

MOSAID Technologies Incorporated
Unaudited Pro Forma Consolidated Financial Statements
For the Quarter Ended July 31, 2010

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

MOSAID TECHNOLOGIES INCORPORATED
 (Subject to the Canada Business Corporations Act)
CONSOLIDATED PRO FORMA STATEMENTS OF INCOME
 (In thousands of Canadian Dollars, except per share amounts)
 (Unaudited)

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
Revenues	\$18,488	\$16,223
Operating expenses		
Patent portfolio management	2,186	1,711
Patent licensing and litigation	2,553	1,944
Research and development	536	811
General and administration	1,348	1,549
Foreign exchange (gain) loss	(74)	409
	6,549	6,424
Pro forma income from operations	11,939	9,799
Interest income	342	119
Pro forma income before income tax expense	12,281	9,918
Income tax expense	3,684	3,273
Pro forma net income	\$ 8,597	\$ 6,645
Pro forma earnings per share		
Basic	\$0.73	\$0.65
Diluted	\$0.73	\$0.65
Weighted average number of shares		
Basic	11,767,954	10,215,130
Diluted	11,840,308	10,249,535

Pro forma net income is reconciled to GAAP net income as follows:

(Dollar amounts in thousands)

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
GAAP net income	\$5,208	\$6,454
Add (deduct):		
Stock-based compensation	398	238
Patent amortization and imputed interest	4,126	3,868
Foreign exchange loss (gain)	618	(2,877)
Income tax expense – for the above items	(1,487)	(802)
Future income tax revaluation	(200)	-
Discontinued operations (net of tax)	(66)	(236)
Pro forma net income	<u>\$8,597</u>	<u>\$6,645</u>

Pro forma foreign exchange (gain) loss is reconciled to GAAP foreign exchange loss (gain) as follows:

(Dollar amounts in thousands)

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
GAAP foreign exchange loss (gain)	\$ 544	\$(2,469)
Less: foreign exchange loss (gain) on long-term debt	618	(2,878)
Pro forma foreign exchange (gain) loss	<u>\$(74)</u>	<u>\$ 409</u>

MOSAID Technologies Incorporated
Unaudited Consolidated Financial Statements
For the Quarter Ended July 31, 2010

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

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

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
Revenues	\$18,488	\$16,223
Operating expenses		
Patent portfolio management	2,186	1,711
Patent licensing and litigation	2,553	1,944
Research and development	536	811
General and administration	1,348	1,549
Foreign exchange loss (gain)	544	(2,469)
Stock-based compensation	398	238
Patent amortization and imputed interest	4,126	3,868
	11,691	7,652
Income from operations	6,797	8,571
Interest income	342	119
Income before income tax expense and discontinued operations	7,139	8,690
Income tax expense	1,997	2,472
Income before discontinued operations	5,142	6,218
Discontinued operations income (net of tax) (Note 5)	66	236
Net income	5,208	6,454
Dividends	2,943	2,561
Retained earnings, beginning of period	22,702	11,607
Retained earnings, end of period	\$24,967	\$15,500
Earnings per share (Note 4)		
Basic – before discontinued operations	\$0.44	\$0.61
Diluted – before discontinued operations	\$0.43	\$0.61
Basic – net earnings	\$0.44	\$0.63
Diluted – net earnings	\$0.44	\$0.63
Weighted average number of shares		
Basic	11,767,954	10,215,130
Diluted	11,840,308	10,249,535

See accompanying Notes to the Consolidated Financial Statements

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

	As at July 31, 2010 (unaudited)	As at April 30, 2010 (audited)
Current Assets		
Cash and cash equivalents	\$ 74,099	\$ 70,732
Marketable securities	29,513	30,096
Accounts receivable	5,737	4,880
Prepaid expenses	594	698
Other asset	910	2,053
Future income tax asset	10,835	10,930
	121,688	119,389
Property and equipment	226	257
Acquired intangible assets	77,379	80,685
Investment tax credits receivable	15,748	15,748
	\$215,041	\$216,079
Current Liabilities		
Accounts payable and accrued liabilities	\$ 6,850	\$ 7,734
Deferred revenue	1,414	4,611
Other liability	932	992
Current portion of other long-term liabilities	9,469	8,294
	18,665	21,631
Deferred gain on sale-leaseback	775	828
Other long-term liabilities	33,409	33,132
Future income tax liability	5,983	6,147
	58,832	61,738
Shareholders' Equity		
Share capital (Note 3)	126,694	126,573
Contributed surplus	3,807	3,452
Retained earnings	24,967	22,702
Accumulated other comprehensive income	741	1,614
	156,209	154,341
	\$215,041	\$216,079

See accompanying Notes to the Consolidated Financial Statements

MOSAID TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of Canadian Dollars)
(Unaudited)

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
Operating		
Income before discontinued operations	\$ 5,142	\$ 6,218
Items not affecting cash		
Amortization	3,411	3,014
Stock-based compensation	398	238
Unrealized foreign exchange loss (gain) on other long-term liabilities	618	(2,877)
Future income taxes and investment tax credits	228	57
	9,797	6,650
Change in non-cash working capital items from continuing operations	(4,840)	4,739
	4,957	11,389
Investing		
Acquisition of property and equipment and acquired intangibles	(74)	(112)
Acquisition of marketable securities	(9,909)	(316)
Proceeds on disposal and maturity of marketable securities	10,492	18,496
	509	18,068
Financing		
Increase (decrease) in other long-term liabilities	747	(8,356)
Dividends paid	(2,943)	(2,561)
Issue of common shares	78	503
	(2,118)	(10,414)
Net cash inflow from continuing operations	3,348	19,043
Net cash inflow (outflow) from discontinued operations	19	(240)
Net cash inflow	3,367	18,803
Cash and cash equivalents, beginning of period	70,732	32,899
Cash and cash equivalents, end of period	\$74,099	\$51,702
Supplementary Information:		
Cash on hand and bank balances	\$74,099	\$ 9,966
Short-term investments	-	41,736
Total cash and cash equivalents	\$74,099	\$51,702

See accompanying Notes to the Consolidated Financial Statements

MOSAID TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of Canadian Dollars)
(Unaudited)

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
Net income	\$5,208	\$6,454
Other comprehensive income, net of tax:		
Gains (losses) on derivatives designated as cash flow hedges	(367)	1,248
Gains (losses) on derivatives designated as cash flow hedges in prior periods transferred to earnings in the current period	(506)	(386)
Other comprehensive (loss) income	(873)	862
Comprehensive income	\$4,335	\$7,316

See accompanying Notes to the Consolidated Financial Statements

MOSAID TECHNOLOGIES INCORPORATED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended July 31, 2010 and 2009

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and note disclosure required by GAAP for annual financial statements. These financial statements are based upon accounting principles consistent with those used in the annual consolidated financial statements with the exception of new accounting policies described in Note 3. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended April 30, 2010.

The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could differ materially from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the full fiscal year ending April 30, 2011.

2. Recently Issued Accounting Standards

International Financial Reporting Standards

The Accounting Standards Board of Canada (AcSB) plans to converge Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards (IFRS) over a transition period that will end effective January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Starting with the first quarter of fiscal 2012, the Company will provide unaudited consolidated financial information in accordance with IFRS, including comparative figures for fiscal 2011.

The Company has completed a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP. However, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements. As this assessment is finalized, the Company intends to disclose such impacts in its future consolidated financial statements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable standards at the conversion date are known.

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581, Business Combinations. This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted. The Section establishes standards for the accounting for a business combination. The Company does not anticipate that the adoption of the new standard will have a significant impact on the consolidated financial statements of the Company.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. These new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of the adoption of these new Sections on the consolidated financial statements.

3. Shareholders' equity and other comprehensive income

The following are the changes in shareholders' equity for the quarter ended July 31, 2010 and for the year ended April 30, 2010:

	Common Shares (Number)	Common Shares (\$)	Contributed Surplus (\$)	Retained Earnings (\$)	Accumulated Other Comprehensive Income (\$)	Total (\$)
Balance at April 30, 2010	11,763,626	\$126,573	\$3,452	\$22,702	\$1,614	\$154,341
Net income	-	-	-	5,208	-	5,208
Dividends	-	-	-	(2,943)	-	(2,943)
Employee and Director Stock Option Plan	4,625	90	(21)	-	-	69
Employee and Director Stock Purchase Program	6,448	31	(22)	-	-	9
Stock-based compensation	-	-	398	-	-	398
Other comprehensive income	-	-	-	-	(873)	(873)
Balance at July 31, 2010	11,774,699	\$126,694	\$3,807	\$24,967	\$741	\$156,209

	Common Shares (Number)	Common Shares (\$)	Contributed Surplus (\$)	Retained Earnings (\$)	Accumulated Other Comprehensive Income (\$)	Total (\$)
Balance at April 30, 2009	10,184,323	\$ 94,741	\$3,753	\$11,607	\$ 446	\$110,547
Net income	-	-	-	21,750	-	21,750
Dividends	-	-	-	(10,655)	-	(10,655)
Employee and Director Stock Option Plan	119,475	2,144	(882)	-	-	1,262
Employee and Director Stock Purchase Program	22,328	496	(337)	-	-	159
Restricted share unit plan	-	(601)	(271)	-	-	(872)
Stock-based compensation	-	-	1,189	-	-	1,189
Equity financing	1,437,500	29,793	-	-	-	29,793
Other comprehensive income	-	-	-	-	1,168	1,168
Balance at April 30, 2010	11,763,626	\$126,573	\$3,452	\$22,702	\$1,614	\$154,341

4. Earnings per Share

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

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
Income before discontinued operations	\$5,142	\$6,218
Discontinued operations (net of tax)	66	236
Net income	\$5,208	\$6,454
Weighted average number of common shares outstanding	11,767,954	10,215,130
Net effect of stock options	72,354	34,405
Weighted average diluted number of common shares outstanding	11,840,308	10,249,535
Earnings per share		
Basic – before discontinued operations	\$0.44	\$0.61
Diluted – before discontinued operations	\$0.43	\$0.61
Basic - net income	\$0.44	\$0.63
Diluted - net income	\$0.44	\$0.63

For the quarters ended July 31, 2010 and July 31, 2009, 78,328 and 259,606 options, respectively, were excluded from the calculation of diluted earnings per share, as the exercise price of these options exceeded the average market price of the Company's common stock during this period and were therefore anti-dilutive. There were 634,520 and 519,645 options issued and outstanding as at July 31, 2010 and July 31, 2009, respectively.

5. Discontinued operations

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
Revenues	\$38	\$ 18
Expenses	-	-
Gain from operations	38	18
Gain on sale of assets	53	333
Earnings before tax	91	351
Income tax expense	25	115
Discontinued operations (net of tax)	\$66	\$236

6. Stock-based Compensation

The Company has an Employee and Director Stock Purchase Plan ("ESPP") whereby employees may elect to designate up to 5% of their annual salary to purchase shares of the Company at a 10% discount from the fair market value. The purchase price is deducted over a six month period via payroll. Directors are also eligible to participate in the ESPP.

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

The Company employs a fair value method of accounting for all options issued to employees and 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:

	Quarter ended July 31, 2010	Quarter ended July 31, 2009
Risk free interest rate	2.7%	0.36%
Expected life in years	4.9	5.5
Expected dividend yield	4.64%	6.97%
Volatility	37.07%	40.62%

For the quarter ended July 31, 2010, the Company did not issue Deferred Share Units ("DSUs") in lieu of options to directors and officers of the Company under its DSU Plan. DSUs vest evenly over a four year period. DSUs do not have an exercise price and can only be settled using cash consideration.

For the quarter ended July 31, 2010, the Company did not issue Restricted Share Units (RSUs). The RSUs vest over three years. Under the RSU Plan, units are settled using common shares of the Company. The Company will fund an independent trustee to purchase the required shares. The Company recognizes compensation expense equal to the stock price on the grant date, over the vesting period.

7. Financial Instruments

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a licensee or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and its foreign exchange contracts.

The Company provides extended payment terms to some licensees in the normal course of its operations. The Company's credit risk review includes performing periodic credit evaluations of its most significant licensees. In certain circumstances, the Company may utilize letters of guarantee or credit insurance to mitigate certain credit risks. Many of the Company's licensees are large national and international public companies. Due to the nature of the Company's operations, provisions for doubtful accounts are made on a licensee-by-licensee basis, based upon on-going review of licensee financial status.

Many of the Company's current licensees' operations are focused in the semiconductor industry. The semiconductor industry, particularly the DRAM and Flash memory segment, tends to be cyclical and, from time to time, suffers from economic difficulties due to pricing pressure as a result of an oversupply of memory devices.

Due to the long-term nature of many of the Company's licensing arrangements, in certain circumstances, the Company may not be able to obtain, at reasonable cost, credit insurance or other forms of credit risk mitigation instruments. A default of the remaining payments by one of the Company's licensees could have a materially adverse impact on the Company's future revenues, earnings, cash flow and financial position.

The Company limits its exposure to credit risk from counter-parties to derivative instruments by dealing only with major financial institutions. Management does not expect any counter-parties to fail to meet their obligations.

The Company invests its excess cash in investment grade securities, each with a maturity date not exceeding 12 months. The Company relies upon the credit rating of the counter-party to limit its credit risk. The Company does not invest in asset-backed commercial paper.

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

	<u>July 31, 2010</u>	<u>April 30, 2010</u>
Cash and cash equivalents	\$ 74,099	\$ 70,732
Marketable securities	29,513	30,096
Accounts receivable	5,737	4,880
Other asset	910	2,053
Other liability	(932)	(992)
	<u>\$109,327</u>	<u>\$106,769</u>

The aging of accounts receivable at the reporting date was:

	<u>July 31, 2010</u>	<u>April 30, 2010</u>
Current	\$1,322	\$1,367
Past due	4,415	3,513
	<u>\$5,737</u>	<u>\$4,880</u>

Of the amount past due, a portion has been recognized as revenue as the Company expects to collect the amount under a credit insurance policy, and a portion has been recorded as deferred revenue as there is uncertainty regarding ultimate collection.

Marketable securities comprise the following:

	<u>July 31, 2010</u>	<u>April 30, 2010</u>
Bonds & debentures	\$17,301	\$27,087
Discount notes	12,212	3,009
	<u>\$29,513</u>	<u>\$30,096</u>

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 July 31, 2010 and have a maturity date of one year or less.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holding of financial instruments.

Foreign Exchange Risk

The Company's revenues are denominated primarily in U.S. dollars, giving rise to exposure to market risks from changes in foreign exchange rates. The Company is exposed to foreign currency fluctuations on its accounts receivable and future cash flows related to licensing arrangements denominated in U.S. dollars, as well as certain operating expenses and its other long-term liabilities obligations.

The Company's foreign exchange risk management includes the use of foreign exchange forward contracts to fix the exchange rates on certain foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and anticipated future cash flows. The Company does not utilize derivative instruments for trading or speculative purposes. The Company formally documents all relationships between derivative instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments or anticipated transactions.

The Company also formally assesses, both at the inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in off-setting changes in fair values or cash flows of hedged items. Hedge ineffectiveness is insignificant.

The forward foreign exchange contracts primarily require the Company to sell U.S. dollars for Canadian dollars at contractual rates. The Company had the following forward exchange contracts.

(In thousands of dollars)					July 31, 2010	
Type	Notional	Currency	Maturity	Equivalent to CDN dollars	Fair Value	
Sell	\$ 10,625	USD	< 3 months	\$ 11,370	\$ 439	
Sell	\$ 17,975	USD	3-12 months	\$ 19,007	\$ 471	
					\$ 910	
Buy	\$(5,000)	USD	3-12 months	\$(6,093)	\$(932)	

(In thousands of dollars)					April 30, 2010	
Type	Notional	Currency	Maturity	Equivalent to CDN dollars	Fair Value	
Sell	\$ 12,875	USD	< 3 months	\$13,836	\$ 759	
Sell	\$ 21,225	USD	3-12 months	\$22,890	\$1,294	
					\$2,053	
Buy	\$(5,000)	USD	3-12 months	\$(6,093)	\$(992)	

A one cent strengthening (weakening) of the U.S. dollar against the Canadian dollar would have decreased (increased) other comprehensive income by approximately \$272,000 for Q1 fiscal 2011.

Interest Rate Risk

The Company is exposed to interest rate risk due to its holdings of interest-bearing marketable securities. It is the Company's policy to invest in securities with a maturity date of 12 months or less and Company practice to hold such securities, when possible, until maturity. A 1% increase (decrease) to the interest rate would result in an approximate \$140,000 decrease (increase) in the fair value of the investments held as at the reporting date.

The Company is also exposed to interest rate risk due to its imputed interest on other long-term liabilities.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At July 31, 2010, the Company had \$103.6 million of cash and marketable securities and had a secured bank credit facility of \$10.0 million, less off balance sheet arrangements, as described in Note 18 to the fiscal 2010 Consolidated Financial Statements, to meet liabilities when due. The credit facility is collateralized by a general security agreement and contains no covenants.

All of the Company's financial liabilities, except for its "other long-term liabilities" and operating lease for its premises, have contractual maturities of less than 30 days.

The following chart indicates the contractual obligations to which the Company is bound over the following five years.

Payments Due by Period (in thousands of dollars)

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating leases	\$ 1,137	\$ 248	\$ 496	\$ 393	-
Other long-term obligations	\$53,509	\$10,805	\$11,834	\$25,725	\$5,145
Total contractual obligations	\$54,646	\$11,053	\$12,330	\$26,118	\$5,145

Fair Value

The fair values of cash, marketable securities, accounts receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity. The recorded amounts of long-term monetary liabilities approximate fair value, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions.

Fair value of the forward exchange contracts reflects the cash flow due to or from the Company if settlement had taken place on the reporting date.

The fair value of employee and director deferred stock units is determined using the market price of the Company's common stock on the reporting date.

8. Capital Management

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income.

The Company has certain credit facilities with a Canadian chartered bank, which consist of an operating line, a foreign exchange forward contract facility and standby letters of credit. The Board of Directors does not

establish quantitative return on capital criteria for management, but rather promotes year over year sustainable profitable growth. The Board of Directors also reviews on a quarterly basis the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities. There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

9. Business Segment Information

The Company operates in one operating segment licensing patented intellectual property in the areas of semiconductors and telecommunications systems and developing semiconductor memory technology.

10. Subsequent Event

Subsequent to the quarter-end, Cisco Systems Inc. filed and served a Complaint for Declaratory Judgment in the United States District Court for the District of Delaware. In its complaint, Cisco is seeking a declaration of non-infringement and invalidity with respect to nine U.S. patents and one patent application owned by MOSAID, and which relate generally to Power-over-Ethernet technology.