

**MOSAID TECHNOLOGIES INCORPORATED**

(Subject to the Canada Business Corporations Act)

**CONSOLIDATED PRO FORMA STATEMENT OF OPERATIONS**

(In thousands of Canadian dollars, except per share amounts)

(Unaudited)

	Quarter ended July 31, 2007	Quarter ended July 31, 2006
<b>Revenues</b>	<b>\$ 12,595</b>	<b>\$ 19,109</b>
<b>Operating expenses</b>		
Patent portfolio management	962	891
Patent licensing and litigation	2,438	1,503
Research and development	492	260
General and administration	1,213	1,804
Foreign exchange loss	188	134
Special committee	11	-
	<b>5,304</b>	<b>4,592</b>
Pro forma income from operations	7,291	14,517
Net interest income	398	586
Pro forma income before income tax	7,689	15,103
Income tax expense	2,779	5,268
Pro forma income (Note 6)	<b>\$ 4,910</b>	<b>\$ 9,835</b>
<b>Pro forma earnings per share</b>		
Basic	\$0.44	\$0.87
Diluted	\$0.44	\$0.86
<b>Weighted average number of shares</b>		
Basic	11,110,854	11,295,626
Diluted	11,240,124	11,482,139

See accompanying Notes to the Consolidated Financial Statements

**MOSAID TECHNOLOGIES INCORPORATED**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

(In thousands of Canadian dollars, except per share amounts)  
(unaudited)

	Quarter ended July 31, 2007	Quarter ended July 31, 2006
<b>Revenues</b>	<b>\$ 12,595</b>	<b>\$ 19,109</b>
<b>Operating expenses</b>		
Patent portfolio management	962	891
Patent licensing and litigation	2,438	1,503
Research and development	492	260
General and administration	1,213	1,804
Foreign exchange (gain) loss	(1,490)	134
Restructuring	19	-
Special committee	11	-
Stock-based compensation	98	149
Patent amortization and imputed interest	3,400	139
	<b>7,143</b>	<b>4,880</b>
Income from operations	5,452	14,229
Net interest income (Note 3)	398	586
Income before income tax expense and discontinued operations	5,850	14,815
Income tax expense	2,115	6,337
Income before discontinued operations	3,735	8,478
Discontinued operations (net of tax) (Note 5)	5,800	(1,821)
Net income	<b>\$ 9,535</b>	<b>\$ 6,657</b>
<b>Earnings per share (Note 4)</b>		
Basic - before discontinued operations	<b>\$0.34</b>	\$0.75
Diluted - before discontinued operations	<b>\$0.33</b>	\$0.74
Basic - net earnings	<b>\$0.86</b>	\$0.59
Diluted - net earnings	<b>\$0.85</b>	\$0.58
<b>Weighted average number of shares</b>		
Basic	11,110,854	11,295,626
Diluted	11,240,124	11,482,139

See accompanying Notes to the Consolidated Financial Statements

**MOSAID TECHNOLOGIES INCORPORATED**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands of Canadian dollars)

	As at July 31, 2007 (unaudited)	As at April 30, 2007 (audited)
<b>Current Assets</b>		
Cash and cash equivalents	\$ 25,164	\$ 23,396
Marketable securities	37,330	26,876
Accounts receivable	8,219	12,626
Prepaid expenses	771	618
Future income taxes recoverable	10,278	10,278
Other asset	984	-
	<b>82,746</b>	<b>73,794</b>
<b>Capital assets</b>	<b>1,170</b>	<b>1,067</b>
<b>Acquired intangibles</b>	<b>77,189</b>	<b>76,823</b>
<b>Long-term receivable</b>	<b>1,734</b>	<b>1,734</b>
<b>Goodwill</b>	<b>-</b>	<b>1,786</b>
<b>Long-term assets held for sale</b>	<b>5,355</b>	<b>7,028</b>
<b>Future income taxes recoverable</b>	<b>22,567</b>	<b>24,468</b>
	<b>\$ 190,761</b>	<b>\$ 186,700</b>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 10,812	\$ 16,091
Deferred revenue	584	542
Mortgage payable	4,281	4,346
Current portion of other long-term liabilities	6,164	5,239
	<b>21,841</b>	<b>26,218</b>
<b>Other long-term liabilities</b>	<b>37,075</b>	<b>38,313</b>
	<b>58,916</b>	<b>64,531</b>
<b>Shareholders' Equity (Note 2)</b>		
Share capital	104,026	102,276
Contributed surplus	3,178	2,992

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

(In thousands of Canadian dollars)  
(unaudited)

	Quarter ended July 31, 2007	Quarter ended July 31, 2006
<b>Operating</b>		
Income before discontinued operations	\$ 3,735	\$ 8,478
Items not affecting cash		
Amortization	2,319	219
Stock option expense	98	336
Future income tax recoverable	1,901	3,646
	<b>8,053</b>	12,679
Change in non-cash working capital items from continuing operations	<b>(4,195)</b>	(5,928)
	<b>3,858</b>	6,751
<b>Investing</b>		
Acquisition of capital assets and acquired intangibles	<b>(2,664)</b>	(13,534)
Acquisition of short-term marketable securities	<b>(46,901)</b>	(34,069)
Proceeds on disposal/maturity of short-term marketable securities	<b>36,447</b>	39,864
	<b>(13,118)</b>	(7,739)
<b>Financing</b>		
Repayment of mortgage	<b>(65)</b>	(59)
Long-term liabilities	<b>(313)</b>	9,566
Repurchase of shares	-	(1,913)
Dividends	<b>(2,779)</b>	(2,831)
Issue of common shares	<b>1,750</b>	464
	<b>(1,407)</b>	5,227
Net cash (outflow) inflow from continuing operations	<b>(10,667)</b>	4,239
Net cash inflow (outflow) from discontinued operations	<b>12,435</b>	(1,101)
<b>Net cash inflow</b>	<b>1,768</b>	3,138
<b>Cash and cash equivalents, beginning of period</b>	<b>23,396</b>	15,542
<b>Cash and cash equivalents, end of period</b>	<b>\$ 25,164</b>	<b>\$ 18,680</b>

See accompanying Notes to the Consolidated Financial Statements

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

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

1. Basis of Presentation

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

In the opinion of management, all adjustments consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the interim period presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the full fiscal year ending April 30, 2008.

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

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*.

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 a 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.

As a result of adopting the above, the Company has:

- Recorded its foreign exchange risk management derivatives at fair value as at the reporting date on the balance sheet as “Other assets”;
- Recorded the effective portion of its derivatives on the balance sheet in “Accumulated other comprehensive income”;
- Classified all of its cash equivalents and marketable securities as “Held-for trading” and recorded those securities at their fair value as at the reporting date, with changes in fair value being recognized in income immediately;
- Classified its long-term liabilities as “Other liabilities” which are recorded at amortized cost using the effective interest method; and
- Reported comprehensive income and its components and accumulated other comprehensive income and its components in the Notes to the consolidated financial statements.

As a result of adoption of the above policies, there was no material impact on the Statement of Operations.

## 2. Shareholders' equity and other comprehensive income

The following are the changes in shareholders' equity for the three months ended July 31, 2007:

	Common shares (number)	Common shares (\$)	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance at April 30, 2007	11,055,376	\$102,276	\$2,992	\$16,901	\$ -	\$122,169
Net income	-	-	-	9,535	-	9,535
Dividends	-	-	-	(2,779)	-	(2,779)
Employee Stock Option Program	129,133	1,726	-	-	-	1,726
Employee Share Purchase Program	2,910	24	-	-	-	24
Stock-based compensation	-	-	186	-	-	186
Unrealized derivative gains on cash flow hedges - net	-	-	-	-	984	984
Balance at July 31, 2007	11,187,419	\$104,026	\$3,178	\$23,657	\$984	\$131,845

The following are the components of comprehensive income (net of taxes):

	<b>Quarter ended July 31, 2007</b>	Quarter ended July 31, 2006
Net income	<b>\$ 9,535</b>	\$6,657
Other comprehensive income adjustments:		
Unrealized derivative gains on cash flow hedges, net of taxes	<b>620</b>	-
	<b>\$10,155</b>	\$6,657

During the three months ended July 31, 2007 and July 31, 2006, \$263,000 and nil net derivative gains were reclassified into net income. The Company estimates that all net derivative gains included in accumulated other comprehensive income will be reclassified into net income within the next 12 months.

### 3. Net Interest Income

Net interest income comprises the following:

	<b>Quarter ended July 31, 2007</b>	Quarter ended July 31, 2006
Interest income	<b>\$485</b>	\$678
Interest expense	<b>87</b>	92
	<b>\$398</b>	\$586

### 4. Earnings per Share

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

	<b>Quarter ended July 31, 2007</b>	Quarter ended July 31, 2006
Income before discontinued operations	<b>\$3,735</b>	\$8,478
Discontinued operations (net of tax)	<b>5,800</b>	(1,821)
Net income	<b>\$9,535</b>	\$6,657
Weighted average number of common shares outstanding	<b>11,110,854</b>	11,295,626
Net effect of stock options	<b>129,270</b>	186,513
Weighted average diluted number of common shares outstanding	<b>11,240,124</b>	11,482,139
Earnings per share		
Basic – before discontinued operations	<b>\$0.34</b>	\$0.75
Diluted – before discontinued operations	<b>\$0.33</b>	\$0.74
Basic - net income	<b>\$0.86</b>	\$0.59
Diluted - net income	<b>\$0.85</b>	\$0.58

For the quarter ended July 31, 2007, 15,500 options were excluded from the calculation of diluted earnings per share as the exercise price of these options exceeded the average market price of the Company's common stock during this period and were therefore anti-dilutive.

For the quarter ended July 31, 2006, 11,000 options were excluded from the calculation of diluted earnings per share as the exercise price of these options exceeded the average market price of the Company's common stock during this period and were therefore anti-dilutive.

There were 406,541 and 634,923 options issued and outstanding as at July 31, 2007 and July 31, 2006 respectively.

#### 5. Discontinued operations

	<b>Quarter ended July 31, 2007</b>	Quarter ended July 31, 2006
Revenues	<b>\$ 382</b>	\$3,873
Expenses		
Labour and materials	-	1,222
Research and development	<b>1,446</b>	3,494
Selling and marketing	<b>1,008</b>	1,702
Bad debts	-	88
Restructuring	<b>154</b>	-
	<b>2,608</b>	6,506
Loss from operations	<b>(2,226)</b>	(2,633)
Gain on sale of assets	<b>9,304</b>	-
Earnings before tax	<b>7,078</b>	(2,633)
Income tax expense (recovery)	<b>1,278</b>	(812)
Discontinued operations (net of tax)	<b>\$ 5,800</b>	(\$1,821)

#### 6. Reconciliation of pro forma income with GAAP net income

	<b>Quarter ended July 31, 2007</b>	Quarter ended July 31, 2006
GAAP net income	<b>\$9,535</b>	\$6,657
Add (deduct):		
Stock-based compensation	<b>98</b>	149
Patent amortization and imputed interest	<b>3,400</b>	139
Other	<b>19</b>	-
Discontinued operations (net of tax)	<b>(5,800)</b>	1,821
Foreign exchange gain	<b>(1,678)</b>	-
Income tax expense - continuing operations	<b>(664)</b>	1,069
Pro forma income	<b>\$4,910</b>	\$9,835

#### 7. Stock-based Compensation

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

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

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

	<b>Quarter ended July 31, 2007</b>	Quarter ended July 31, 2006
Risk free interest rate	<b>4.26 %</b>	4.49 %
Expected life in years	<b>5.5</b>	5.5
Expected dividend yield	<b>3.7 %</b>	4.0 %
Volatility	<b>56.33 %</b>	67.37 %

#### 8. Business Segment Information

The Company operates in one business segment as a developer and licensor of semiconductor intellectual property.