

GENNUM CORPORATION

Unaudited Consolidated Financial Statements

For the Nine Months ended August 31, 2010

(amounts in thousands of U.S. dollars)

The attached consolidated financial statements have been prepared by management of Gennum Corporation and have not been reviewed by an auditor.

Gennum Corporation

CONSOLIDATED BALANCE SHEETS – (unaudited)

(U.S. dollars, amounts in thousands)

	August 31, 2010	November 30, 2009
ASSETS		
Current		
Cash and cash equivalents	46,067	36,958
Instruments held for trading (note 6)	39	42
Accounts receivable, net	21,004	17,355
Inventories (note 3)	20,303	21,677
Prepaid expenses and other assets	3,644	3,882
Promissory note receivable (note 7)	---	1,068
Consideration receivable (note 5)	---	250
Income taxes receivable	1,039	1,577
Future income taxes	9,375	6,713
Total current assets	101,471	89,522
Capital assets, net (note 4)	21,694	22,002
Intangible assets, net (note 9)	14,851	12,309
Consideration receivable (note 5)	952	870
Goodwill (note 9)	21,505	21,638
Future income taxes	16,215	19,385
	176,688	165,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	14,407	12,230
Deferred revenue (note 10)	883	386
Current portion of long-term payable (note 8)	1,178	1,185
Income taxes payable	570	641
Future income taxes	9	9
Total current liabilities	17,047	14,451
Deferred revenue (note 10)	3,451	3,691
Future income taxes	428	488
<i>Commitments and contingencies (note 20)</i>		
Shareholders' equity		
Capital stock (note 11)	8,675	8,576
Deferred compensation	(3,291)	(2,350)
Retained earnings	116,770	106,994
Contributed surplus	5,273	3,956
Accumulated other comprehensive income	28,335	29,920
Total shareholders' equity	155,762	147,096
	176,688	165,726

See accompanying notes

Gennum Corporation

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) – (unaudited)

(U.S. dollars, amounts in thousands except per share data)

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Revenue (note 13)	34,430	21,389	95,635	60,140
Cost of goods sold	9,323	6,646	26,505	17,571
Gross margin	25,107	14,743	69,130	42,569
Sales, marketing and administration expense	8,155	7,596	24,649	22,741
Research and development expense	10,073	7,377	27,212	22,834
Amortization of intangible assets	446	491	1,305	1,326
Less government assistance	(1,164)	(1,026)	(3,586)	(3,379)
Operating expenses before restructuring and deferred development charge	17,510	14,438	49,580	43,522
Restructuring charge and deferred development impairment (note 16)	---	5,509	---	5,509
Operating income (loss)	7,597	(5,204)	19,550	(6,462)
Investment income	79	58	203	272
Other income (expense) (note 17)	243	(364)	(616)	(3,201)
Earnings (loss) before income taxes	7,919	(5,510)	19,137	(9,391)
Recovery of (provision for) income taxes (note 18)	(2,576)	1,244	(5,757)	3,168
Net earnings (loss) for the period	5,343	(4,266)	13,380	(6,223)
Earnings (loss) per share – basic and diluted (note 11)	\$0.15	\$(0.12)	\$0.39	\$(0.18)

See accompanying notes

Gennum Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – (unaudited)

(U.S. dollars, amounts in thousands)

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Capital stock				
Balance at beginning of the period	8,673	8,576	8,576	8,576
Proceeds from shares issued on exercise of options	2	---	99	---
Balance at end of the period	8,675	8,576	8,675	8,576
Deferred compensation				
Balance at beginning of the period	(3,896)	(3,384)	(2,350)	(2,092)
New awards	---	(49)	(2,865)	(1,986)
Forfeitures	---	234	300	250
Amortization	605	433	1,624	1,062
Balance at end of the period	(3,291)	(2,766)	(3,291)	(2,766)
Retained earnings				
Balance at beginning of the period	112,614	109,905	106,994	113,658
Transitional adjustment on adoption of new accounting policies	---	---	---	212
Net earnings (loss)	5,343	(4,266)	13,380	(6,223)
Dividends	(1,187)	(1,117)	(3,604)	(3,125)
Balance at end of the period	116,770	104,522	116,770	104,522
Contributed surplus				
Balance at beginning of the period	4,815	3,094	3,956	2,493
Stock option amortization	458	372	1,343	973
Stock option exercises	---	---	(26)	---
Balance at end of the period	5,273	3,466	5,273	3,466
Accumulated other comprehensive income, net of income taxes				
Balance at beginning of the period	30,512	24,675	29,920	7,075
Other comprehensive income (loss) for the period	(2,177)	186	(1,585)	17,786
Balance at end of the period	28,335	24,861	28,335	24,861
Total shareholders' equity at end of the period	155,762	138,659	155,762	138,659

See accompanying notes

Gennum Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) – (unaudited)

(U.S. dollars, amounts in thousands)

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Net earnings (loss) for the period	5,343	(4,266)	13,380	(6,223)
Other comprehensive income, net of income taxes				
Change in unrealized gains on translating financial statements	(2,177)	(175)	(1,585)	14,848
Change in losses on derivative instruments designated as cash flow hedges	---	2,171	---	2,319
Reclassification to earnings of losses on settled cash flow hedges	---	(1,810)	---	405
Change in unrealized losses on available for sale financial assets	---	(62)	---	1,365
Reclassification to earnings of losses on available for sale financial assets	---	62	---	(1,151)
Total other comprehensive income, net of income taxes	(2,177)	186	(1,585)	17,786
Comprehensive income for the period	3,166	(4,080)	11,795	11,563

See accompanying notes

Gennum Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS – (unaudited)

(U.S. dollars except as noted, amounts in thousands except per share data)

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
OPERATING ACTIVITIES				
Net earnings (loss) from operations for the period	5,343	(4,266)	13,380	(6,223)
Items not affecting cash				
Depreciation and amortization	1,931	1,776	5,522	5,231
Impairment of deferred development costs	533	1,164	585	1,308
Deferred compensation and stock option amortization	1,063	794	2,967	2,039
Gain on sale of land and building	---	(1,002)	---	(1,002)
Gain on sale of BST technology group	---	---	---	(1,601)
Gain on sale of Toumaz investment	---	---	---	(268)
Loss on CellPoint investments	10	96	3	1,110
Government assistance	(1,164)	(1,026)	(3,586)	(3,379)
Future income taxes	2,099	(2,167)	5,328	(2,525)
Other	562	72	732	(48)
	10,377	(4,559)	24,931	(5,358)
Net change in non-cash working capital balances related to operations	1,209	4,243	906	(4,011)
Cash provided by (used in) operating activities	11,586	(316)	25,837	(9,369)
INVESTING ACTIVITIES				
Purchase of capital assets	(1,097)	(1,069)	(4,073)	(3,155)
Payment of license fees and deferred development costs	(2,185)	(1,606)	(6,124)	(4,161)
Acquisition of Snowbush and ASIC, other than cash acquired	---	162	---	(432)
Proceeds on sale of BST technology group - cash	---	250	248	2,026
Proceeds on sale of Toumaz investment	---	---	---	1,019
Proceeds on sale of land and building	---	1,437	---	1,437
Cash used in investing activities	(3,282)	(826)	(9,949)	(3,266)
FINANCING ACTIVITIES				
Deferred compensation paid, net of forfeitures	---	185	(2,565)	(1,748)
Stock options exercised	2	---	73	---
Dividends paid	(1,187)	(1,117)	(3,604)	(3,125)
Cash used in financing activities	(1,185)	(932)	(6,096)	(4,873)
Effect of exchange rate changes on cash and cash equivalents	(817)	351	(683)	3,622
Net increase (decrease) in cash and cash equivalents during the period	6,302	(1,723)	9,109	(13,886)
Cash and cash equivalents, beginning of the period	39,765	36,585	36,958	48,748
Cash and cash equivalents, end of the period	46,067	34,862	46,067	34,862
Dividends declared per share ¹	\$0.033	\$0.031	\$0.102	\$0.088

¹ – Dividends were declared in Canadian dollars at a rate of \$0.035 per share per quarter.

See accompanying notes

No interest expense was paid in the first nine months of 2010 or 2009. Income taxes paid in the third quarter of 2010 were \$173 (third quarter of 2009 - \$513) and \$618 in the first nine months of 2010 (first nine months of 2009 - \$2,936). Cash and cash equivalents at August 31, 2010 was comprised of

\$34,907 in cash and \$11,160 in cash equivalents (third quarter of 2009 - cash - \$16,935 and cash equivalents - \$17,927).

GENNUM CORPORATION

Notes to the Consolidated Financial Statements

(U.S. dollars except as noted, amounts in thousands, except share and per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements of Gennum Corporation (the "Company") have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with the most recent audited financial statements of the Company, except as noted below. These unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Company's annual report for the year ended November 30, 2009.

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 be required to adopt IFRS no later than December 1, 2011. The Company is currently evaluating the effects of adopting these standards. See status report in the Company's third quarter Management Discussion and Analysis.

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 will adopt IFRS, for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

2. REPORTING CURRENCY

Effective December 1, 2007, the Company adopted the U.S. dollar as its reporting currency, but has retained the Canadian dollar as its functional currency. The Company believes that reporting in U.S. dollars improves the comparability of the Company's financial position and results of operations to others in its industry.

During the quarter, revenue and expenses have been translated from Canadian dollars to U.S. dollars at the monthly average rates, and cash flows have been translated from Canadian dollars to U.S. dollars at

the quarterly average rates. Assets and liabilities have been translated at the period end rate of \$0.9399 of a Canadian dollar to one U.S. dollar (November 30, 2009 - \$0.9457).

3. INVENTORIES

	August 31, 2010	November 30, 2009
Raw materials and supplies	275	404
Work in process	13,315	11,786
Finished goods	6,713	9,487
	20,303	21,677

Inventory is reviewed at least quarterly for obsolescence. The Company recorded a write-down of \$484 during the quarter (third quarter of 2009 - \$286). During the first nine months of 2010, the Company recorded a write-down of \$716 (first nine months of 2009 - \$428).

4. CAPITAL ASSETS

	August 31, 2010	November 30, 2009
Land	925	930
Equipment and furniture	28,334	27,442
Computer software and hardware	7,678	6,724
Operating systems	10,786	10,108
Leasehold improvements	2,383	2,351
	50,106	47,555
Less accumulated depreciation		
Equipment and furniture	20,624	18,903
Computer software and hardware	5,656	5,263
Operating systems	1,603	940
Leasehold improvements	529	447
	28,412	25,553
	21,694	22,002

The cost of capital asset additions year to date for 2010 was reduced by government assistance of \$101. Included in capital assets were assets valued at \$1,822 that were not yet put in use by August 31, 2010 and therefore no depreciation was taken in the period.

Depreciation expense for the three and nine month periods ended August 31, 2010 and 2009 was as follows:

	Three Months Ended		Nine Months Ended	
	August 31		August 31	
	2010	2009	2010	2009
Buildings	---	4	---	16
Equipment and furniture	835	863	2,452	2,604
Computer software and hardware	182	171	476	482
Operating systems	259	238	754	669
Leasehold improvements	61	65	213	159
	1,337	1,341	3,895	3,930

5. CONSIDERATION RECEIVABLE

On March 4, 2009, as partial consideration for the sale of its BST technology group and associated assets to Paratek Microwave, Inc. ("Paratek"), the Company recorded a consideration receivable totaling \$2,150. The consideration receivable is non interest bearing with \$250 that was payable quarterly until December 31, 2009 and a long-term portion of \$1,150 payable by March 4, 2012. The long-term portion was discounted using a rate of 12%. The balance of the long-term portion as of August 31, 2010, including accrued interest, was \$952 (November 30, 2009 - \$870).

6. INSTRUMENTS HELD FOR TRADING AND LONG-TERM INVESTMENTS

The Company owns 1.7 million shares of CellPoint Connect ("CellPoint"), received as partial consideration for the sale of its consumer headset product line on August 24, 2007. The original book value of these shares was \$1,500 Canadian.

One-third of the shares have been classified as held for trading. The Company wrote the shares down to a fair value of \$39 as of August 31, 2010 (November 30, 2009 - \$42). The fair value adjustment for the quarter was a \$12 pre-tax loss recorded through earnings (third quarter of 2009 - \$32 pre-tax loss). On a year-to-date basis, the unrealized pre-tax loss recorded through net earnings was \$3 (year-to-date 2009 - \$266 pre-tax loss) (note 17).

The remaining 1.1 million shares have been classified as available for sale, and were written down to nil in 2009 through earnings as the Company considered the decrease in the fair value of the shares to be significant and prolonged.

7. PROMISSORY NOTE RECEIVABLE

On October 19, 2007, the Company received \$2,503 in an interest-bearing promissory note as part of the consideration received from the sale of its hearing and manufacturing operations to Sound Design Technologies Ltd. ("Sound Design"). Sound Design repaid the entire outstanding balance of \$820 in June 2010.

8. LONG-TERM PAYABLE

As part of the consideration for the acquisition of Snowbush Microelectronics Inc. ("Snowbush") on October 30, 2007, the Company negotiated deferred purchase price payments to be paid in Canadian dollars. As of August 31, 2010, \$1,178 remains outstanding (Canadian \$1,255), all due in the fourth quarter of 2010 and therefore classified as current (November 30, 2009 - \$1,185). The deferred purchase price payments have been discounted at 6% using the effective interest rate method. The amortization of the discount is being accounted for as a charge to net earnings over the term of the payable.

9. GOODWILL AND INTANGIBLE ASSETS

(i) Goodwill

Goodwill related to the Snowbush acquisition increased by \$1,778 in 2008 and \$399 in 2009 as a result of deferred work in process payments. Goodwill related to the ASIC Architect Inc. ("ASIC Architect") acquisition increased by \$62 in 2008 and \$92 in 2009 due to working capital surplus and earn-out payments and accruals. Goodwill is reviewed annually for impairment.

For reconciliation purposes only, the following table summarizes goodwill balances translated to U.S. dollars at the historical exchange rates in effect at the dates of acquisition and the adjustment required to translate from historical rates to the respective balance sheet rates:

	August 31, 2010	November 30, 2009
SiGe Semiconductor Inc.	1,889	1,889
Snowbush	19,072	19,072
ASIC Architect	1,009	1,009
Exchange translation	(465)	(332)
	21,505	21,638

(ii) Intangible Assets

	August 31, 2010	November 30, 2009
License fees	267	206
Less accumulated amortization	(149)	(122)
	118	84
<i>SiGe Semiconductor Inc. acquired in 2004</i>		
Technology	2,088	2,100
Less accumulated amortization	(1,889)	(1,676)
	199	424
<i>Snowbush acquired in 2007</i>		
Technology	3,854	3,878
Supplier relationships	1,222	1,229
In process development	658	662
Customer value	103	104
Contracts in process	132	132
	5,969	6,005
Less accumulated amortization	(3,727)	(2,792)
	2,242	3,213
<i>ASIC Architect acquired in 2008</i>		
Technology	311	314
Customer relationship	7	7
In process development	74	75
Customer value	200	201
Contracts in process	287	288
	879	885
Less accumulated amortization	(334)	(233)
	545	652
Deferred development cost	12,140	8,007
Less accumulated amortization	(393)	(71)
	11,747	7,936
	14,851	12,309

License fees are amortized using the straight-line method over the estimated useful lives ranging from three to five years. New license fees of \$68 were incurred to date in 2010 (nil in 2009).

The intangible assets resulting from the SiGe Semiconductor Inc. acquisition in May 2004 are amortized using the straight-line method over the estimated useful life of seven years.

Intangible assets resulting from the Snowbush acquisition in October 2007 are amortized using the straight-line method over the estimated useful lives ranging from one to five years.

Intangible assets resulting from the ASIC Architect acquisition in July 2008 are amortized using the straight-line method over the estimated useful lives ranging from five to seven years.

Deferred development charges represent expenditures directly related to placing a new product into commercialization when the expenditure is incremental in nature and it is probable that the expenditure is recoverable from future sales of the associated product. Upon commercial launch of the product, these costs are amortized to cost of goods sold over the number of expected unit sales to a maximum of five years.

Additional deferred development costs of \$2,185 and \$6,124 were capitalized in the third quarter and first nine months of 2010 respectively (third quarter of 2009 - \$1,606; first nine months of 2009 - \$4,008). These additions were partially offset by government assistance of \$1,305 in the first nine months of 2010 related to deferred development charges incurred in 2008, 2009 and year to date in 2010 (nil in 2009). Also offsetting the additions were impairments related to deferred development costs that were no longer

expected to provide future benefit were \$533 in the third quarter and \$585 in the first nine months of 2010 (\$1,164 in the third quarter and \$1,330 in the first nine months of 2009).

No other intangible assets were impaired in the first nine months of 2009 or 2010. Intangible asset impairments are charged to research and development expense in the statement of earnings (loss), with the exception of the third quarter of 2009 impairment, which was recorded under restructuring and deferred development charge.

Amortization expense related to intangible assets in the third quarter and in the first nine months of 2010 was \$594 and \$1,627, respectively (third quarter of 2009 - \$501 and first nine months of 2009 - \$1,352), of which \$148 and \$322 respectively relates to deferred development costs and is charged to cost of goods sold (third quarter and first nine months of 2009 - \$29).

10. DEFERRED REVENUE

Deferred revenue consists of two components. The largest is the unamortized gain created by the sale leaseback of the corporate headquarters, which was completed in August 2008.

The second component is created in our IP product group when differences occur between the timing of customer payments and the recognition of revenue using the percentage of completion or the completed contract methods. These methods of revenue recognition are prevalent when IP cores sold to customers require customization to meet their specific requirements.

As of August 31, 2010, deferred revenue related to the unamortized gain was \$3,740, of which \$289 was classified as current and the balance of \$3,451 as long term (November 30, 2009 - \$290 current and \$3,691 long term), and deferred revenue related to collections in excess of earned IP revenue was \$594, all classified as current (November 30, 2009 - \$96).

11. CAPITAL STOCK

The Company has authorized an unlimited number of common shares with no par value, of which 35,445,435 common shares (November 30, 2009 - 35,429,086) were issued and outstanding as of August 31, 2010 with a stated value of \$8,675 (November 30, 2009 - \$8,576). An unlimited number of preferred shares have also been authorized, none of which have been issued.

Options to purchase common shares

The Company has an incentive stock option plan which provides for the granting of options for the benefit of employees and officers. The total number of common shares that may be issued upon the exercise of options granted under the stock option plan is 2,700,000 common shares. To date, 374,311 common shares have been issued upon the exercise of options granted under the stock option plan, leaving 2,325,689 common shares available for issue under options currently outstanding, or which may be granted in the future, under the stock option plan. Options to purchase 2,140,117 common shares were outstanding under the stock option plan at quarter end.

An additional 1,080,000 options were issued outside the stock option plan to new officers upon hiring at exercise prices ranging from Canadian \$6.13 - \$13.27. This includes 150,000 options issued outside the stock option plan in the first quarter of 2010 (no stock options were issued outside the stock option plan in 2009).

All options have been granted for a term of seven years from the grant date with vesting as to 25% of the option entitlement at the end of each of the first, second, third and fourth years from the date of grant. All options allow the holder to purchase common shares at the exercise price of the options, which is set at the closing price of a trade of at least a board lot of the common shares on the Toronto Stock Exchange on the trading day preceding the date of grant, unless otherwise determined by the Company, but in no event may the option exercise price be less than the fair market value of a common share on the date of grant of the option. The following table presents a comparative summary of options outstanding as of August 31, 2010. All exercise prices are presented in Canadian dollars.

	Nine Months Ended August 31, 2010		Nine Months Ended August 31, 2009	
	Number of shares	Weighted average exercise price (Cdn.\$)	Number of shares	Weighted average exercise price (Cdn.\$)
Outstanding, beginning of year	2,500,086	9.24	2,117,077	10.99
Granted	1,035,000	5.63	660,150	4.55
Forfeited	(288,620)	10.58	(186,833)	10.36
Expired	(10,000)	13.49	(2,500)	13.25
Exercised	(16,349)	4.55	---	---
Outstanding as of August 31	3,220,117	7.97	2,587,894	9.39
Options exercisable as of August 31	1,179,968	10.19	845,467	11.28

The following table summarizes information about all options outstanding to purchase common shares as of August 31, 2010. All exercise prices are presented in Canadian dollars:

Range of exercise prices (Cdn.\$)	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price (Cdn.\$)	Number exercisable	Weighted average exercise price (Cdn.\$)
\$ 4.11 - \$7.16	1,669,451	6.1 years	5.28	149,167	4.73
\$ 7.17 - \$10.22	998,809	3.7 years	9.82	630,658	9.81
\$10.23 - \$13.27	551,857	3.5 years	12.77	400,143	12.82

The estimated weighted average fair value of stock options granted during the first nine months of 2010 was Canadian \$1.88 (first nine months of 2009 - Canadian \$1.67) per share using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Nine Months Ended August 31, 2010	Nine Months Ended August 31, 2009
Risk-free interest rate	2.1%	1.93%
Expected dividend yield	2.5%	3.1%
Expected volatility	48.6%	50.9%
Expected time until exercise	4.0 years	5.5 years

Restricted share plan

The number and weighted average fair value of restricted common shares granted under employee incentive plans of the Company in the third quarter of 2009 were 12,964 and Canadian \$4.24, respectively. None were granted in the third quarter of 2010. For the first nine months of the year, the number and weighted average fair values were 527,814 and Canadian \$5.74, respectively (2009 - 483,431, Canadian \$5.08).

In the third quarter of 2010, the Company recorded compensation expense and credited to contributed surplus \$458 related to the amortization of stock options issued in prior periods (third quarter of 2009 - \$372) and \$1,343 year to date (2009 year to date - \$973). Compensation expense of \$605 in the third quarter of 2010 related to the amortization of prior period restricted share plan awards (third quarter of 2009 - \$433) and \$1,624 year to date (2009 year to date - \$1,062).

Earnings per share

The Company uses the treasury stock method of calculating the dilutive effect of options on earnings per share. The following is a reconciliation of the numerator and denominator of earnings per share computations:

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Net earnings (loss) for the period	5,343	(4,266)	13,380	(6,223)
Weighted average shares outstanding (numbers in thousands)	35,445	35,429	35,437	35,429
Shares held under restricted share plan	(894)	(757)	(894)	(757)
Basic weighted average shares outstanding	34,551	34,672	34,543	34,672
Effect of dilutive stock options	97	---	79	---
Diluted weighted average shares outstanding	34,648	34,672	34,622	34,672
Earnings (loss) per share - basic and diluted	\$0.15	\$(0.12)	\$0.39	\$(0.18)

The Company uses the treasury stock method for calculating diluted earnings per share. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options. It assumes that the proceeds of such exercise would be used to re-purchase common shares at the average market price during the period. Options to purchase 1,570,666 common shares were not included in the computation of diluted earnings per share for the quarter ended August 31, 2010 because the option exercise prices together with the unamortized compensation costs were greater than the average market price of the common shares (year to date – 1,620,666). In net loss per common share situations, the diluted loss per common share amount is the same as that for basic, as all factors are anti-dilutive.

12. FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

Under GAAP, financial instruments are classified into one of the following five categories: held for trading; held to maturity investments; loans and receivables; available for sale financial assets; and other financial liabilities. The carrying values of the Company's financial instruments, including those held for sale on the consolidated balance sheet are classified into the following categories:

	August 31, 2010	November 30, 2009
Held for trading ¹	45,876	37,029
Loans and receivables ²	23,657	21,477
Other financial liabilities ³	15,925	14,056

¹ Includes cash and cash equivalents, foreign exchange forward contracts that are not effective hedges and the CellPoint investment designated as held for trading.

² Includes accounts receivable, promissory note receivable, income taxes receivable, consideration receivable and certain financial instruments included in prepaid expenses and other assets.

³ Includes accounts payable and accrued liabilities, long-term payable and income taxes payable.

The Company, through its financial assets and liabilities, is exposed to various risks. The Company's overall risk management program includes the consideration of the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company does not purchase any derivative financial instruments for speculative purposes.

Risk management is the responsibility of the corporate finance function. The Company's domestic and foreign operations along with the corporate finance function identify, evaluate and, where appropriate, hedge financial risks. Material risks are monitored and are discussed with the audit committee. The following analysis provides information regarding certain financial risks as of August 31, 2010:

(a) Fair Value

The carrying amounts for cash and cash equivalents, accounts receivable, other assets, promissory notes receivable and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

The short-term payable resulting from the Snowbush acquisition was recorded at its fair value with the resulting discount being charged to earnings.

Instruments held for trading are recorded at fair value based on the quoted share prices, where they exist, and foreign exchange rates as of August 31, 2010.

(b) Foreign Exchange Rate Risk

The objective of the Company's foreign exchange risk management activities is to minimize translation exposures related to the balance sheet and the resulting volatility of the Company's earnings. The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange rates by entering into foreign exchange forward contracts.

The Company's revenue is mainly denominated in U.S. dollars, whereas operating expenses (including salaries) are mainly in Canadian dollars. Cost of goods sold is a combination of U.S. and Canadian dollars. As a result of the Company's U.S. dollar profile, cash, receivables and trade payables on the Company's books are primarily denominated in U.S. dollars while the functional currency of the Company is Canadian dollars. Therefore, translation gains or losses can occur when these net monetary assets are translated to the Canadian dollar functional currency at the exchange rate in effect on the balance sheet date. A volatile exchange rate can create significant swings in periodic income. To mitigate this risk, commencing in the third quarter of 2009, the Company modified its foreign exchange risk management program. The Company's current policy is to enter into foreign exchange forward contracts equal to the forecasted level of U.S. dollar denominated net monetary assets and excess U.S. dollar cash and cash equivalent balances. These contracts mature in one month and mitigate the impact of translation gains or losses due to currency movements from one balance sheet date to the next. In accordance with this policy, the Company entered into a foreign exchange forward contract on August 31, 2010 to sell \$20,500 U.S. This contract matures on September 30, 2010 at an exchange rate of Canadian \$1.06270 against the U.S. dollar.

The Company also generates revenue in Japanese yen in excess of the Japanese subsidiary's yen expenditures. This net Japanese yen cash flow is hedged on a monthly basis in a similar fashion to the U.S. foreign exchange contracts referred to above. The Company entered into foreign exchange forward contracts on July 31, 2010 and August 31, 2010 to sell 268,000 Japanese yen. These contracts mature between September 27 and October 29, 2010 at exchange rates between Canadian \$0.01186 and Canadian \$0.01263 against the Japanese yen.

The Company estimates that a before tax loss of \$237 would have been realized if the U.S. dollar and Japanese yen contracts had been terminated on August 31, 2010. The fair values of the foreign exchange forward contracts are based on market information from major financial institutions. These forward contracts are not considered hedges for accounting purposes and therefore the loss is included in other income on the statement of earnings. The net impact of these realized foreign exchange losses were \$320 in the third quarter and \$1,274 in the first nine months of 2010 recorded to other expense (see note 17).

The Company also recognizes unrealized foreign exchange gains and losses recorded to the statement of earnings (loss) mainly as a result of converting U.S. dollar denominated balances to the Company's Canadian dollar functional currency. In the third quarter and first nine months of 2010, the U.S. dollar to the Canadian dollar exchange rates used to convert U.S. dollar balances on the balance sheet to the Company's Canadian dollar functional currency were as follows:

- \$1.0574 on November 30, 2009
- \$1.0462 on May 31, 2010
- \$1.0639 on August 31, 2010

The net impact on our U.S.-based net monetary assets was a foreign exchange translation gain of \$627 in the third quarter and \$825 in the first nine months of 2010 recorded to other expense (see note 17).

The Company's reporting currency is the U.S. dollar. Therefore, financial results are first consolidated into the Canadian dollar functional currency and then translated into U.S. dollars using the current rate method. The translation to the reporting currency does not generate a cash impact and is not hedged by the Company. Gains or losses created by translating from the functional currency to the reporting currency are captured as a change in unrealized gains (losses) on translating financial statements and are captured in the consolidated statement of other comprehensive income.

The Company reported a foreign currency translation loss in the third quarter of 2010 of \$2,177 (\$1,585 year to date) from converting the Canadian dollar consolidation for U.S. dollar reporting. This translation loss is recorded in other comprehensive income and is due to a weakening of the Canadian dollar compared to the U.S. dollar over the quarter.

Despite the fairly consistent balance sheet rates over the past nine months, there has been increased variability in the monthly rates used to translate the consolidated statement of earnings from Canadian dollars to U.S. dollars for reporting purposes. The average Canadian to U.S. dollar exchange rates used to translate the consolidated statement of earnings were as follows:

- \$0.9568 for the third quarter of 2010
- \$0.9592 for the first nine months of 2010
- \$0.8998 in the third quarter of 2009
- \$0.8399 for the first nine months of 2009

(c) Credit Risk

The Company is exposed to commercial credit risk from its customers in the normal course of business, which is mitigated by the Company's credit management policies. The Company is exposed to credit risk from potential default by any of its counterparties on its foreign exchange contracts and manages this credit risk by dealing only with major financial institutions with acceptable credit ratings. Credit risks associated with holders of promissory notes and loans are managed through regular communication with those holders.

As of August 31, 2010, three customers accounted for more than 10% of revenue, and three customers accounted for more than 10% of receivables.

The aging of trade receivable balances as of August 31, 2010 were as follows:

Current	16,173
Past due 0-30 days	4,655
Past due 31-60 days	37
Past due over 61 days	139
Accounts receivable, net	21,004

These balances are net of provisions of \$493 (current) and \$657 (past due over 61 days).

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. As of August 31, 2010, the Company was holding cash and cash equivalents of \$46,067 and accounts receivable of \$21,004. The following are the undiscounted contractual maturities of financial liabilities as of August 31, 2010:

	Less than 1 year
Accounts payable and accrued liabilities	14,407
Current portion of long-term payable	1,178
	15,585

The current ratio, calculated as current assets divided by current liabilities, for the Company as of August 31, 2010 was 6.0.

(e) Interest Rate Risk

Interest rate risk is the risk that interest-bearing financial instruments will vary in value due to the variability of the interest rates. The Company is not exposed to any interest rate risk as it does not hold any interest bearing financial instruments.

(f) Price Risk

Price risk is the risk that the value of an investment will decline in the future. The Company does not believe it currently has any significant price risks.

13. SEGMENTED INFORMATION

The Company operates and tracks its results in one reportable segment, consisting of numerous product areas, effective December 1, 2007. The Company's chief operating decision maker is its Chief Executive Officer. The chief operating decision maker allocates resources and assesses the performance of the business and other activities at the operating segment level.

The revenue by product portfolio within the single reportable segment and revenue by geographic area is as follows:

Revenue by product portfolio is as follows:

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Analog and Mixed Signal	25,340	15,935	70,291	42,587
Optical	5,804	2,846	18,070	8,855
IP	3,286	2,608	7,274	8,698
	34,430	21,389	95,635	60,140

Revenue by principal markets is as follows:

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
North America	9,520	8,033	26,054	25,328
Europe	3,134	2,367	9,896	5,248
Japan	8,937	4,237	23,449	12,250
Pacific Rim	12,839	6,752	36,236	17,314
	34,430	21,389	95,635	60,140

The methodology for attributing revenue to principal markets has been changed to allocate revenue based on the billing location of the customer.

Capital assets and goodwill by country are as follows:

	August 31, 2010	November 30, 2009
Canada	40,582	41,423
United States	1,014	1,020
UK	986	949
Other	617	248
	43,199	43,640

Goodwill of \$20,491 (November 30, 2009 - \$20,618) is located in Canada and \$1,014 (November 30, 2009 - \$1,020) is located in the United States.

14. DEFINED CONTRIBUTION PLAN

On January 1, 2009, the Company replaced the existing deferred profit sharing plan with a defined contribution plan pursuant to which the Company contributes, for the benefit of each employee enrolled in the plan, 5% of such employee's annual base salary earnings. The total cost incurred in the third quarter and first nine months of 2010 was \$383 and \$1,092 respectively (third quarter 2009 - \$295; first nine months of 2009 - \$804).

15. DEFERRED SHARE UNITS

Effective February 1, 2008, the Company implemented a deferred share unit ("DSU") plan for the benefit of the directors of the Company under which directors receive an initial award and an annual award in DSUs and can elect to receive up to 100% of their annual retainer or total compensation in the form of DSUs. Under the terms of the DSU plan, the DSU award is credited to an account maintained for each director. At such time as any director leaves the board of directors, such director will receive a lump sum cash payment equal to his or her credit balance under the DSU plan.

As of August 31, 2010, the Company had an accrued balance of \$1,057 (November 30, 2009 - \$532) which will be paid to directors if they leave the board of directors. During the third quarter and first nine months of 2010, \$(115) and \$514 respectively (third quarter of 2009 - \$69, first nine months of 2009 - \$156) was charged (credited) to sales, marketing and administration expense related to the expensing of awards and from a mark to market of the liability based on the Company's share market value.

16. RESTRUCTURING CHARGE AND DEFERRED DEVELOPMENT IMPAIRMENT

During the third quarter of 2009, the Company announced the implementation of a restructuring plan to improve profitability and cash flow. The Company's plans included realigning its investment to maintain its research and development programs while reducing corporate infrastructure and business operations costs and capital expenditures. Additionally, the Company focused its marketing, sales and administrative investment on short-term and mid-term customer revenue generation activities and new product development.

This plan resulted in a restructuring charge and deferred development impairment of \$5,934 incurred in 2009 related to the termination of approximately 10% of the Company's total workforce. The plan has been substantially completed.

Restructuring charges and deferred development impairment incurred in 2009:	
Severance costs	3,584
Deferred development cost impairment (net of investment tax credits)	1,200
Inventory and other asset impairments	1,150
Total restructuring charge and deferred development impairment incurred to date	5,934

Severance costs included in accounts payable and accrued liabilities as of November 30, 2009	1,775
Severance costs paid in the first quarter of 2010	(991)
Severance costs paid in the second quarter of 2010	(747)
Severance costs paid in the third quarter of 2010	---
Severance costs included in accounts payable and accrued liabilities as of August 31, 2010	37

17. OTHER INCOME (EXPENSE)

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Realized gain (loss) on foreign exchange contracts	(320)	832	(1,274)	(2,355)
Foreign exchange gain (loss) on translation	627	(556)	825	(3,015)
Gain (loss) on foreign exchange, net	307	276	(449)	(5,370)
Corporate development charges	---	(1,191)	(120)	(1,191)
Tundra termination fee, net	---	(7)	---	2,205
Gain on sale of building	---	1,002	---	1,002
Gain on sale of BST technology group	---	---	---	1,601
Gain on sale of Toumaz investment	---	---	---	268
Provision on long-term investment	---	(64)	---	(844)
Fair value loss on instruments held for trading (note 6)	(12)	(32)	(3)	(266)
Other	(52)	(348)	(44)	(606)
	(64)	(640)	(167)	2,169
	243	(364)	(616)	(3,201)

18. INCOME TAXES

The following is a reconciliation of the expected income tax expense obtained by applying the combined corporate tax rates to earnings before income taxes:

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Expected income tax (expense) recovery using statutory tax rates	(2,455)	1,818	(5,928)	3,099
Permanent differences	(67)	(246)	(96)	45
Different income tax rates on earnings of foreign subsidiaries	(54)	(274)	(150)	(91)
Changes in tax rates	49	(42)	211	340
Adjustment of tax provision	(49)	(12)	206	(225)
Recovery of (provision for) for income taxes	(2,576)	1,244	(5,757)	3,168
Effective tax rate	32.5%	22.6%	30.1%	33.7%

19. CAPITAL RISK MANAGEMENT

The Company's intent when managing capital is to ensure adequate capital is available to achieve its business objectives in order to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure. The Company's capital is composed of shareholders' equity, and is not subject to any capital requirements imposed by a regulator.

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, and adjust the amount of cash and cash equivalents balances.

20. COMMITMENTS AND CONTINGENCIES

The Company is committed to future minimum payments under operating leases for software design tools and buildings and equipment as of August 31, 2010 as follows:

	Design Tools	Buildings and Equipment	Total
2010	274	746	1,020
2011	1,937	2,414	4,351
2012	1,937	2,226	4,163
2013	547	1,854	2,401
2014 and beyond	---	15,157	15,157
	4,695	22,397	27,092

The Company has committed to approximately \$12.9 million in purchase obligations as of August 31, 2010, of which \$1.1 million is related to authorized capital projects. The remaining purchase obligations relate primarily to inventory, product development and general operating costs. The majority of purchase obligations, \$9.9 million, are expected to be incurred within the next year.

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers, former employees and third parties. The Company believes that adequate provisions have been recorded in the accounts where required. Although it may not be possible to accurately estimate the extent of potential costs and losses, if any, the Company believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

21. COMPARATIVE AMOUNTS

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