cash flows for the years ended April 30, 2007 and 2006. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2007 and 2006 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

June 28, 2007, except as to Note 22 which is July 19, 2007

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 accounting principles generally accepted in Canada. 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 of directors who are not employees of the Company. This committee meets quarterly with management, and 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.



John C. Lindgren
President and Chief Executive Officer



Joseph R. Brown
Vice President and Chief Financial Officer

June 28, 2007

Consolidated Balance Sheets

(in thousands of Canadian Dollars)

	April 30, 2007	April 30, 2006
Current Assets		
Cash and cash equivalents	\$ 23,396	\$ 15,542
Marketable securities (Note 2)	26,876	55,788
Accounts receivable	12,626	7,113
Income taxes receivable	—	381
Inventories (Note 3)	—	1,779
Prepaid expenses	618	1,700
Future income taxes recoverable (Note 14)	10,278	11,910
	73,794	94,213
Long-term receivable	1,734	—
Capital assets (Note 4)	1,067	9,328
Acquired intangibles (Note 4)	76,823	5,385
Long-term assets held for sale (Note 5)	7,028	—
Goodwill	1,786	1,786
Future income taxes recoverable (Note 14)	24,468	27,439
	\$186,700	\$138,151
Current Liabilities		
Accounts payable and accrued liabilities	\$ 16,091	\$ 7,653
Income taxes payable	—	381
Deferred revenue	542	10,545
Mortgage payable (Note 6)	4,346	244
Current portion of other long-term liabilities	5,239	—
	26,218	18,823
Mortgage payable (Note 6)	—	4,346
Other long-term liabilities	38,313	—
	64,531	23,169
Contingency (Note 21)		
Shareholders' Equity		
Share capital (Note 7)	102,276	102,476
Contributed surplus (Note 7 and 8)	2,992	2,630
Retained earnings	16,901	9,876
	122,169	114,982
	\$186,700	\$138,151

See accompanying Notes to the Consolidated Financial Statements.



Carl Schlachte
Chairman of the Board



Normand Paquette
Director and Chairman of the Audit Committee

Consolidated Statements of Operations and Retained Earnings

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

Year ended	April 30, 2007	April 30, 2006
Revenues	\$ 59,981	\$ 38,528
Operating Expenses		
Research and development (Note 9)	7,335	4,169
Selling and marketing	8,928	6,351
General and administration (Note 10)	6,827	6,561
Restructuring (Note 11)	2,764	—
Special committee (Note 12)	2,812	—
	28,666	17,081
Income from operations	31,315	21,447
Net interest income (Note 13)	2,399	1,422
Write-down of investments	—	67
Income before income tax expense and discontinued operations	33,714	22,802
Income tax expense (Note 14)	13,189	8,170
Income before discontinued operations	20,525	14,632
Discontinued operations (net of tax) (Note 15)	4,184	851
Net income	24,709	15,483
Dividends	11,102	7,450
Normal course issuer bid	6,582	6,320
Retained earnings, beginning of year	9,876	8,163
Retained earnings, end of year	\$ 16,901	\$ 9,876
Earnings per share (Note 16)		
Basic – income before discontinued operations	\$1.85	\$1.28
Diluted – income before discontinued operations	\$1.81	\$1.26
Basic – net income	\$2.23	\$1.35
Diluted – net income	\$2.18	\$1.34
Weighted average number of shares		
Basic	11,103,185	11,441,201
Diluted	11,321,298	11,572,706

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in thousands of Canadian Dollars)

Year ended	April 30, 2007	April 30, 2006
Operating		
Income before discontinued operations	\$ 20,525	\$ 14,632
Items not affecting cash		
Amortization	3,025	372
Stock-based compensation	1,831	1,347
Write-down of capital assets	1,794	85
Future income taxes	4,603	764
Write-down of investments	—	67
	31,778	17,267
Change in non-cash working capital items from continuing operations (Note 17)	(1,837)	8,867
	29,941	26,134
Investing		
Acquisition of capital assets (continuing operations)	(36,175)	(153)
Acquisition of short-term marketable securities	(88,638)	(192,508)
Proceeds on maturity/disposal of short-term marketable securities	117,550	195,434
	(7,263)	2,773
Financing		
Repayment of mortgage	(244)	(225)
Repurchase of shares	(9,996)	(9,997)
Dividends	(11,102)	(7,450)
Issue of common shares	1,745	3,259
	(19,597)	(14,413)
Cash inflow from continuing operations	3,081	14,494
Cash inflow (outflow) from discontinued operations (Note 15)	4,773	(6,035)
Net cash inflow	7,854	8,459
Cash and cash equivalents, beginning of year	15,542	7,083
Cash and cash equivalents, end of year	\$ 23,396	\$ 15,542

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

year ended April 30, 2007

(tabular dollar amounts in thousands of Canadian Dollars, 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:

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. Wholly owned subsidiaries include:

MOSAID Systems Incorporated

MOSAID Technologies Corporation

MOSAID Technologies U.K. Limited

MOSAID International Inc.

Cash and cash equivalents

Cash and cash equivalents include all readily tradable instruments such as bonds, debentures and discount notes with an original maturity of three months or less.

Marketable securities

Marketable securities include readily tradable instruments such as bonds, debentures and discount notes with original maturities in excess of three 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 and acquired intangibles

Capital assets are recorded at cost. Acquired intangibles are recorded at their fair value at the date of acquisition. 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
Acquired intangibles	1-9 years

Capital assets and acquired intangibles are assessed for impairment when events or circumstances indicate that their carrying value may not be recovered. An impairment loss is recorded if the asset's net recoverable amount (based on estimates of undiscounted cash flows) is less than its carrying value.

Goodwill

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the fair value assigned to the net identifiable tangible and intangible assets acquired. Goodwill is not amortized, but rather it is periodically assessed for impairment. The Company performs an annual review on the anniversary of the acquisition, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

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

Long-term investments

Investments in other companies where 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 estimated 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 licensee. Provisions for price protection are recorded as a reduction of revenue when lower prices are subsequently granted for comparable license terms. 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, 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, is recognized on a percentage of completion basis.

Deferred revenue arises as a result of billings in advance of services being provided for engineering activities, 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.

The Company uses derivative financial instruments to hedge against foreign exchange rate risks arising from future payments denominated in foreign currencies. The Company does not use derivative financial instruments for speculative or trading purposes. The Company documents all relationships between derivatives and the items they hedge, and the risk management objective and strategy for using various hedges. This process includes linking every derivative to a specific

asset or liability on the balance sheet, or to a specific firm commitment or to an anticipated transaction. The hedge is designated as fair value or cashflow as appropriate.

The effectiveness of the derivative in managing risk is assessed when the hedge is put in place and on an ongoing basis.

Hedge accounting is terminated when a hedge is no longer effective.

When accounting for derivatives, the Company follows these policies:

- The fair value of derivative instruments eligible for hedge accounting is not recognized on the balance sheet;
- Gains or losses on those instruments are recognized in earnings in the same period as the anticipated hedged transaction; and
- If the hedging instrument is sold, terminated or ceases to be effective prior to maturity, any gains and losses that had been previously deferred are carried forward to be recognized in earnings in the same period as the hedged item.

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 an Employee and Director Stock Option Plan as described in Note 7 to these financial statements. Effective April 24, 2004, the Company adopted the fair value provisions of the CICA Handbook section 3870.

Employee stock purchase plan

The Company has an Employee Stock Purchase Plan (ESPP) as described in Note 7 to these financial statements. Funds received over each 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 each six-month period. The Company recognizes compensation expense for the ESPP shares in accordance with CICA 3870.

Deferred share unit plan

The Company has a Deferred Share Unit Plan whereby deferred share units (DSUs) may be issued in lieu of stock options to directors and officers of the Company. In addition, directors may elect to receive quarterly retainer amounts in the form of DSUs in lieu of cash. The Company's policy is to have DSUs vest over 4 years, except for DSUs granted in lieu of cash retainers, which vest immediately. The Company recognizes compensation expense for the DSUs in accordance with CICA 3870.

Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management (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, such as percentage of completion on revenue contracts, capital and intangible asset impairment charges, amortization, goodwill impairment charges, allowance for doubtful accounts, warranty costs and accruals, inventory provisions, future income taxes and contingencies, during the reporting periods presented. Actual results could differ from those estimates made by Management.

2. Marketable Securities

Marketable securities comprise the following:

	2007	2006
Bonds and debentures	\$ 10,317	\$ 16,737
Discount notes	16,559	39,051
	\$ 26,876	\$ 55,788

Carrying values of bonds and debentures and discount notes include accrued interest and approximate market value. Investments in bonds and debentures and discount notes represent holdings in corporate and government short-term marketable securities as at April 30, 2007 and have a maturity date of one year or less.

3. Inventories

Inventories comprise the following:

	2007	2006
Raw materials	\$ —	\$ 1,182
Work in process	—	597
	\$ —	\$ 1,779

4. Capital Assets and Acquired Technology

	Cost	Accumulated Amortization	Net Book Value	
			2007	2006
Land	\$ —	\$ —	\$ —	\$ 961
Building	—	—	—	4,713
Equipment	3,307	2,471	836	3,498
Furniture and fixtures	2,025	1,794	231	156
	\$ 5,332	\$ 4,265	\$ 1,067	\$ 9,328

	Cost	Accumulated Amortization	Net Book Value	
			2007	2006
Acquired Technology	\$ 79,724	\$ 2,901	\$ 76,823	\$ 5,385

5. Long-term Assets Held for Sale

During the fourth quarter of fiscal year 2007, the Company discontinued its automatic test business, operated through the Systems Division, and initiated the process of disposing of assets related to the Company's Semiconductor Intellectual Property (IP) product business. As well, the Company initiated the process of disposing of its land and building comprised of its Corporate headquarters. At April 30, 2007, assets held for sale are:

	Cost	Accumulated Amortization	Net Book Value 2007
Land	\$ 961	\$ —	\$ 961
Building	7,048	2,584	4,464
Equipment	12,877	12,626	251
	\$ 20,886	\$ 15,210	\$ 5,676

	Cost	Accumulated Amortization	Net Book Value 2007
Acquired Technology	\$ 5,966	\$ 4,614	\$ 1,352

Subsequent to year-end, the Company completed the sale of certain assets of its Semiconductor IP business and of its land and building. See Note 22 to these financial statements.

6. Mortgage Payable

	2007	2006
The mortgage bears 8.24% interest per annum, due January 1, 2008 and is secured by an office and manufacturing facility	\$ 4,346	\$ 4,590
less: amounts due within 1 year	4,346	244
Long-term portion	\$ —	\$ 4,346

7. Share Capital

Authorized

Unlimited number of common shares.

Issued	Common Shares	
	Number	Amount
Outstanding April 23, 2005	11,480,104	\$ 102,820
Exercise of employees' options	203,293	3,005
Employee stock purchase plan	10,489	254
Purchases under normal course issuer bid	(402,100)	(3,603)
Outstanding April 30, 2006	11,291,786	102,476
Exercise of employees' options	123,899	1,469
Employee stock purchase plan	15,091	276
Stock-based compensation		1,469
Purchases under normal course issuer bid	(375,400)	(3,414)
Outstanding April 30, 2007	11,055,376	\$ 102,276

Share Capital

During the first quarter of fiscal 2007, the Company instituted a normal course issuer bid, as approved by the Toronto Stock Exchange (the TSX). Under the terms of the normal course issuer bid, the Company had the right to purchase up to a maximum of 450,000 shares (representing approximately 4% of the issued and outstanding shares as at June 22, 2006). During fiscal 2007, the Company repurchased 375,400 common shares (2006 – 402,100) in accordance with the normal course issuer bid for a total cost of \$9,997,500 (2006 – \$9,997,000). Of this amount paid, \$6,582,972 was charged to retained earnings (2006 – \$74,000 was charged to contributed surplus and \$6,320,000 to retained earnings), with the balance charged to share capital. All repurchased shares were cancelled.

Employee Stock Purchase Plan

In September 1998, the Company established an Employee Stock Purchase Plan (ESPP) whereby employees may elect to designate up to 5% of their annual salary to purchase common shares of the Company (Shares). For two six month periods commencing on the second business day after the Company's second quarter or fiscal year end financial results are publicly announced (each an "Offering Period"), eligible employees are given an opportunity to request that a percentage of their salary be deducted each pay period for the purpose of acquiring Shares. The purchase price under the ESPP is the lesser of 90% of the fair market value of the Shares, as determined by calculating the weighted average sale price for board lots as posted on the TSX the ten trading days immediately preceding (i) the first day of the Offering Period in which the purchase date falls or (ii) the purchase date. The Shares are not considered to be issued by the Company until the end of the six month period. During fiscal 2007, 15,091 (2006 – 10,489) Shares were issued pursuant to the ESPP. As at April 30, 2007, \$82,000 (2006 – \$147,000) was 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 and Director Stock Option Plan

Upon becoming a public company, MOSAID established an Employee and Director Stock Option Plan (the Plan). The maximum number of Shares which may currently be issued upon the exercise of stock options granted under the Plan cannot exceed 1,030,601 options, of which 541,024 are issued and outstanding at April 30, 2007. The exercise price is to be fixed by the Human Resources Committee of the Board of Directors, and approved by the Board, but shall not be lower than the closing price of the Shares on the TSX on the day prior to the date of grant. Options granted under the Plan currently expire within a period of six years of granting, with vesting periods determined by the Human Resources Committee and approved by the Board.

A summary of the status of the Plan as of April 30, 2007 and April 30, 2006 and changes during the years ending on those dates is presented below:

	2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at start of the year	688,123	\$ 14.54	684,292	\$ 12.27
Granted	41,500	\$ 23.56	214,824	\$ 22.28
Exercised	(123,899)	\$ 11.86	(203,293)	\$ 14.78
Forfeited	(64,700)	\$ 20.00	(7,700)	\$ 23.27
Outstanding at end of year	541,024	\$ 15.18	688,123	\$ 14.54
Options exercisable at year-end	322,981	\$ 12.80	273,059	\$ 10.87

FY07

Options Outstanding

Range of Exercise Prices	Number Outstanding	Options Exercisable			
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercisable Price	Number Exercisable	Weighted Average Exercisable Price
\$ 5.60 – \$ 5.60	22,306	1.37	\$ 5.60	22,306	\$ 5.60
\$10.10 – \$11.30	299,594	1.87	\$ 10.54	231,369	\$ 10.64
\$16.14 – \$23.50	197,624	3.84	\$ 21.94	64,431	\$ 21.72
\$24.50 – \$31.97	21,500	4.57	\$ 27.81	4,875	\$ 30.27
\$ 5.60 – \$31.97	541,024	2.67	\$ 15.18	322,981	\$ 12.80

FY06

Options Outstanding

Range of Exercise Prices	Number Outstanding	Options Exercisable			
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercisable Price	Number Exercisable	Weighted Average Exercisable Price
\$ 5.60 – \$ 5.60	29,030	2.47	\$ 5.60	21,290	\$ 5.60
\$10.10 – \$13.70	396,094	3.00	\$ 10.60	236,394	\$ 10.85
\$16.14 – \$23.50	250,499	5.22	\$ 21.03	13,125	\$ 16.26
\$25.72 – \$31.97	12,500	5.04	\$ 29.86	2,250	\$ 30.65
\$ 5.60 – \$31.97	688,123	3.82	\$ 14.54	273,059	\$ 10.87

8. Stock-based Compensation

The Company has an Employee Stock Purchase Plan (the ESPP) whereby employees may elect to designate up to 5% of their annual salary to purchase shares of the Company (Shares). For two six month periods commencing on the second business day after the Company's second quarter or fiscal year end financial results are publicly announced (each an "Offering Period"), eligible employees are given an opportunity to request that a percentage of their salary be deducted each pay period for the purpose of acquiring Shares. The purchase price under the ESPP is the lesser of 90% of the fair market value of the Shares, as determined by calculating the weighted average sale price for board lots as posted on the TSX the ten trading days immediately preceding (i) the first day of the Offering Period in which the purchase date falls or (ii) the purchase date.

Also, the Company has an Employee and Director Stock Option Plan. The exercise price is to be fixed by the Human Resources Committee of the Board of Directors, and approved by the Board, but shall not be lower than the closing price of the Shares on the TSX on the day prior to the date of grant. Options granted under the Plan currently expire within a period of six years of granting, with vesting periods determined by the Human Resources Committee and approved by the Board. All options extant at April 30, 2007, have been granted with equal annual vesting over a four year vesting period.

The fair value of employee stock options granted after April 26, 2002 is recognized as compensation cost. During the year ended April 30, 2007, \$1,831,000 (2006 – \$1,347,000) was credited to Contributed Surplus as a result of the compensation expense, and \$1,469,000 (2006 – nil) was transferred from Contributed Surplus to Share Capita as a result of exercised options.

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

	2007	2006
Risk free interest rate	4.4%	4.1%
Expected life in years	5.5	4.6
Expected dividend yield	4.3%	3.1%
Volatility	66.62%	78.69%

The weighted average fair value per option granted during the year ended April 30, 2007 is \$10.64 (fiscal 2006 – \$22.28).

During fiscal 2007, the Company issued 1,515 DSUs in lieu of retainers and dividends, 176 units were paid out and 8,550 units were forfeited.

During fiscal 2006, the Company established a Deferred Share Unit Plan pursuant to which it issued 71,350 DSUs in lieu of options to directors and officers of the Company. Those DSUs vest evenly over a four year period. In addition, directors may elect to receive quarterly retainer amounts in the form of DSUs in lieu of cash, which vest immediately. DSUs do not have an exercise price and can only be settled using cash consideration. The Company accounts for DSUs as an expense over the vesting period of the DSUs using the fair value of the common stock, as determined by the closing price of the Company's publicly traded common stock on the reporting date.

9. Research and Development

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

	2007	2006
Total current research and development	\$ 7,395	\$ 4,202
Less: Investment tax credits	60	33
Net research and development	\$ 7,335	\$ 4,169

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 30, 2007, the Company recorded repayments in the amount of \$264,000 (2006 – \$316,000). To date, the Company has recorded repayments in the amount of \$1,887,000.

As part of the Company exiting the tester business and the sale of certain tester related assets to a third party, the Company has requested an early termination of the Agreement from the Government. The Company and the Government are negotiating the amount of an early termination payment.

10. General and Administration

Rental income was applied to reduce current general and administration expenses in the statements of operations and retained earnings as summarized below:

	2007	2006
Total current general and administration	\$ 7,143	\$ 7,082
Less: rental income	316	521
Net general and administration	<u>\$ 6,827</u>	<u>\$ 6,561</u>

11. Restructuring

During fiscal 2007, as a result of the Company discontinuing its development, sales and support of its automatic test equipment business and the Company's strategic alternatives initiative, three employee's employment contracts were terminated. Two of the three employees were senior executives of the Company.

The restructuring charge during fiscal 2007 represents severance and other related payments to terminated employees and stock based compensation expense, a non-cash expense.

	2007	2006
Severance and related payments	\$ 2,414	\$ —
Stock based compensation	350	—
Restructuring	<u>\$ 2,764</u>	<u>\$ —</u>

Of the \$2.8 million expense, \$1.7 million was credited to accrued restructuring liability, \$684,000 was credited to deferred stock unit liability, both of which are part of accounts payable and accrued liabilities, and \$350,000 was credited to contributed surplus as a result of accelerated stock-based compensation expense.

A continuity of the restructuring accrual is:

	2007	2006
Opening balance	\$ —	\$ —
Accrual during fiscal 2007	1,723	—
Payments during fiscal 2007	(8)	—
Closing balance	<u>\$ 1,714</u>	<u>\$ —</u>

At April 30, 2007, the remaining unpaid balance of the severance and related payments was \$2.4 million (2006-\$nil), of which \$1.7 million is from restructuring liability and \$684,000 is from deferred share unit liability. The entire remaining unpaid balance at April 30, 2007 is scheduled to be paid during fiscal 2008.

12. Special Committee

During fiscal 2007, Loeb Partners Corporation, a shareholder of the Company, and the Company engaged in a proxy contest prior to the Company's September, 2006 Annual General Meeting (AGM). Prior to the AGM, the parties reached an agreement whereby the Board of Directors was expanded from 7 to 10 and a Special Committee of the Board was created to review the strategic alternatives for the company. The Special Committee costs related primarily to the professional advisory charges, fees and expenses for the Special Committee of the Board. The amounts do not include any normal operating costs related to the Company's shares being publicly traded on a stock exchange.

	2007	2006
Special Committee	<u>\$ 2,812</u>	<u>\$ —</u>

13. Net Interest Income

	2007	2006
Interest income	\$ 2,760	\$ 1,835
Interest expense	(361)	(413)
	\$ 2,399	\$ 1,422

14. Income Taxes

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

	April 30, 2007	April 23, 2006
Current	\$ 6,338	\$ 344
Future	4,603	7,773
	\$ 10,941	\$ 8,117

Income tax expense (recovery) is comprised of:

	April 30, 2007	April 23, 2006
Continuing operations	\$ 13,189	\$ 8,170
Discontinued operations	(2,248)	(53)
	\$ 10,941	\$ 8,117

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:

	2007	2006
Income from continuing operations before income tax	\$ 33,714	\$ 22,802
Income from discontinued operations before income tax	1,936	798
Income before income tax expense	\$ 35,650	\$ 23,600
Combined basic Canadian Federal and Provincial income tax at 36.12% (2006 – 36.12%)	\$ 12,877	\$ 8,524
Increase (decrease) resulting from:		
Manufacturing credit	(459)	(309)
Tax rate differential on foreign income	(68)	(22)
Unrecorded tax loss carry-forwards	—	(425)
Decrease in future income tax valuation allowance	695	(42)
Permanent differences	(1,762)	499
Other	(342)	(108)
	\$ 10,941	\$ 8,117

Future income taxes consist of the following temporary differences:

	2007	2006
Investment tax credits	\$ 12,305	\$ 11,995
Reserves deductible in future periods	74	523
Unclaimed research and development expenses	17,029	20,082
Loss carryforwards to reduce future taxable income	—	4,027
Difference between tax and book value of capital assets	5,338	2,722
	\$ 34,746	\$ 39,349

15. Discontinued Operations

On February 22, 2007, the Company announced that it had signed an agreement to sell certain of its Systems Division assets to a third party. On the same day, the Company announced its decision to halt development related to its Semiconductor IP Mobilize product family. On March 28, 2007, the Company announced it had finalized the sale of certain of the Systems Division's assets to a third party and further announced that it would wind down its remaining Systems Division business by year-end. On April 9, 2007, the Company announced its intention to consider a public sale of its Semiconductor IP product business. Accordingly, the results of operations of the Systems Division and the Semiconductor IP product business, which was previously part of the IP segment, have been segregated in the accompanying consolidated financial statements. The results of discontinued operations are as follows:

	2007	2006
Revenues	\$ 22,084	\$ 25,371
Expenses		
Labour and materials	5,736	7,571
Research and development	16,240	10,824
Selling and marketing	7,899	6,624
Bad debts	88	(446)
Restructuring	7,991	—
	37,954	24,573
(Loss) earnings from operations	(15,870)	798
Gain on sale of assets	17,806	—
Earnings before taxes	1,936	798
Income tax (recovery)	(2,248)	(53)
Income from discontinued operations (net of tax)	\$ 4,184	\$ 851

The restructuring expense during fiscal 2007 is comprised of:

	2007	2006
Salary and headcount related costs	\$ 4,547	\$ —
Loss on disposal of inventory	1,626	—
Loss on disposal and write-down of capital assets	1,691	—
Write-down of prepaid maintenance	1,031	—
Transfer of warranty and other obligations	(970)	—
Other	66	—
	\$ 7,991	\$ —

At April 30, 2007, the remaining unpaid balance of the restructuring provision was \$2.2 million (2006 – \$nil), of which \$2.1 million (2006 – \$nil) is scheduled to be paid during fiscal 2008. This balance is included with accrued liabilities.

The cash outflow from discontinued operations is comprised of:

	2007	2006
Net income (loss) from discontinued operations	\$ 4,184	\$ 851
Amortization	5,501	2,024
Increase (decrease) in non-cash working capital items	(4,114)	(936)
Deduct:		
Acquisition of shares in Virtual Silicon Technologies Inc.	—	(6,383)
Acquisition of capital assets – net	(798)	(1,591)
Cash inflow (outflow) from discontinued operations	\$ 4,773	\$ (6,035)

16. Earnings Per Share

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

	2007	2006
Income before discontinued operations	\$ 20,525	\$ 14,632
Discontinued operations	4,184	851
Net income	\$ 24,709	\$ 15,483
Weighted average number of common shares outstanding	11,103,185	11,441,201
Effect of dilutive stock options ¹	218,113	131,505
Weighted average number of common shares outstanding – dilutive ²	11,321,298	11,572,706
Basic – income before discontinued operations	\$1.85	\$1.28
Diluted – income before discontinued operations	\$1.81	\$1.26
Basic – net income	\$2.23	\$1.35
Diluted – net income	\$2.18	\$1.34

¹ For FY2007, excludes the effect of 12,500 options as the exercise price exceeded the average fair market value of the common stock during the period and hence are anti-dilutive. For FY2006, excludes the effect of 78,500 options as the exercise price exceeded the average fair market value of the common stock during the period and hence are anti-dilutive.

² The calculation of the weighted average number of common shares excludes any issued deferred share units as the units will be settled with cash and any unissued shares related to the Employee Share Purchase Program.

17. Changes in non-cash working capital items – continuing operations

	2007	2006
Decrease (increase) in current assets		
Accounts receivable	\$ 2,339	\$ (253)
Income taxes receivable	381	74
Inventories	—	—
Prepaid expenses	(378)	959
	2,342	780
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	5,012	435
Income taxes payable	(381)	381
Operating loan	—	(670)
Deferred revenue	(8,810)	8,284
Other current liabilities	—	(343)
	\$(1,837)	\$ 8,867
Other supplementary disclosures;	2007	2006
Interest and income taxes paid		
Interest paid	\$361	\$413
Taxes paid	\$ 6,126	\$ 6,825

At April 30, 2007, cash and cash equivalents includes foreign denominated currency, primarily United States dollars, in the amount of \$nil (2006 – \$1.2 million) and debentures in the amount of \$nil (2006 – \$11.9 million) with an original maturity of three months or less.

18. Financial Instruments

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

At April 30, 2007, the Company had committed to sell by February 2008 to various financial institutions US \$20,000,000 in exchange for Canadian dollars at an average rate of 1.1433. The Company has recognized a gain of \$105,000 (2006 – gain of \$129,000) where the underlying transaction has occurred but the foreign currency forward contract hedging the transaction has not yet expired. The unrecognized foreign exchange gain based on market forward rates as at April 30, 2007 was \$648,000 (2006 – gain of \$842,000).

During the year, the Company recorded a foreign exchange gain of \$1,114,000 (2006 – foreign exchange loss of \$567,000) related to unhedged items.

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.

The recorded amounts of current monetary assets and current liabilities, except as noted below, approximate fair value due to their relatively short maturity period. The fair value of the mortgage estimated by discounting future cashflow at current market rates for debts of a similar nature is \$4,639,000. The fair value of the long term debt is \$40,494,000.

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

19. Related Party Transactions

Between June 20, 2006 and November 12, 2006, one of the directors, Mr. Theodore E. Galanthay, was the Acting Senior Vice President, Patent Licensing and General Counsel for the Company. During such time, a company of which Mr. Galanthay is a principal was paid \$419,000 for his services. There were no such payments in the comparative period.

As part of exiting the tester business, approximately \$1.7 million of inventory and customer support equipment was sold to EPM Test Incorporated, a corporation owned by former employees of the Company, in return for a share of certain future tester revenues. At April 30, 2007, the Company had not recorded any revenues from EPM Test Inc. Such revenues, if any, will be recorded as part of discontinued operations.

20. Business Segment Information

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

Intellectual Property (IP): A developer and licensor of semiconductor intellectual property.

The significant accounting policies of the above segments are the same as those described in Note 1. Inter-segment sales are recorded at cost.

FY07

	IP Division	Discontinued operations and held for sale	Totals
Revenues	\$ 59,981	\$ 22,084	\$ 82,065
Segment profit	\$ 20,525	\$ 4,184	\$ 24,709
Segment capital assets*	\$ 77,890	\$ 7,028	\$ 84,918
Expenditures on segment capital assets*	\$ 79,727	\$ 798	\$ 80,525
Amortization and write-down of capital assets*	\$ 3,170	\$ 7,150	\$ 10,320
Goodwill	\$ —	\$ 1,786	\$ 1,786

FY06

Revenues	\$ 38,528	\$ 25,371	\$ 63,899
Segment profit	\$ 14,632	\$ 851	\$ 15,483
Segment capital assets*	\$ 1,333	\$ 13,380	\$ 14,713
Expenditures on segment capital assets*	\$ 219	\$ 7,557	\$ 7,776
Amortization and write-down of capital assets*	\$ 457	\$ 2,024	\$ 2,481
Goodwill	\$ 1,786	\$ —	\$ 1,786

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

FY07	Revenue from Operations	Capital Assets*
Korea	\$ 32,416	\$ —
U.S.A.	8,819	179
Taiwan	7,478	—
Germany	10,821	—
Netherlands	447	—
Canada	—	84,739
	\$ 59,981	\$ 84,918
FY06		
Korea	\$ 33,983	\$ —
U.S.A.	—	442
Taiwan	3,502	—
Netherlands	1,043	—
Canada	—	14,271
	\$ 38,528	\$ 14,713

*Capital assets include acquired intangibles and assets held for sale but not goodwill.

In fiscal 2007, revenue from five of the Company's customers amounted to more than 10% of consolidated revenue from operations. Revenue from one customer was 28.7%; revenues from the other customers was 25.3%, 18.0%, 14.7% and 12.5%.

In fiscal year 2006, revenue from two of the Company's customers amounted to more than 10% of consolidated revenue from operations. Revenue from one customer was 46.9% and revenue from the other was 41.3%.

21. Contingency and commitments

As at April 30, 2007, the Company had outstanding letters of guarantee totaling \$202,000 (2006 – \$321,000).

In the ordinary course of business, the Company enters into standard design and license agreements which include indemnification provisions. Indemnifications cover customers for losses suffered or incurred by them as a result of any intellectual property 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 intellectual property infringement. Accordingly, the Company has no liabilities recorded for indemnification under these agreements as of April 30, 2007 or April 30, 2006.

The Company enters into patent licensing agreements in the ordinary course of business. Although the Company does not provide price protection to most of its customers, there are times when it is a necessary means of doing business. Price protection may be offered to earlier licensees in order to ensure that they enjoy more favoured pricing relative to later licensees for comparable license terms. Such protections are not retroactive. At April 30, 2007, the Company estimates the fair value of this obligation as \$nil (2006 – \$nil) based upon the licenses executed to date.

The Company leases premises in one location in the United States. Office space in California is used to support the Semiconductor IP product development and sales and marketing functions. In accordance with generally accepted accounting principles, the value of these operating leases, \$680,000, is not recorded on the Company's Balance Sheet at year end.

As part of the Company exiting the tester business and the sale of certain tester related assets to a third party, the Company has requested an early termination of the Agreement from the Government. The Company and the Government are negotiating the amount of an early termination payment.

22. Subsequent events

Subsequent to year-end, the Company signed a definitive agreement to sell its land and building to an unrelated third party for \$14.0 million. The agreement is expected to close in October 2007 and is subject to normal closing conditions. As part of the agreement, the Company has agreed to lease a portion of the facility for a period of 5 years at current market rates.

Subsequent to year-end, the Company signed a definitive agreement to sell certain of its Semiconductor IP assets to an unrelated third party for approximately US\$15 million. The agreement is expected to close in August 2007, with payment subject to a US\$2.0 million holdback for one year. As part of the agreement, the third party will hire the Semiconductor IP engineering team and will receive an exclusive license to certain patents and patents pending associated with the Company's Semiconductor IP product lines. As part of the sale, the Company expects to incur restructuring and lease cancellation charges.

23. Future Changes to Accounting Pronouncements

Comprehensive Income

The CICA issued section 1530 of the CICA Handbook, *Comprehensive Income*. The section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as:

- Changes in the currency translation adjustment relating to self-sustaining foreign operations.
- Unrealized gains or losses on available-for-sale investments.

The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, *Comprehensive Income*.

When the Company adopts these sections on May 1, 2007, it will report the following items in the consolidated financial statements:

- Comprehensive income and its components
- Accumulated other comprehensive income and its components

Financial Instruments – Recognition and Measurement

The CICA issued section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*. The section is effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section requires that:

- All financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity
- All financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value
- All derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, *Financial Instruments – Disclosure and Presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come into effect for fiscal years beginning on or after October 1, 2006.

Hedges

The CICA issued section 3865 of the CICA Handbook, *Hedges*. The section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between:

- Changes in the fair value of a hedged item and an hedging item
- Changes in the cash flows attributable to a hedged item and a hedging item, or
- Changes resulting from a risk exposure relating to a hedged item and a hedging item

Hedge accounting makes sure that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of operations in the same period.

Share Information

Market Listing

Toronto Stock Exchange Symbol: MSD

Weighted average number of shares for the year ended April 30, 2007 (audited)

Basic	11,103,185
Diluted	11,321,298

Share trading information

Fiscal Year 2007

TSX (Cdn \$)	High	Low	Closing	Volume
First quarter ended July 31, 2006	\$31.50	\$22.50	\$23.30	3,294,210
Second quarter ended October 31, 2006	\$30.52	\$22.00	\$27.85	4,623,229
Third quarter ended January 31, 2007	\$29.00	\$26.00	\$28.65	1,826,422
Fourth quarter ended April 30, 2007	\$30.00	\$22.89	\$26.38	2,937,961
Total				12,681,822

Fiscal Year 2006

TSX (Cdn \$)	High	Low	Closing	Volume
First quarter ended July 31, 2005	\$23.70	\$17.51	\$19.61	2,373,480
Second quarter ended October 31, 2005	\$22.99	\$18.61	\$21.51	1,671,296
Third quarter ended January 31, 2006	\$25.39	\$20.52	\$25.00	2,627,556
Fourth quarter ended April 30, 2006	\$30.80	\$23.45	\$29.45	2,891,901
Total				9,564,233

Board of Directors:	Carl P. Schlachte, Sr. (1) (4) Chairman of the Board and Director	Robert M. Kramer (3) Director	(1) <i>Member of the Audit Committee</i>
	John C. Lindgren President, Chief Executive Officer and Director	Dr. John B. Millard (2) (3) (4) Director	(2) <i>Member of the Corporate Governance and Nominating Committee</i>
	Eugene I. Davis (1) (4) Director	Normand Y. Paquette (1) Director	(3) <i>Member of the Human Resources Committee</i>
	Gideon J. King (2) (4) Director	Barry J. Reiter (2) (3) Director	(4) <i>Member of the Special Committee</i>

Officers:	John C. Lindgren President, Chief Executive Officer and Director	Phillip S. Shaer Vice President, General Counsel and Corporate Secretary	Michael B. Vladescu Vice President Licensing and Intellectual Property
	Joseph R. Brown Vice President, Chief Financial Officer	Peter B. Gillingham Vice President and Chief Technology Officer	Jin-Ki Kim Vice President Research and Development

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Shareholder Information:	<i>Auditors</i>	<i>Transfer Agent and Registrar</i>	<i>Investor Relations</i>
	Deloitte & Touche LLP 100 Queen Street Suite 800 Ottawa, Ontario K1P 5T8	CIBC Mellon Trust Company 320 Bay Street Banking Level Toronto, Ontario M5H 4A6	Persons interested in receiving financial information on the company should direct inquiries to: MOSAID Investor Relations 11 Hines Road Ottawa, Ontario K2K 2X1 Email: ir@mosaid.com
	<i>Legal Counsel</i>	<i>Bankers</i>	
	LaBarge Weinstein LLP 515 Legget Drive Suite 800 Ottawa, Ontario K2K 3G4 Howrey, LLP 525 Market Street, Suite 3600 San Francisco, CA 94105-2708 USA	Royal Bank of Canada 90 Sparks Street Ottawa, Ontario K1P 5T6	

Annual and Special Meeting of Shareholders: The Annual and Special Meeting of Shareholders will be held Friday, September 21, 2007 at 10:30 a.m. at MOSAID headquarters: 11 Hines Road, Ottawa, Ontario, K2K 2X1. All shareholders and others interested in the Company are invited to attend.

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