2011 SECOND QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in U.S. dollars, unless otherwise stated

Caution regarding forward-looking statements

This document contains statements which constitute forward-looking statements. These forward-looking statements are not descriptive of historical matters and may refer to management's expectations or plans. These statements include but are not limited to statements concerning: Gennum's business objectives and plans including Gennum's corporate strategy and strategic priorities; Gennum's future financial performance and prospects including revenues, gross margins and earnings, and ability to achieve operating earnings, cash flow and other business model targets; the expected results and benefits of Gennum's acquisition of Nanotech (including the expected impact of the acquisition on Gennum's revenues, earnings, business and market position); future trends in the semiconductor products and intellectual property licensing industries and, in particular, market trends for analog and mixed-signal products, optical products and intellectual property products and licensing; Gennum's expectations for sales and licensing of its products in these markets including anticipated costs and fees, sales, product prices, size, duration, growth or decline of market opportunities and competitive and pricing pressures in these markets; Gennum's product roadmap and the speed at which Gennum is able to introduce new products; the adoption of new standards in the markets in which Gennum competes and the ability of Gennum to anticipate these changes and successfully address new opportunities; sales and capital spending plans and estimates, shipment levels and operating expenses; the anticipating savings from, and the anticipated costs and related charges and operating expenses associated with, the planned outsourcing of test and logistics operations; exchange rate fluctuations in, and the relative values of, the Canadian dollar, the U.S. dollar and the Japanese yen; Gennum's ability to finance its growth plans and make necessary investments; and litigation in which Gennum is involved.

Inherent in forward-looking statements are risks and uncertainties beyond Gennum's ability to predict or control including, but not limited to, risks associated with: competitive and pricing pressures in the increasingly competitive environment in which Gennum operates; changes in the mix of products sold which, due to associated margins, can impact Gennum's financial results; the successful integration of and realization of benefits from acquisitions, including the acquisition of Nanotech; economic cycles in the semiconductor industry including downturns which can result from adverse general economic conditions; the effects of the recent earthquake and tsunami in Japan and the resultant impact upon Gennum's sales in Japan, which comprise approximately 25% of Gennum's revenues; our ability to anticipate needs for future products and successfully execute our product roadmap, including the possibility of the emergence of disruptive technologies which negatively impact our positioning in the marketplace; the risk that unforeseen factors may arise that result in us not being able to achieve our operating income, cash flow and other business model targets; possible impairments of assets which could be required in the future; fluctuations in foreign exchange rates and their potential adverse impact upon our financial results; our reliance on external foundries and suppliers and the potential adverse effects of disruptions in any of these arrangements; our ability to attract and retain key personnel necessary for our business; our ability to successfully protect our intellectual property rights; and the initiation and outcome of legal proceedings. Readers should also refer to the sections entitled "Risks and Uncertainties" in our 2010 management's discussion and analysis and "Risk Factors" in our most recent annual information form, each as filed on SEDAR at www.sedar.com.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this document. Such statements are based on a number of assumptions which may prove to be incorrect including, but not limited to, the following assumptions: there is no material deterioration in the business and economic conditions in the marketplace for Gennum's products; Gennum is able to successfully integrate acquisitions (including the acquisition of Nanotech) and the results of such acquisitions are not materially different from those anticipated by Gennum; the effects of the recent earthquake and tsunami in Japan will not have a material adverse impact upon Gennum's revenues; Gennum's expectations regarding market trends for analog and mixed-signal products, optical products and intellectual property products and licensing are not materially incorrect; Gennum is able to execute its product roadmap without delays or disruptions having a material impact on Gennum; Gennum's expectations relating to the needs and direction of the marketplace for its products are within reasonable bounds of accuracy and Gennum is able to introduce products and capitalize on new opportunities generally as expected; Gennum's expectations relating to its future operating expenses, as well as the capital required to conduct its business in the future, are not materially incorrect; significant impairments of assets will not arise; material disruptions in the manufacture and supply of products and services to Gennum by foundries and suppliers will not materialize; Gennum's expectations relating to competitive pressures, including pricing pressures, as well as Gennum's expectations relating to the mix of products to be sold by it, are not materially incorrect; the actual savings from, and costs and related charges and operating expenses associated with, the planned outsourcing of test and logistics operations are not materially different from those anticipated by Gennum; significant fluctuations in foreign exchange rates which materially adversely affect Gennum's financial results do not arise; customer demand for Gennum's products remains generally as anticipated; and Gennum is able to continue to retain and attract technical and other key employees.

Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive. Forward-looking statements are not guarantees of future performance. Events or circumstances could cause Gennum's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Consequently, readers should not place any undue reliance on these forward-looking statements. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. In addition, these forward-looking statements relate to the date on which they are made. We disclaim any intention or obligation to update or revise any forward-looking statements or the foregoing list of factors, whether as a result of new information, future events or otherwise, except to the extent required by law.

The following discussion and analysis is intended to provide readers with an assessment of our performance for our second quarter ended May 31, 2011 together with the comparable period in the prior year, as well as our financial position and future prospects. It should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes for the second quarter of fiscal 2011 and 2010, the Company's fiscal 2010 and 2009 audited annual consolidated financial statements and accompanying notes, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and the management's discussion and analysis contained in our 2010 annual report. Our public disclosure documents, including our historical financial statements and our most recent annual information form, can be viewed on SEDAR at www.sedar.com.

In this discussion and analysis, "Gennum", the "Company", "we", "our" and similar references include Gennum Corporation and its subsidiaries, except where the context otherwise requires.

The Company's reporting currency is the U.S. dollar and its functional currency is the Canadian dollar. We believe that reporting in U.S. dollars improves the comparability of the Company's financial position and results of operations to others in its industry. **All amounts expressed herein are in U.S. dollars, unless otherwise stated.**

GENNUM CORPORATION

Gennum designs, develops and markets semiconductor products and intellectual property (IP) cores for advanced consumer connectivity, enterprise, video broadcast and data communications applications. Our products are designed to ensure that signals used to transmit video and data in applications such as networking, home entertainment and broadcasting maintain their original integrity, and to eliminate the potential for errors in sending and receiving information. Headquartered in Burlington, Canada, we have design, research, development and sales offices in Canada, Germany, India, Japan, Mexico, Taiwan, the United States and the United Kingdom. The common shares of the Corporation are listed on the Toronto Stock Exchange under the trading symbol "GND".

ACQUISITION OF NANOTECH SEMICONDUCTOR LIMITED

On April 6, 2011, Gennum UK Limited, a wholly owned subsidiary of Gennum Corporation, acquired 100% of the outstanding shares of Nanotech Semiconductor Limited ("Nanotech"), a fabless semiconductor company based in Bristol, U.K. which is engaged in the business of designing, developing and marketing analog and mixed-signal integrated circuits ("ICs") principally for fiber-optics based communications.

The acquisition was for an all cash consideration of approximately $35.9 million, which included the purchase price of $30.1 million (including transaction costs) and the repayment of $5.8 million in debt to the former chief executive officer of Nanotech. In addition, Gennum has agreed to earn-out payments aggregating up to $6.0 million upon the achievement by Nanotech of certain revenue targets over the 12 months following the closing of the transaction.

As of May 31, 2011, the purchase price allocation for the acquisition had not been finalized, as Gennum is in the process of finalizing the valuation of certain assets. The preliminary purchase price allocation is as follows:

Net assets acquired	5.9
Identifiable intangible assets subject to amortization	17.4
Future income tax liability related to the intangible asset	(4.5)
Debt payable to former CEO *	(5.8)
Goodwill	17.1
Total purchase price, including transaction costs	30.1

* *repaid immediately following the closing of the transaction*

The fair value of Nanotech's inventory in accordance with the purchase method of accounting resulted in an increase of approximately $0.8 million on the date of acquisition. Approximately two-thirds of this inventory was sold prior to May 31, 2011, which resulted in higher cost of sales than would normally be expected. It is expected that the remaining inventory will be sold by the end of fiscal 2011.

Of the $17.4 million intangible assets relating to the acquisition, $0.6 million relates to the order backlog which will be amortized based on when the orders are fulfilled. Approximately $0.3 million was amortized as part of sales, marketing and administrative expense in the second quarter of 2011 and it is expected that the remaining order backlog intangible will be fully amortized by the end of fiscal 2011. The remaining intangible asset of $16.8 million relates to technology and is being amortized on a straight-line basis over a period of seven years. The technology-related amortization expense in the second quarter of 2011 of approximately $0.4 million was included in research and development expenses.

Nanotech's financial results from April 7 to May 31, 2011 were included in Gennum's consolidated financial statements for the three months and the six months ended May 31, 2011. Including the above mentioned intangible asset amortization, the acquisition of Nanotech contributed: revenues of $2.2 million to the Optical product group; gross margins of $1.2 million; sales, marketing and administration expenditures of $0.7 million; net research and development expenditures of $1.2 million; and a net loss of $0.5 million to the 2011 second quarter results, and are included in the consolidated results and analysis below. The net income from Nanotech in the period before the fair value and acquisition-related amortization charges was $0.4 million. An analysis of the foregoing financial results has been included below under the heading "Non-GAAP Reporting".

OVERALL PERFORMANCE
(in millions of U.S. dollars except earnings per share or as otherwise stated)

	Three Months Ended May 31			**Six Months Ended May 31**		
	2011	2010	**% change**	**2011**	2010	**% change**
Revenue	**34.4**	31.7	**9**	**65.9**	61.2	**8**
Gross margin	**24.2**	22.5	**7**	**47.0**	44.0	**7**
Operating income	**4.6**	5.8	**(21)**	**11.1**	12.0	**(7)**
Net earnings	**3.6**	4.1	**(12)**	**8.1**	8.0	**1**
Earnings per share - diluted	**$0.10**	$0.12	**(17)**	**$0.23**	$0.23	**---**
Cash and cash equivalents[1]	**14.2**	52.7	**(73)**	**14.2**	52.7	**(73)**
Dividends declared per share[2]	**$0.036**	$0.034		**$0.071**	$0.067	

[1] - 2010 comparative information is as of November 30, 2010
[2] - Dividends were paid in Canadian dollars at a rate of $0.035 per share per quarter

Gennum recorded revenue of $34.4 million in the second quarter of 2011, which included $2.2 million of revenue from the acquisition of Nanotech and an additional $0.8 million in IP revenue due to a change in accounting policy in the quarter. Excluding the Nanotech acquisition and the pick up in IP revenue, revenue was relatively flat compared to the same period in 2010 and sequentially compared to the first quarter of 2011. On a consolidated basis, year-to-date revenue in 2011 was $65.9 million compared to $61.2 million for the same period in 2010.

EBITDA[1] in the second quarter was $9.3 million, compared to $9.2 million in the second quarter of 2010 and $9.3 million in the prior quarter. The 2011 second quarter results represented an EBITDA of 27% of revenue, down 2 percentage points compared to the second quarter of 2010 and sequentially lower by 3 percentage points compared to the first quarter of 2011.

[1] *"EBITDA" is a non-GAAP financial measure that does not have any standardized meaning under GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. A definition of this term, a description of why we believe it is a useful measure, and a quantitative reconciliation to the most directly comparable measure calculated in accordance with GAAP is set forth below under the heading "Non-GAAP Reporting".*

Operating income in the second quarter of 2011 was $4.6 million compared to $5.8 million in the second quarter of 2010. The decrease was driven mainly by higher expenses as a result of the Nanotech acquisition, including $0.7 million in additional intangible asset amortization and $0.5 million in additional cost of goods sold due to the gross up of Nanotech's inventory to fair value on acquisition. Third quarter results will be impacted by the remainder of the amortization of the Nanotech backlog intangible asset of approximately $0.3 million after which only the ongoing quarterly technology amortization of $0.4 million will be expensed. In addition, another $0.3 million will be expensed to cost of goods sold in the third quarter, representing the balance of the one-time inventory write up to fair value of Nanotech's inventory on acquisition (see "Non-GAAP Reporting" below for a further explanation of these one-time and ongoing acquisition related expenses). Excluding the impact of the acquisition of Nanotech, unfavourable currency impacts of approximately $1.0 million related to reporting in U.S. dollars also impacted the Company's operating income. Net income in the second quarter of 2011 was $3.6 million or $0.10 per share compared to $4.1 million or $0.12 per share in the second quarter of 2010.

Cash and cash equivalents decreased to $14.2 million as of May 31, 2011 compared to $52.7 million as of November 30, 2010 mainly due to the use of $35.9 million to acquire Nanotech and $2.8 million in deferred compensation awarded to Nanotech employees immediately following the acquisition. The Company believes that its current cash and cash equivalents and working capital position are sufficient to meet its obligations.

Revenue
(in millions of U.S. dollars)

	Three Months Ended May 31			**Six Months Ended May 31**		
	2011	2010	**% change**	**2011**	2010	**% change**
Analog and Mixed Signal (AMS)	**23.3**	23.2	**1**	**45.9**	44.9	**2**
Optical	**8.0**	6.5	**23**	**14.4**	12.3	**17**
Product revenue	**31.3**	29.7	**6**	**60.3**	57.2	**5**
IP	**3.1**	2.0	**53**	**5.6**	4.0	**41**
Total revenue	**34.4**	31.7	**9**	**65.9**	61.2	**8**

Revenue in the second quarter of 2011 was $34.4 million, of which the Nanotech acquisition contributed $2.2 million of revenue to the Optical product group. Revenue in the second quarter was also favourably impacted by a $0.8 million increase in IP revenue, recognized as a result of the adoption of EIC-175 in the quarter. Excluding the impact of Nanotech and the pick up in IP revenue, revenue was flat compared to both the second quarter of 2010 and the first quarter of 2011. Year-to-date 2011 consolidated revenue was $65.9 million compared to $61.2 million in 2010.

On a regional basis, second quarter 2011 revenue increased 18% or $2.2 million in the Pacific Rim and 27% or $1.9 million in Japan compared to the second quarter of 2010; however, revenue in North America and Europe were down 13% and 7% respectively. On a year-to-date basis, regional revenue fluctuations were similar to those discussed above.

AMS products
AMS product revenue was slightly higher at $23.3 million in the second quarter of 2011 compared to the same period in 2010. Sequentially, AMS product revenue was up approximately 3% or $0.7 million in the second quarter compared to the first quarter of 2011 with the increase coming from higher clock and data recovery ("CDR") sales partially offset by serial digital interface products lines. The majority of the increase compared to the second quarter of 2010 came from CDR, linecard and Aviia™ products, partially offset by serial digital interface products.

Year-to-date revenues were slightly higher at $45.9 million compared to $45.0 million for the same period in 2010. Higher sales from CDR, linecard and Aviia™ products were offset by lower serial digital interface product lines.

Optical products
Optical product revenue was $8.0 million in the second quarter of 2011 compared to $6.5 million in the second quarter of 2010. The increase in revenue was mainly due to the contribution made by the acquisition of Nanotech, partially offset by lower sales from transimpedance amplifier (TIA) and receive-optical sub-assembly (ROSA) product lines. Excluding the impact of Nanotech, revenues were lower by $0.6 million as the second quarter of 2010 represented a record quarter due to higher demands from the market in China.

Year-to-date revenues were $14.4 million compared to $12.3 million for the same period in 2010. Nanotech contributed $2.2 million of revenue, while higher ROSA product revenue was offset by lower TIA product revenue.

Intellectual property
IP revenue was $3.1 million in the second quarter of 2011, an increase of $1.1 million over the same period in 2010, and sequentially higher by $0.6 million compared to the prior quarter. $0.8 million of this increase was due to the Company's early adoption of Emerging Issue Committee ("EIC") Abstract No.175, which provides for the Company's IP contracts to be recognized on the basis of three units of accounting, as opposed to one unit of accounting as was previously done. The Company believes that this method of recognizing revenue more closely matches the underlying business activity.

Gross margin
(in millions of U.S. dollars)

	Three Months Ended May 31				**Six Months Ended May 31**			
	2011		2010		**2011**		2010	
	$	**% of revenue**	$	% of revenue	**$**	**% of revenue**	$	% of revenue
Gross margin on:								
Product revenue	**21.1**	**67.3**	20.5	69.1	**41.4**	**68.6**	40.0	70.0
IP revenue	**3.1**	**100.0**	2.0	100.0	**5.6**	**100.0**	4.0	100.0
Total gross margin	**24.2**	**70.2**	22.5	71.0	**47.0**	**71.3**	44.0	71.9

Gross margin as a percentage of revenue was 70.2% in the second quarter of 2011 compared to 71.0% in the second quarter of 2010. The Nanotech acquisition contributed gross margin dollars of $1.2 million, after a fair value adjustment of $0.5 million as noted above. In addition, favorable efficiencies in our operations and higher IP revenues were offset by lower average selling prices.

Year-to-date 2011 gross margin as a percentage of revenue was 71.3% compared to 71.9% in 2010.

Sales, marketing and administration expenditures
(in millions of U.S. dollars)

	Three Months Ended May 31			**Six Months Ended May 31**		
	2011	2010	**% change**	**2011**	2010	**% change**
Sales, marketing and administration expense	**9.0**	8.5	**7**	**17.3**	16.5	**5**
Amortization of intangible asset *	**0.3**	---	**100**	**0.3**	---	**100**
Total sales, marketing and administration expense	**9.3**	8.5	**10**	**17.6**	16.5	**7**
Percentage of revenue	**27.2**	26.8		**26.8**	27.0	

** Amortization of the order backlog that was acquired in the Nanotech acquisition; it is expected that the order backlog will be fully amortized by the end of fiscal 2011.*

Sales, marketing and administration expenditures were $9.3 million in the second quarter of 2011 compared to $8.5 million in the second quarter of 2010. The increase was mainly attributable to the appreciation of the Canadian dollar compared to the second quarter of 2010, which increased our U.S. dollar reported expense by approximately $0.5 million. The acquisition of Nanotech also added $0.4 million of expenditures and $0.3

million related to the amortization of the order backlog. The remaining balance of $0.3 million in order backlog amortization is expected to be expensed in the third quarter. These increases were partially offset by lower director share unit ("DSU") expenses of $0.2 million as we implemented a hedging program in the first quarter of 2011 to reduce the mark to market impact of our DSU liability, and lower stock option amortization expenses of $0.2 million.

On a year-to-date basis, sales, marketing and administration expenditures were $17.6 million compared to $16.5 million for the same period in 2010. The increase can be attributable to the appreciation of the Canadian dollar which increased our U.S. dollar reported expense by approximately $0.9 million, separation costs of $0.8 million and expenditures of $0.7 million related to the acquisition of Nanotech, $0.3 million of which is related to the amortization of the $0.6 million order backlog intangible asset. These increases were partially offset by lower stock based and accrued variable compensation expenses totalling $0.9 million.

R&D expenditures
(in millions of U.S. dollars)

	Three Months Ended May 31			**Six Months Ended May 31**		
	2011	2010	**% change**	**2011**	2010	**% change**
R&D expense to statement of earnings	**10.7**	8.8	**22**	**19.7**	17.1	**15**
Amortization of intangible assets *	**0.8**	0.4	**86**	**1.2**	0.9	**36**
Government assistance	**(1.3)**	(1.0)	**26**	**(2.7)**	(2.4)	**10**
Total net R&D to the statement of earnings	**10.2**	8.2	**25**	**18.2**	15.6	**17**
Percentage of revenue	**29.7**	25.8		**27.7**	25.5	

** Amortization expense of $0.3 million is related to the order backlog intangible asset and is included in sales, marketing and administrative expenses.*

Net R&D expense in the second quarter of 2011 was $10.2 million compared to $8.2 million in the second quarter of 2010. The increase in R&D expenditures was mainly due to $1.4 million related to the acquisition of Nanotech, an unfavourable currency impact of $0.5 million related to reporting in U.S. dollars and an impairment charge of $0.2 million related to deferred development costs that are no longer expected to provide future benefits.

On a year-to-date basis, net R&D expenditures were $18.2 million compared to $15.6 million in 2010. The increase was mainly due to the Nanotech acquisition, an unfavourable currency impact of $0.9 million related to reporting in U.S. dollars and impairment charges of $0.5 million related to deferred development charges.

During the quarter, Gennum announced the following product related developments:

- Gennum and NuMedia introduced a new Aviia™ HD CODEC for industrial connectivity which provides a turnkey solution for the transmission of high definition video over long runs of coaxial cable greater than 300 meters.
- Gennum launched new long-reach and high-density equalizers at NAB 2011. The next-generation adaptive equalizers provide cable reach beyond 200 meters, best-in-class density and simplify connector options.
- Gennum announced the industry's first in-connector transceiver chip for Thunderbolt™ active copper cables. The GN2033, the world's first signal conditioner chip for Thunderbolt™, enables data transmission across a copper cable at cutting edge speeds.

Combined impact of R&D spending in the period
(in millions of U.S. dollars)

	Three Months Ended May 31			Six Months Ended May 31		
	2011	2010	**% change**	**2011**	2010	**% change**
R&D expense to statement of earnings (loss)	**10.7**	8.8	**22**	**19.7**	17.1	**15**
Deferred development costs (capitalized to intangible assets)	**1.4**	2.1	**(34)**	**2.5**	3.9	**(38)**
Total gross R&D expenditure	**12.1**	10.9	**11**	**22.2**	21.0	**5**
Amortization of intangible assets (excluding amortization of deferred development costs charged to cost of goods sold and order backlog amortization)	**0.8**	0.4	**86**	**1.2**	0.9	**36**
Less government assistance	**(1.6)**	(1.3)	**21**	**(3.1)**	(3.8)	**(20)**
Total net R&D expenditure	**11.3**	10.0	**13**	**20.3**	18.1	**12**
Percentage of revenue	**32.9**	31.6		**30.8**	29.6	

Total investment in R&D activities in the second quarter of 2011, before amortization and government assistance, was $12.1 million, which includes expenditures of $10.7 million and capitalized deferred development costs of $1.4 million. This compares to $10.9 million in the second quarter of 2010 and $10.1 million in the first quarter of 2011. The increase is mainly attributable to additional expenditures of $0.4 million related to the acquisition of Nanotech excluding intangible asset amortization charges of $0.7 million.

For the first half of 2011, total investment in R&D activities, before amortization and government assistance, was $22.2 million compared to $21.0 million in 2010.

Net R&D spending in the first half of 2011 was 32.9% of revenue, reflecting the Company's continued commitment and investment in its R&D product portfolio.

The Company capitalizes certain R&D expenditures, referred to as deferred development costs, which represent expenditures directly related to placing a new product into commercialization. These deferred development costs are capitalized to intangible assets on the balance sheet, net of government assistance, and are amortized to cost of goods sold as the related products are sold.

Deferred development costs – capitalized to intangible assets
(in millions of U.S. dollars)

	Three Months Ended May 31		Six Months Ended May 31	
	2011	2010	**2011**	2010
Deferred development costs, opening	**14.5**	9.7	**13.3**	7.9
Additional expenditures	**1.4**	2.1	**2.5**	3.9
Government assistance	**(0.2)**	(1.4)	**(0.4)**	(1.4)
Impairments	**(0.2)**	---	**(0.5)**	(0.1)
Amortization to cost of goods sold	**(0.2)**	(0.1)	**(0.4)**	(0.2)
Foreign exchange impact	---	---	**0.8**	0.2
Deferred development costs, ending	**15.3**	10.3	**15.3**	10.3

In the second quarter of 2011, $1.4 million in deferred development costs were capitalized to intangible assets. This was down $0.7 million from the second quarter of 2010 and up $0.3 million sequentially from the first quarter of 2011. Expenditures on deferred development costs can vary from quarter to quarter depending on the various stages in the development process. In addition, government assistance was down

in the second quarter of 2011 compared to the second quarter of 2010 as the second quarter of 2010 included a one time adjustment for government assistance related to prior years. There was also a non-cash impairment of $0.3 million in the second quarter of 2011 which was charged to R&D expenditures on the statement of earnings.

The increase in the balance of deferred development costs as of May 31, 2011 compared to May 31, 2010 was due to our continued new product development efforts.

Operating income
(in millions of U.S. dollars)

	Three Months Ended May 31			**Six Months Ended May 31**		
	2011	2010	**% change**	**2011**	2010	**% change**
Operating income	**4.6**	5.8	**(21)**	**11.1**	12.0	**(7)**
Percentage of revenue	**13.3**	18.4		**16.9**	19.5	

Operating income in the second quarter and first half of 2011 was 13% and 17% of revenue, respectively, compared to 18% and 20% for the same periods in 2010. The lower operating income as a percentage of revenue was mainly due to an operating loss attributable to Nanotech which includes the intangible amortization and an unfavourable currency impact as a result of appreciation of the Canadian dollar versus the Company's U.S. dollar reporting currency.

Income taxes
(in millions of U.S. dollars)

	Three Months Ended May 31			**Six Months Ended May 31**		
	2011	2010	**% change**	**2011**	2010	**% change**
Provision for income taxes	**1.0**	1.3	**(23)**	**2.7**	3.2	**(15)**
Percentage of earnings before tax	**21.9**	24.2		**25.0**	28.4	

The lower effective tax rate of 21.9% in the second quarter of 2011 compared to 24.2% in the second quarter of 2010 was primarily due to the lower enacted 2011 statutory tax rate of 28% compared to 31% in 2010.

The income tax provision in the second quarter and first six months of 2011 represented 22% and 25% of earnings before taxes, respectively, which is lower than the 2011 statutory rate of 28%. The lower rates are primarily due to the impact of previously enacted lower statutory tax rates on the Company's future income tax balances.

The income tax provision in the second quarter and first six months of 2010 was 24% and 28% of earnings before taxes, respectively, which is lower than the 2010 statutory rate of 31%. The lower rates in 2010 were mainly due to the impact of previously enacted lower statutory tax rates on the Company's future income tax balances and an adjustment to 2009 tax accruals upon filing the final return.

Net earnings
(in millions of U.S. dollars except earnings per share)

	Three Months Ended May 31			**Six Months Ended May 31**		
	2011	2010	**% change**	**2011**	2010	**% change**
Net earnings	**3.6**	4.1	**(12)**	**8.1**	8.0	**1**
Percentage of revenue	**10.3**	12.8		**12.4**	13.1	
Diluted earnings per share	**0.10**	0.12		**0.23**	0.23	

The Company recorded net earnings of $3.6 million or $0.10 per share compared to $4.1 million or $0.12 per share in the second quarter of 2010. The decrease was primarily due to the intangible asset amortization

related to the Nanotech acquisition. See the note under the heading “Non-GAAP Reporting” for an analysis of the impact of Nanotech on the Company’s consolidated earnings.

Quarterly Results
(in millions of U.S. dollars except earnings per share)

	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 * 2009
Revenue	34.4	31.5	33.3	34.4	31.7	29.5	25.1	21.4
Gross margin	24.2	22.8	25.0	25.1	22.5	21.5	18.3	14.7
- percentage of revenue	70.2	72.5	75.2	72.9	71.0	72.9	73.0	68.9
Operating income (loss)	4.6	6.5	7.8	7.6	5.8	6.1	3.0	(5.2)
- percentage of revenue	13.4	20.7	23.5	22.1	18.4	20.7	12.0	n/a
Net earnings (loss)	3.6	4.6	5.2	5.3	4.1	4.0	3.6	(4.3)
Diluted earnings (loss) per share	0.10	0.13	0.15	0.15	0.12	0.12	0.10	(0.12)
Cash and cash equivalents	14.2	52.4	52.7	46.1	39.8	37.1	37.0	34.9

** The third quarter of 2009 was impacted by a $5.5 million before tax restructuring charge and deferred development impairment.*

Revenue and net earnings performance can fluctuate on a quarterly basis due to a wide variety of factors including economic conditions and exchange rates.

Non-GAAP Reporting

EBITDA
We believe that financial analysts and investors use EBITDA to understand our financial results and to compare us with our industry peers. The term EBITDA refers to a non-GAAP financial measure that we define as earnings before interest, taxes, depreciation and amortization (related to intangible assets, stock-based compensation and fair value adjustments to inventory on acquisition). Since EBITDA is not a measure defined under Canadian GAAP, it may not be comparable to definitions of EBITDA reported by other companies. EBITDA is presented here over the last eight quarters to provide readers with a historical perspective regarding our operational performance. We believe this allows us to compare our operating performance on a more consistent basis. The most comparable Canadian GAAP financial measure is operating income (loss). The table below reconciles EBITDA to operating income (loss). We also consider adjusted EBITDA to be a useful measure for comparison purposes against our prior results. Adjusted EBITDA is defined as EBITDA before restructuring charges.

(in millions of U.S. dollars)

	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Revenue	34.4	31.5	33.3	34.4	31.7	29.5	25.1	21.4
Operating income (loss)	4.6	6.5	7.8	7.6	5.8	6.1	3.0	(5.2)
Adjustments to reconcile to EBITDA:								
Depreciation expense	1.5	1.2	1.4	1.3	1.4	1.2	1.3	1.3
Amortization of:								
Intangibles	1.3	0.6	0.7	0.5	0.5	0.5	0.5	0.5
Stock based compensation	1.3	1.0	1.1	1.0	1.5	1.1	0.8	0.8
Fair value adjustment to inventory on acquisition	0.5	---	---	---	---	---	---	---
EBITDA	9.3	9.3	11.0	10.5	9.2	8.9	5.6	(2.6)
Restructuring charge and deferred development impairment	---	---	---	---	---	---	0.4	5.5
Adjusted EBITDA	9.3	9.3	11.0	10.5	9.2	8.9	6.0	2.9
Adjusted EBITDA as a % of revenue	27%	30%	33%	30%	29%	30%	24%	14%

Reconciliation of Pre-Acquisition Earnings to Consolidated Statement of Earnings

The following table sets out a reconciliation of the impact of the Nanotech acquisition on the consolidated results of the Company for the second quarter of 2011. The terms "Gennum Pre-Nanotech Consolidated Statement of Earnings", "Unadjusted Nanotech Statement of Earnings", "Results from the Consolidated Entity, Excluding Certain Purchase Accounting Impacts" and "Purchase Accounting Impacts" refer to non-GAAP financial measures and/or presentations and are defined below. Since these terms are not defined under Canadian GAAP and are used in relation to the Company's acquisition of Nanotech, they are not comparable to definitions or uses of similar terms reported by other companies. In the table, the results reflected under the foregoing headings are reconciled to the Company's consolidated statement of earnings, which has been prepared in accordance with Canadian GAAP.

(in millions of U.S. dollars, except earnings per share)

	Gennum Pre-Nanotech Consolidated Statement of Earnings	Unadjusted Nanotech Statement of Earnings	Results from the Consolidated Entity Excluding Certain Purchase Accounting Impacts	Purchase Accounting Impacts		Consolidated Statement of Earnings As Reported
	Non-GAAP A	**Non-GAAP B**	**Non-GAAP A+B**	**C**		**GAAP A+B+C**
Revenue	32.2	2.2	34.4	---		34.4
Gross margin	23.0	1.7	24.7	(0.5)	a	24.2
% of revenue	*71.5%*	*74.8%*	*71.7%*			*70.2%*
Net R&D expense	9.1	0.8	9.9	0.4	b	10.3
% of revenue	*28%*	*35%*	*29%*			*30%*
SM&A expense	8.6	0.4	9.0	0.3	c	9.3
% of revenue	*27%*	*19%*	*26%*			*27%*
Operating expenses	17.7	1.2	18.9	0.7		19.6
% of revenue	*55%*	*51%*	*55%*			*57%*
Operating income (expenses)	5.3	0.5	5.8	(1.2)		4.6
% of revenue	*17%*	*23%*	*17%*			*13%*
Other income (expense)	0.4	---	0.4	(0.4)	d	---
(Provision for) recovery of income taxes	(1.3)	(0.1)	(1.4)	0.4	e	(1.0)
Net earnings (loss) for the period	4.4	0.4	4.8	(1.2)		3.6
EPS	$0.13	$0.01	$0.14	($0.04)		$0.10

The information in the table above has been included as the Company believes that such information will assist readers in their understanding of the second quarter results of Gennum Corporation without taking into account the Company's acquisition of Nanotech (as reflected in column A above). Also presented in column B "Adjusted Nanotech Statement of Earnings" are the stand alone results of Nanotech for the approximate two month period ending May 31, 2011 prior to accounting for its acquisition by Gennum. These results show Nanotech without the purchase accounting entries listed in column C. As well, they do not include any intercompany charges between entities within the Gennum group of companies.

Before considering the impacts of its Nanotech acquisition, Gennum recognized $32.2 million in revenue and $4.4 million in net earnings for the second quarter of 2011 or a $0.13 EPS. Nanotech, before considering the impacts of the acquisition listed in column C, had a strong two month period, with revenue at $2.2 million and net earnings of $0.5 million or a contribution to the Company's EPS of $0.01. The combined results for the consolidated entity, before considering purchase accounting entries listed under column C, result in a $0.14 EPS for the quarter. An estimated $0.6 million on a full quarter basis ($0.4 million in Q2 2011) in intangible asset amortization will be expensed quarterly on an ongoing basis (as reflected in column C - note b). Taking this ongoing charge into account, EPS would be approximately $0.13.

These figures are not consistent with Canadian GAAP and are reconciled in the table above to figures in the Company's consolidated statement of earnings, which have been prepared in accordance with Canadian GAAP.

Column C above reflects certain accounting adjustments recorded in the second quarter of 2011 that relate to the acquisition of Nanotech. While these adjustments are consistent with Canadian GAAP, the stand alone presentation of these items would not normally be reflected under Canadian GAAP. The Company believes it is useful to segregate these entries as they are either short term in their impact to the Company's results or, in the case of item (b) below, have an ongoing non-cash impact. These adjustments are described below:

a) Nanotech's inventory value was increased by approximately $0.8 million to reflect its fair value on the closing in accordance with Canadian GAAP. This increase is expensed to cost of goods sold as the related inventory is sold. As a result, there was a $0.5 million charge to cost of goods sold in the second quarter, and the Company expects the balance of $0.3 million to be expensed in the third quarter. As a result, the Company believes that gross margins in the second quarter are not necessarily indicative of normal operating performance.

b) The Company is in the process of finalizing the valuation of the intangible assets acquired through the Nanotech acquisition. The current estimate includes a $16.8 million technology intangible asset to be amortized straight line over seven years. This results in a $0.4 million amortization expense to R&D in the second quarter, and would result in an ongoing $0.6 million quarterly amortization expense going forward.

c) Also included in the preliminary intangible asset valuation is a $0.6 million backlog order intangible asset that is amortized as the backlog orders are filled. As a result, the Company recorded a $0.3 million charge to SM&A in the second quarter and expects to amortize the balance in the third quarter.

d) In anticipation of the closing of the acquisition, Gennum UK held approximately $36 million in U.S. dollars. As a result of fluctuations in foreign currency rates, the Company realized a $0.5 million foreign exchange loss on closing the transaction.

e) The tax impact of entries a - d is calculated at an estimated tax rate of 26%.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's functional currency is the Canadian dollar and, as a result, all balances are converted to the Canadian dollar on consolidation. However, as the Company reports in U.S. dollars, these balances are then converted at the balance sheet rate to U.S. dollars, with the net change going through other comprehensive income.

The Canadian dollar strengthened over the past six months, with the balance sheet rate changing from Canadian $1.02638 against the U.S. dollar as of November 30, 2011 to Canadian $0.9688 against the U.S. dollar as of May 31, 2011. The impact of the stronger Canadian dollar increased U.S. dollar reported net assets by approximately $9.0 million compared to November 30, 2010.

Cash and cash equivalents

Cash and cash equivalents decreased to $14.2 million as of May 31, 2011 compared to $52.7 million as of November 30, 2010 mainly due to the all cash acquisition of Nanotech on April 6, 2011.

The significant cash used in investing activities was mainly due to the acquisition of Nanotech ($30.1 million). In addition, the Company spent $2.8 million on capital asset and deferred development cost additions in the quarter.

Use of $11.3 million in financing activities in the quarter included $5.8 million debt repayments and $2.8 million in deferred compensation awards related to the acquisition of Nanotech. Due to the timing of dividend payment dates, two of the Company's quarterly dividend payments fell in the second quarter of 2011, increasing the use of cash from financing activities to $2.5 million.

The Company believes that it remains in a strong liquidity position and is able to meet its cash flow obligations as they come due. The Company's cash and equivalents and accounts receivable represent a combined balance of $40.7 million, which is sufficient to cover accounts payable, accrued liabilities and

short-term capital lease obligations. In addition, the Company put in place a $10 million short-term credit facility during the quarter to augment the near-term working capital needs of the Company if required. The Company has not drawn upon this credit facility to date. The Company generated $5.4 million of cash from operating activities in the second quarter and expects to continue generating cash from operations in future quarters.

The current ratio, calculated as current assets divided by current liabilities as of May 31, 2011, was 4.5 times.

Summary of Quarterly Cash Flow
(in millions of U.S. dollars)

	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Cash provided (used) by operating activities	5.4	2.9	11.0	11.6	8.8	5.5	4.7	(0.3)
Cash used by investing activities	(32.1)	(2.9)	(4.8)	(3.3)	(4.2)	(2.5)	(3.2)	(0.8)
Cash used by financing activities	(11.3)	(2.6)	(1.1)	(1.2)	(2.2)	(2.7)	(1.1)	(0.9)
Effect of exchange rates	(0.2)	2.3	1.5	(0.8)	0.3	(0.2)	1.7	0.3
Net increase (decrease) in cash and equivalents	(38.2)	(0.3)	6.6	6.3	2.7	0.1	2.1	(1.7)
Cash and equivalents, beginning of period	52.4	52.7	46.1	39.8	37.1	37.0	34.9	36.6
Cash and equivalents, end of period	14.2	52.4	52.7	46.1	39.8	37.1	37.0	34.9

- *Cash provided (used) by operating activities*
  Cash provided by operating activities was $5.4 million in the second quarter of 2011 compared to $8.8 million in the second quarter of 2010. The reduction was mainly due to the increase in net non-cash working capital in the second quarter of 2011. On a sequential basis, cash provided by operating activities was higher by $2.5 million compared to the first quarter of 2011, the increase mainly relating to a $4.3 million increase in net non-cash working capital in the first quarter.

- *Cash used by investing activities*
  Cash used in investing activities was $32.1 million in the second quarter of 2011 compared to $4.2 million in the second quarter of 2010. The majority of the use was the result of the all cash acquisition of Nanotech ($30.1 million); the balance of cash usage was related to continued investment in capital assets and deferred development projects.

- *Cash used in financing activities*
  Cash used in financing activities was $11.3 million in the second quarter of 2011 compared to $2.2 million in the same period in 2010. The higher use of funds was mainly due to the Nanotech acquisition. The remaining use of funds in financing activities in both periods related mainly to the dividend payments. Dividends declared and paid per share were Canadian $0.035 in the second quarter of 2011 and 2010; however, payments related to the first quarter dividends fell into the second quarters in both years.

Accounts receivable
Accounts receivable increased by $4.5 million, or 21% from $21.9 million as of November 30, 2010 to $26.5 million as of May 31, 2011. The increase is mainly due to the acquisition of Nanotech which added approximately $2.6 million of accounts receivable while another $1.4 million was due to the strengthening of the Canadian dollar compared to November 30, 2010.

The aging of trade receivable balances as of May 31, 2011 compared to November 30, 2010 was as follows:

(in millions of U.S. dollars)

	May 31, 2011	**% of total**	**November 30, 2010**	**% of total**
Current	**21.4**	**80.9**	17.5	79.7
Past due 0-30 days	**3.3**	**12.4**	3.4	15.4
Past due 31-60 days	**0.7**	**2.8**	0.4	2.0
Past due over 61 days	**1.0**	**3.9**	0.6	2.9
Accounts receivable, net	**26.5**		21.9	

The increase in past due receivables relates mainly to the Company's IP revenue. The Company believes that it will be able to collect these outstanding balances.

These balances, both as of May 31, 2011 and November 30, 2010, are net of provisions of $1.2 million against past due over 61 days. The Company did not incur any significant bad debt expense in the second quarter or first half of 2011 or 2010.

Inventories
As of May 31, 2011, inventories were $26.1 million compared to $21.4 million as of November 30, 2010. The acquisition of Nanotech added approximately $1.5 million to inventory while another $1.4 million was the result of the stronger Canadian dollar.

Included in the inventory balance at the end of the second quarter of 2011 was approximately $7.8 million in end-of-life inventory, down by $0.7 million compared to November 30, 2011. It is expected that a significant portion of this inventory will be sold beyond one year.

Future income taxes (net)
Net future income tax assets decreased by $0.7 million since November 30, 2010 to $24.4 million as of May 31, 2011. The decrease came from the $3.2 million net future income tax liability that was recognized on the acquisition of Nanotech, partially offset by an increase in future income tax assets related to government assistance and the impact of the strengthening Canadian dollar versus the U.S. dollar in the period.

The Company has analyzed its future income tax position and has concluded that these future income tax assets will be utilized over time and that there are no impairment issues.

Capital assets
Capital asset balances at the end of May 31, 2011 increased by approximately $2.4 million compared to November 30, 2010. This increase was partly attributable to the strengthening of the Canadian dollar ($1.5 million), the Nanotech acquisition ($0.5 million) and additional capital expenditures in excess of depreciation in the period.

Intangible assets
Intangible assets were $34.2 million at the end of May 31, 2011 compared to $15.9 million at November 30, 2010. The increase is mainly attributable to the identifiable intangible assets that were acquired through the Nanotech acquisition of $17.4 million.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities decreased by $1.4 million from November 30, 2010 to $16.3 million on May 31, 2011. Payments of the 2010 variable compensation accruals in the first quarter were partially offset by the assumption of Nanotech's payables, which were approximately $0.5 million as of May 31, 2011.

Accumulated other comprehensive income
Changes in accumulated other comprehensive income are caused mainly from translating the Canadian dollar functional currency consolidated financial statements to U.S. dollars for reporting purposes. Net assets of Canadian $170.8 million as of November 30, 2010 were translated to U.S. dollars for reporting purposes at a rate of Canadian $1.0264 against the U.S. dollar. The Canadian dollar strengthened to Canadian $0.9688

against the U.S. dollar as of May 31, 2011 resulting in a foreign currency translation gain of $9.6 million recorded through other comprehensive income.

Dividends
Dividends of $1.2 million, or Canadian $0.035 per share, were declared and paid in the second quarter of 2011 and 2010. The first quarter 2011 dividend was paid on March 8, 2011, and therefore both the first and second quarter dividends were paid in the second quarter.

Derivative financial instruments
The Company has a hedging strategy upon which it elects not to apply hedge accounting. We use derivative financial instruments in the management of certain of our foreign currency exposures in accordance with Company policy.

As of May 31, 2011, we had entered into foreign exchange forward contracts to sell U.S. $16.4 million and Japanese yen 305 million in exchange for Canadian dollars. These contracts mature between June 22, 2011 and July 29, 2011 at an exchange rate of Canadian $0.9680 against the U.S. dollar and between Canadian $0.01191 and $0.01190 against the Japanese yen. In addition, we entered into a foreign exchange forward contract to sell U.S. $5.8 million in exchange for British pounds, maturing on June 30, 2011 at a rate of GBP 0.6080 against the U.S. dollar. The Company estimates that an immaterial loss would have been realized had the contracts been terminated on May 31, 2011. The fair value of the foreign exchange forward contracts was based on market information from a major financial institution.

CONTRACTUAL OBLIGATIONS

(in millions of U.S. dollars)

		Payments Due by Period			
	Total	**< 1 year**	**1-3 years**	**4-5 years**	**> 5 years**
Operating leases	31.5	4.4	8.2	5.0	13.9
Capital leases	0.5	0.2	0.3	---	---
Purchase obligations [(1)]	10.6	9.2	1.4	---	---
Total contractual obligations	42.6	13.8	9.9	5.0	13.9

[(1)] *Agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed or variable price provisions and the approximate timing of the transactions. The purchase obligations relate primarily to inventory, product development, license agreements, general operating costs and $0.3 million in authorized capital projects.*

There are no off-balance sheet arrangements that have had or are reasonably likely to have a current or future effect on the results of operations or the financial condition of the Company.

RELATED PARTY TRANSACTIONS

The Company did not have any related party transactions during the quarter.

LITIGATION

In the ordinary course of its business activities, the Company may become involved in litigation or claims with customers, suppliers, former employees and third parties.

NEW ACCOUNTING POLICIES AND CRITICAL ESTIMATES

A summary of significant accounting policies is presented in note 1 to our audited November 30, 2010 consolidated financial statements. Certain of our accounting policies are critical to understanding the results of operations and financial condition of Gennum. These critical accounting policies require us to make certain judgements and estimates, some of which may relate to matters that are uncertain. For a description of the judgements and estimates involved in the application of critical accounting policies and assumptions made, refer to our 2010 annual report. The accounting policies used in the preparation of these consolidated

financial statements are consistent with those used in the Company's November 30, 2010 audited consolidated financial statements, except as described below.

Changes in Significant Accounting Policies

On March 1, 2011, the Company early adopted Emerging Issue Committee ("EIC") Abstract No. 175 ("EIC-175"), "Revenue Arrangements with Multiple Deliverables" issued by the Canadian Institute of Chartered Accountants ("CICA") in December 2009 which amends the EIC Abstract No. 142, "Revenue Arrangements with Multiple Deliverables". The EIC-175 is equivalent to U.S. GAAP standard, Accounting Standards Update ("ASU") No. 2009-13 ("ASU 2009-13"), "Multiple-Deliverable Revenue Arrangement" and applies to arrangements that include multiple-deliverables that are not accounted for pursuant to other specific guidance such as U.S. software revenue recognition guidance. The new guidance changes the requirements for establishing separate deliverables in a multiple-deliverable arrangement and requires the allocation of arrangement consideration to each separately identified deliverable based on the relative selling price. Based on this method, the selling price of each separately identified deliverable is determined using vendor-specific objective evidence ("VSOE") of selling price if available, otherwise third-party evidence ("TPE") of selling price, or estimated selling price ("ESP") if neither VSOE nor TPE of selling price is available. The residual method of allocating arrangement consideration is no longer permitted. EIC-175 also expands the disclosure required for multiple-deliverable arrangements which are reflected below.

The Company early adopted EIC-175 in its second quarter of 2011, which is applied prospectively from the beginning of Gennum's fiscal year (December 1, 2010). The early adoption of EIC-175 did not have a material impact on the Company's first quarter consolidated financial statements. Previously, the Company had not applied EIC-142 as it was not able to determine selling price using VSOE or TPE for undelivered items and ESP was not an acceptable method. As a result, IP contracts were considered one unit of accounting and revenue was recorded using percentage of completion. With the adoption of EIC-175, the Company has established that there are up to three units of accounting in an IP contract and revenue is recorded separately for each unit of accounting, which more closely matches the business activity. Although there was not a material impact in the first quarter, second quarter revenue was increased by approximately $0.8 million as a result of this change in accounting policy. The timing of revenue under both methods is dependent on the timing of the contracts and the magnitude of effort required to complete the deliverable under each unit of accounting.

The Company revised its previously disclosed revenue recognition policy to reflect changes resulting from the adoption of EIC-175 which applies to multiple-deliverable arrangements entered into or materially modified on or after December 1, 2010. The changes to the revenue recognition policy are disclosed below. The previously disclosed revenue recognition policy remains effective for multiple-deliverable arrangements that were in place as of, and were not materially modified after, November 30, 2010.

Multiple-deliverable arrangements – The Company enters into arrangements with multiple deliverables that generally include a design package, characterization and post contract support ("PCS"). Under the new guidance, the total arrangement value is allocated to each element as a separate unit of accounting if: 1) the delivered item has value to the client on a stand-alone basis; and 2) in an arrangement that includes a general right of return relative to the delivered item, the delivery or performance of the undelivered item is considered probable and substantially in the control of the Company. If these criteria are met, then the total consideration of the arrangement is allocated among the separate units of accounting based on their relative selling price. Based on this method, the selling price of each separately identified deliverable is determined using VSOE of selling price if available, otherwise TPE of selling price, or ESP if neither VSOE nor TPE of selling price is available. VSOE of selling price is established using the price charged for a deliverable when sold separately by the Company. TPE of selling price is established using the vendor's or competitor's prices for similar deliverables. ESP is the price at which the Company would offer the service if the deliverable were sold regularly on a stand-alone basis. ESP is established by considering a number of internal and external factors including, but not limited to, geographies, the Company's pricing policies, internal costs and margins.

Consideration allocated to the design package and characterization is recognized using the percentage of completion method based on labour hours, whereas consideration allocated to PCS is recognized straight-line over the service period or as service is provided where the maximum PCS hours are likely to be used prior to the end of the term. Billings for time-based contracts are done monthly. Unbilled receivables are created when the Company accrues revenue before the contract terms permit billing the customer. Deferred

revenue is created when the Company bills a customer in accordance with the contract, prior to having met the requirements for revenue recognition.

Capital assets – Capital assets are recorded at cost, net of related government assistance and accumulated depreciation.

Equipment and furniture are depreciated using the straight-line method over estimated useful lives ranging from five to seven years. Computer software and hardware are amortized using the straight-line method over the estimated useful life of three years. Capitalized expenditures related to operating systems are amortized using the straight-line method over their estimated useful life of ten years. Leasehold improvements are amortized using the straight-line method over the term of the lease, including one renewal period.

Equipment under capital leases is initially recorded at the present value of minimum lease payments at the inception of the lease.

Recently issued accounting pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises. The Company will adopt IFRS on December 1, 2011, and will be required to provide IFRS comparative information for the previous fiscal year. While IFRS uses a conceptual framework similar to Canadian GAAP there are significant differences in accounting policies that must be evaluated.

The Company's IFRS conversion project began in 2009. A formal project plan, governance structure and a project team, including external advisors, have been established. The IFRS conversion project consists of three phases:

Phase 1: scoping and planning;
Phase 2: design; and
Phase 3: implementation and review.

In 2009, the IFRS conversion project team completed Phase 1, which involved a high-level review of the major differences between GAAP and IFRS as they pertain to the Company. This assessment has provided insight on the high risk and complex areas relating to the conversion. In late 2010, the IFRS conversion project team completed Phase 2, which involves a more comprehensive review of the accounting differences identified in Phase 1. Phase 3 also began late in 2010 with the Company starting to work through the calculations and implementation requirements resulting from the Phase 2 findings. Phase 3 is expected to continue throughout 2011 as the Company prepares to release its first set of financial statements under IFRS in the first quarter of 2012.

As of May 31, 2011, the following progress has been made relating to the Company's IFRS conversion plan:

Key Activity	**Milestones**	**Progress as of May 31, 2011**
Project team and project management ▪ Audit committee engagement. ▪ Steering committee creation. ▪ Engagement of external consultants.	Project team in place by end of Q1 2009 and meeting plan in place for steering committee and audit committee communication.	▪ The Project team was assembled during Q1 2009, including engagement of professional services firm. ▪ The steering committee meetings have occurred as scheduled based on project outputs. ▪ Audit committee meeting updates have occurred as scheduled throughout the process. These meetings include a discussion of timelines, deliverables and

		slippage to ensure the Project remains on track.
Accounting policies and procedures ▪ Identification of differences between GAAP and IFRS applicable to Gennum. ▪ Selection of the Company's IFRS accounting policies. ▪ Determination of IFRS 1 choices.	Complete diagnostic identifying major areas of differences by the end of Q2 2009. Evaluate accounting policy options and develop IFRS accounting policy documents, including IFRS 1 elections, during latter half of 2009 and 2010.	▪ IFRS diagnostic (Phase 1) completed in Q2 2009. ▪ Evaluation and analysis of IFRS policy choices substantially completed in 2010 (Phase 2). ▪ Final accounting policy choices to be made in 2011.
Financial statement preparation ▪ Development of financial statement template under IFRS. ▪ Ensure data required for enhanced note disclosures will be available.	Develop draft IFRS financial statements in conjunction with accounting policy choice selection. Quantify differences and prepare opening balance sheet during 2011. Ensure all required data is available and auditable during 2011.	▪ The implementation phase (Phase 3), which includes quantification of differences identified in Phase 2, began in late 2010 and is continuing in 2011. ▪ Financial statement templates are being developed. ▪ System enhancements will be implemented to assist in the additional note disclosures.
Disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) ▪ Once accounting policy reviews are completed and system change requirements are identified, ICFR and DC&P will need to be updated to reflect those changes.	Review process changes and update DC&P and ICFR accordingly.	▪ DC&P and ICFR updates will commence after accounting policy choices and system requirement decisions have been made.
Information technology impacts ▪ Ensure systems are in place to create and disseminate required information accurately and in a timely manner.	Upgrade Gennum's general ledger system to enable ability to run dual reporting.	▪ System requirements currently being investigated.
Compensation plans ▪ Employee incentive plans based on GAAP measures which may differ under IFRS.	Incentive plans to be reviewed for relevance following finalization of IFRS accounting policy choices.	▪ Incentive plans related to the 2012 fiscal period will be revised towards the end of 2011 in order to incorporate changes in accounting measures.
Financial reporting expertise ▪ Ensure members of the project team receive adequate training and guidance. ▪ Develop awareness of the impact of IFRS throughout the organization.	Project team to participate in training courses as required. Internal training to be provided to personnel directly impacted by IFRS in their daily activities throughout the implementation phase.	▪ Professional services firm engaged since Q2 2009. ▪ Key members of the project team have completed IFRS specific training courses. ▪ Senior finance personnel are directly involved in the Phase 2 research to ensure the relevant

▪ Provide communication of project status to external stakeholders in a timely manner.		knowledge is kept in-house following transition to IFRS. ▪ Communication to external stakeholders ongoing through MD&A disclosure as required.

Based on the results of Phases 1 and 2 of the project, it is expected that the implementation of the following International Accounting Standards ("IAS") and IFRS will most likely have the greatest potential impact on Gennum's financial statements:

Standard	**Difference from existing GAAP**	**Potential impact**
IAS 1: Presentation of Financial Statements	IFRS requires significantly more disclosure than existing GAAP. In addition, classification and presentation may be different for some balance sheet and income statement items.	Gennum has planned for required additional disclosure through system reviews. Gennum is analyzing the impact of the classification and presentation changes on its financial statements.
IFRS 1: First-Time Adoption of IFRS	A number of mandatory and optional exemptions and elections are available upon first-time adoption of IFRS.	Gennum has analyzed but has not yet concluded on IFRS 1 elections. For Gennum, the material exemptions are expected to relate primarily to the restatement of prior business combinations, the resetting of cumulative translation adjustments (CTA) to nil and accounting for share-based employee benefits.
IFRS 2: Share-Based Payments	IFRS 2 requires that if options vest in instalments, each tranche is to be considered a separate award with the compensation cost amortized accordingly. Under GAAP, separate tranches of an option award may be considered together. Estimates of forfeitures must also be factored into the determination of compensation costs, whereas GAAP allows forfeitures to be accounted for as they occur. IFRS requires that the liability related to share-based payments settled in cash are to be measured at fair value under IFRS 2. Under GAAP, such liabilities are measured using the intrinsic value method, which is not permitted under IFRS.	Gennum will be required to recalculate the fair values, including estimates of forfeitures and amortization, of all unvested tranches of options at the date of transition. Gennum will be required to consider the impacts on its deferred share unit plan, which is currently fair valued using the intrinsic value method, and recalculate opening balances upon transition to IFRS.

IAS 11: Construction contracts **IAS 18:** Revenue	IFRS differs from existing GAAP on the timing and classification of certain types of revenue.	The implications of these standards differences are being investigated, as are changes to these standards currently being discussed.
IAS 12: Income Taxes	While IAS 12 is similar to the existing Canadian standard, any material adjustments to balances resulting from the adoption of IFRS would have a corresponding effect on future income tax balances.	Any impact will depend primarily on other adjustments made upon transition to IFRS.
IAS 16: Property, Plant and Equipment	IFRS allows the periodic revaluation of property, plant and equipment. IFRS has more specific guidance on capitalization and componentization of assets.	Gennum is not likely to elect to periodically revalue its property, equipment and leaseholds, however the team is investigating all alternatives. Gennum does not believe there will be any material changes due to the componentization of assets.
IAS 36: Impairment of Assets	The IFRS standard requires the carrying value of assets to be compared against their recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use which is calculated using discounted cash flows. Impairment under the existing Canadian standard is recognized when the carrying value exceeds the total undiscounted cash flows expected from its use and disposition. The amount of loss is determined by deducting the fair value based on discounted cash flows expected from its use and disposition from the carrying value. IFRS requires the reversal of certain impairment losses in specific circumstances.	Impairment losses may be recognized earlier, or recorded when they may not have been recorded at all under existing GAAP. This may lead to increased volatility in net earnings.
IAS 21: Foreign Exchange	Differences in the prioritization of factors to be considered when determining an entity's functional currency under IFRS could result in a different functional currency. In addition, IFRS does not recognize the distinction under GAAP between integrated and self sustaining entities, and therefore resulting foreign	Phase 3 includes the determination of appropriate functional currencies under IFRS for each entity and from an overall Company perspective. In addition, systems and processes will be updated to reflect the appropriate conversion methodology under IFRS.

	exchange translation differences may occur.	
IAS 17: Leases	Gennum currently has a deferred gain of approximately $4 million related to a sale and leaseback transaction on one of its office buildings. The sale was at fair value and the resulting lease is considered an operating lease, therefore IFRS requires the gains to be recognized at the time of the transaction. GAAP requires the gain in this situation to be recognized rateably over the term of the lease.	On transition, the balance of the deferred gain and the related future income tax asset will be adjusted through retained earnings.
IFRS 3R: Business combinations	Gennum acquired Nanotech on April 6, 2011. The Company followed the guidance of GAAP section 1581 in accounting for the acquisition. IFRS 3R has some significant differences, including the treatment of transaction costs and contingent consideration.	As this acquisition took place subsequent to the transition date, the opening balance sheet is not impacted. However, the comparative period will be adjusted for the differences between GAAP and IFRS in accounting for acquisitions.

Any changes to recognized financial figures may affect non-GAAP and performance measures including, but not limited to, EBITDA.

Several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"), which is the body responsible for drafting and implementing the IFRS standards. Amendments to existing standards are expected to continue beyond Gennum's transition date. Certain standards, if approved and implemented in their current state, could result in material differences between Gennum's current GAAP reporting and proposed IFRS reporting. These areas include, but are not limited to, revenue recognition, lease accounting, financial instruments and financial statement presentation.

Gennum has disclosed key elements and timing of its IFRS conversion plan previously, and will continue to provide updates through the conversion period as required in order to enable stakeholders to assess the impact of the conversion on Gennum's financial performance, and to assess the status of Gennum's conversion to IFRS.

As of May 31, 2011, Gennum cannot reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects Gennum's most recent assumptions and expectations. Circumstances may arise, such as changes in existing IFRS standards, or changes in the regulatory or economic environment, which could alter these assumptions and/or expectations. These disclosures reflect Gennum's expectations based on information available as of May 31, 2011.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In December 2008, the Canadian Institute of Chartered Accountants approved three new accounting standards: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", such new standards replacing Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements". Section 1582 provides the Canadian equivalent to IFRS 3 – "Business Combinations (January 2008)" and Sections 1601 and 1602 provide the equivalent to International Accounting Standard 27 – "Consolidated and Separate Financial Statements

(January 2008)". Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Entities adopting Section 1582 will also be required to adopt Sections 1601 and 1602. 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. These standards will require a change in the measurement of non-controlling interest and will require the non-controlling interest to be presented as part of shareholders' equity on the balance sheet. In addition, the net earnings will include 100% of the subsidiary's results and will be allocated between the controlling interest and non-controlling interest. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. All three standards are effective at the same time Canadian public companies adopt IFRS, for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

RISKS AND UNCERTAINTIES

We are subject to a number of risks and uncertainties that could significantly affect our financial condition and performance. As we grow, continue our commitment to R&D, and enter into new markets, these risks can increase. For a discussion of these risks, please refer to our most recent annual information form, our 2010 annual report and our other public fillings. In addition, as noted above, we are required to make certain judgements and estimates under critical accounting policies, some of which may relate to matters that are uncertain. See "New Accounting Policies and Critical Estimates" above.

CONTROLS AND PROCEDURES

The certifying officers, within the meaning of National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, of the Canadian Securities Administrators ("NI 52-109"), have limited the scope of their design of disclosure controls and procedures and internal control over financial reporting (each as defined in NI 52-109) to exclude controls, policies and procedures of Nanotech. Other than in respect of the foregoing limitation relating to the scope of design or internal control over financial reporting, there were no changes to internal control over financial reporting this quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Summary of Nanotech financial information

	As of May 31, 2011 ***(in millions of U.S. dollars)***
Current assets	$4.7
Non-current assets	$1.0
Current liabilities	$0.8
Non-current liabilities	$0.2

	For the period April 7, 2011 to May 31, 2011 ***(in millions of U.S. dollars)***
Revenue	$2.2
Net loss (after intangible asset amortization)	$0.5

COMMON SHARES OUTSTANDING

At May 31, 2011 there were 35,554,349 common shares of Gennum outstanding (November 30, 2010 - 35,476,909).

As of May 31, 2011, there were 3,395,745 outstanding options, each entitling the holder to purchase one common share of Gennum. Of these outstanding options, 1,655,699 were exercisable as of May 31, 2011.

OUTLOOK

Our current third quarter order book, including Nanotech, is modestly ahead compared to the order book at the same time in the second quarter of 2011. While our overall order book remains solid, we continue to closely monitor the situation with our customers in Japan. We expect there still could be some moderate impact on demand as customers in Japan work through production issues during the third quarter, with this improving over the balance of the year.

Today we announced the final stage of our strategy to complete the outsourcing of our manufacturing operations. This process began in 2007 with the decision to outsource wafer manufacturing and will be completed with the outsourcing of our product testing and logistics. This program will be formalized during the Company's third quarter and implemented over the next year. The full impact and cost of the program are still being finalized. The cost savings from this program are part of our overall program to maintain our competitive position in the marketplace. Currently, costs to implement the program are expected to result in restructuring charges of between $3.3 million and $3.8 million and between $0.5 million and $0.7 million of operating expenses. The majority of the restructuring charges are expected to be accrued during the third quarter.

We continue to evolve our company leveraging the strong foundation we have put in place. The investments we have made are strengthening our core market position and expanding our capability to address faster growing data communication and consumer connectivity markets. We are encouraged by the strong design-in activities of many of our new products across all global regions and the opportunities the Company has to drive greater shareholder value.

June 22, 2011