

2010 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; 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; 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; economic cycles in the semiconductor industry including downturns which can result from adverse general economic conditions; 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; the successful integration of acquisitions; 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'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; 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; Gennum is able to successfully integrate acquisitions; 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 fiscal year ended November 30, 2010 together with the prior fiscal year, as well as our financial position and future prospects. It should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for its fiscal year ended November 30, 2010, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Our public disclosure documents, including our historical financial statements and our annual information form, can be viewed on SEDAR at www.sedar.com.

In this discussion and analysis, “Genum”, the “Company”, “we”, “our” and similar references include Genum Corporation and its subsidiaries, except where the context otherwise requires. Also, in this discussion and analysis, our past fiscal year, which ended November 30, 2010, is referred to as “fiscal 2010”, “2010” or using similar words. Other fiscal years are referenced by the applicable year during which the fiscal year ends.

The Company adopted the U.S. dollar as its reporting currency, but has retained the Canadian dollar as its functional currency. 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

Genum 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”.

Growth Strategy

As the world rapidly digitizes and demands faster and richer audio-video and data transmission across networks, maintaining signal integrity becomes more difficult and challenging. Designing and selling semiconductors and IP cores that address these signal integrity requirements is Genum’s core business. Genum’s strategic approach is to focus on innovative leadership products for advanced broadcast, networking, storage, telecommunications and consumer connectivity equipment.

MARKETS AND MARKET DRIVERS

We believe Genum is positioned to benefit from the growing demand for high-speed data transmission solutions to support the “internet explosion” that is happening globally. The current internet expansion is being heavily driven by the increasing amounts of video and high-definition video being transmitted over the internet. This ongoing dynamic will require significant network upgrades – both connections and equipment – to support the increasing global internet traffic. As the world begins to move at significantly higher speeds, the adoption of networks with speeds of 10Gb/s, 40Gb/s and 100Gb/s is expected to accelerate over the next five years. We believe that Genum’s expertise in enabling high-speed connectivity and transmission of data enables Genum to be a strong partner to its customers in meeting their evolving needs to address these changes.

VIDEO BROADCAST EQUIPMENT

In the video broadcast market, growth primarily results from the adoption of new technologies such as 3D, and the standardization of the latest video and audio formats such as HDTV. Our key customers include manufacturers of television broadcast and production/post production equipment. As new video broadcast standards and capabilities emerge, Genum believes that it is positioned to provide broadcast equipment manufacturers with innovative products that enable their market success for the long term.

STORAGE, NETWORKING, & TELECOMMUNICATIONS

Driven by growing amounts of information being transmitted around the world, data rates and densities in networking, storage, telecommunications and computing equipment are climbing past 10Gb/s and are on their way to 100Gb/s. At the faster data rates, there is more of a likelihood for data transmission errors.

Gennum provides signal integrity solutions which ensure that signals can be transmitted without errors, thereby addressing the needs of customers in these markets.

CORE BUSINESSES

Analog and Mixed-Signal (AMS) Products

Gennum's AMS products solve signal integrity issues caused by increased demand for faster data and audio-video transmission rates. Gennum's strategy is to leverage high-speed analog and mixed-signal expertise to deliver first-to-market leading products offering the highest performance and best feature integration.

AMS products address three broad market segments: broadcast serial digital interface (SDI), module integrated circuits (ICs), and backplane and linecard ICs. Gennum believes that it has a leadership position in broadcast and module ICs and is investing to achieve a position in high-performance backplane and linecard ICs.

During 2010, we continued with a steady stream of new products:

- GS2993 and GS2994 high performance equalizers for the SDI broadcast market.
- GN2017 16G Fibre Channel and Fibre Channel over Ethernet clock and data recovery (CDRs) for the storage module IC market.
- GN2012 and GN2010 family of devices which integrate CDRs and laser drivers for the telecom and datcom module IC market.
- GX3290 family of six crosspoint switch devices for the broadcast market.
- GX4002 crosspoint switch targeted to the requirements of next generation data center, enterprise and telecommunications networks.

The GN2017, GN2012 and GN2010 each involve the integration of previously provided single function products into single devices offering leadership performance, lower power and smaller footprints.

With the GX3290 family of crosspoint switches Gennum now serves an additional segment of the broadcast video market with both high performance and the industry's largest switch which delivers one trillion bits of data throughput per second. Similarly, the GX4002 enables Gennum to serve an additional segment of the data center and networking markets.

Optical Module (Optical) Products

Our product strategy is to leverage our high-speed optical expertise and customer relationships to develop highly integrated high-performance optical components for this fast growing market. Our products include transimpedance amplifiers (TIAs), laser drivers, integrated transmit and receive ICs (TRx ICs) and receive optical sub-assemblies (ROSAs), and video optical modules (VOMs). We believe our full suite of high-speed and high-performance optical transceiver component technologies enables us to provide more integrated devices than our competitors, enabling us to deliver more value to our customers.

During 2010, Gennum introduced:

- GN7350; the world's first 10G Ethernet passive optical network (EPON) transceiver which reduced power and cost while enhancing performance.
- the third generation of Gennum's VOM family with five new devices (GO2917, GO2918, GO2927, GO2928, GO2929) which enable broadcast equipment manufacturers to easily add optical SDI interfaces and network equipment manufacturers to add SFP pin-outs used in the data communications market.
- new ROSA product variants (GN3250-CR, GN3050-CR and GN3250-PT) developed in collaboration with our customers to deepen our reach into their applications.
- TIAs specifically designed for 16G fibre channel (GN1068) and 10G EPON applications (GN7068).

IP Cores

IP cores are reusable circuit blocks that are incorporated into highly integrated system-on-chips (SoCs) or other complex semiconductor devices. SoCs are becoming highly integrated and complex, thus driving an

increase in development times and costs. This has caused IC companies to seek out third-party IP vendors to supply them with IP blocks to speed time to market and reduce overall design cost.

Gennum's Snowbush IP products provide high-speed interconnect solutions for today's SoC applications. Additionally, with this suite of IP cores, Gennum is able to leverage this advanced high-performance IP to accelerate Gennum's own new product development.

OVERALL PERFORMANCE

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

	Years ended November 30	
	2010	2009
Revenue	128.9	85.2
Restructuring charge	---	(5.9)
Operating income before restructuring charge	27.4	2.5
Operating income (loss)	27.4	(3.5)
Net earnings (loss)	18.6	(2.6)
Earnings (loss) per share - basic and diluted	0.54	(0.07)
Cash and cash equivalents	52.7	37.0

Revenue in 2010 was up 51% or \$43.7 million compared to 2009. The economic recovery began in the second half of 2009 and with the strong adoption of Gennum's new products enabled Gennum to return to results and profitability levels that were reached prior to the downturn. These results were also partly attributable to an expanded global sales channel which resulted in strong revenue growth, particularly in Asia.

During the global slowdown in 2009, management took actions to further streamline the Company's cost structure resulting in a restructuring charge of \$5.9 million before taxes in 2009. This restructuring primarily impacted sales, marketing and administrative expense which was 25% of revenue in 2010 down from 36% in 2009 and 29% in 2008.

Operating income for 2010 was \$27.4 million compared to a net operating loss of \$3.5 million in 2009 and \$27.7 million in 2008 as we saw a return of revenue to 2008 levels while maintaining cost savings initiatives that were implemented in 2009. Adjusted EBITDA¹ was \$39.7 million in 2010 compared to \$12.3 million in 2009.

Net earnings for 2010 was \$18.6 million or \$0.54 per share compared to a net loss of \$2.6 million or \$0.07 loss per share in 2009. The restructuring charge in 2009 impacted earnings by \$0.11 per share.

Cash and cash equivalents increased by 43% to \$52.7 million in 2010 from \$37.0 million in 2009. This increase was primarily due to higher earnings in 2010 and partially offset by cash used for capital investments and dividends.

¹ "Adjusted EBITDA" is a non-GAAP financial measure that does not have any standardized meaning under GAAP and is therefore 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 - EBITDA".

SELECTED FOURTH QUARTER INFORMATION

The following table sets forth selected information from the Company's consolidated fourth quarter financial statements.

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

	Fourth Quarter			
	2010	% of Revenue	2009	% of Revenue
Revenue	33.3		25.1	
Gross margin	25.0	75	18.3	73
Sales, marketing and administration expense	8.0	24	7.8	31
R&D, net	9.2	28	7.1	28
Restructuring charge	---	---	0.4	2
Operating income	7.8	24	3.0	12
Recovery of (provision for) income taxes	(2.4)	(7)	2.0	8
Net earnings	5.2	16	3.6	14
Earnings per share – basic and diluted	0.15		0.10	

Fourth quarter revenue in 2010 was 33% higher compared to the same quarter in 2009 mainly due to the economic recovery in late 2009 and growth from new products. AMS product revenue increased 38% to \$25.5 million in the fourth quarter of 2010 from \$18.4 million for the comparable period in 2009 due mainly to higher sales of our SDI and CDR products. Fourth quarter 2010 optical products revenue increased to \$4.4 million or by 23% from \$3.6 million in 2009 mainly due to higher sales of our ROSA products. IP licensing revenue of \$3.4 million was comparable to the fourth quarter of 2009.

Sequentially, fourth quarter 2010 revenue was \$33.3 million which was down slightly compared to third quarter 2010 revenue. The decline was primarily the result of lower ROSA products in our Optical product line. We believe that this fluctuation is within the normal variability of this market and does not represent a longer-term change for this product family.

Gross margin percentage increased by two percentage points to 75% in the fourth quarter of 2010 from 73% in the fourth quarter of 2009. The increase is mainly attributable to higher levels of production volumes as we recovered from the global economic recession in the latter part of 2009, partially offset by lower pricing and provisions taken on certain inventory items primarily related to supplier end-of-life products.

Sales, marketing and administration expenditures increased slightly to \$8.0 million in the fourth quarter of 2010 from \$7.8 million in the fourth quarter of 2009. The fourth quarter of 2010 included higher variable compensation accruals compared to the fourth quarter of 2009 when the Company curtailed spending and took restructuring actions that included reductions in salaries and variable compensation programs as a result of the downturn. The appreciation of the Canadian dollar also increased our U.S. dollar reported expense in the fourth quarter of 2010 by \$0.3 million.

R&D expense, net of government assistance, excluding capitalized direct project expense and including amortization of intangible assets, totalled \$9.2 million compared to \$7.1 million in 2009 primarily the result of additional resourced commitments to new product development and to a lesser extent the impact of reporting in U.S. dollars. Our total investment in R&D activities of \$11.6 million in the quarter included gross expenditures of \$9.8 million and capitalized direct project expenses of \$1.8 million. This compares to a total investment of \$9.8 million in the fourth quarter of 2009.

Operating income was \$7.8 million in the fourth quarter of 2010 compared to \$3.0 million for the same period in 2009. The higher operating income was mainly a result of higher revenue in the fourth quarter of 2010 due to the economic recovery and growth in the sale of new products compared to 2009. This was partially offset by higher operating expenses, mainly R&D expenses in the fourth quarter of 2010. The fourth quarter 2009 operating income included restructuring charges of \$0.4 million.

Net earnings were \$5.2 million in the fourth quarter of 2010 or \$0.15 per share, versus \$3.6 million or \$0.10 per share in the fourth quarter of 2009.

In the fourth quarter of 2010, the Company generated positive cash flow of \$11.0 million from operating activities compared to \$4.7 million in the fourth quarter of 2009. The generation of cash from operations was mainly driven by positive earnings. Cash used in investing activities in the fourth quarter of 2010 was \$4.8 million compared to \$3.2 million for the same period in 2009. The higher cash usage in the fourth quarter of 2010 was mainly due to higher investments in capital assets. Cash used in financing activities of \$1.1 million in the fourth quarter of 2010 was consistent with 2009, and was mainly related to dividends paid by the Company. Net cash generated in the fourth quarter of 2010 was \$6.6 million compared to \$2.1 million in the fourth quarter of 2009.

The fourth quarter of 2010 represented the fifth consecutive quarterly growth in our cash and cash equivalents balance.

Quarterly results

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

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 * 2009	Q2 2009	Q1 2009
Revenue	33.3	34.4	31.7	29.5	25.1	21.4	19.4	19.4
Gross margin	25.0	25.1	22.5	21.5	18.3	14.7	13.6	14.3
- percentage of revenue	75.2	72.9	71.0	72.9	73.0	68.9	70.0	73.6
Operating income	7.8	7.6	5.8	6.1	3.0	(5.2)	(1.0)	(0.3)
- percentage of revenue	23.5	22.1	18.4	20.7	12.0	n/a	n/a	n/a
Net earnings (loss)	5.2	5.3	4.1	4.0	3.6	(4.3)	(1.1)	(0.8)
Earnings (loss) per share:								
basic and diluted	0.15	0.15	0.12	0.12	0.10	(0.12)	(0.03)	(0.02)
Cash and cash equivalents	52.7	46.1	39.8	37.1	37.0	34.9	36.6	40.7

* 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.

SELECTED ANNUAL INFORMATION

The following table sets forth selected information from the Company's consolidated annual financial statements.

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

	Years ended November 30		
	2010	2009	2008*
Revenue	128.9	85.2	126.9
Gross margin	94.2	60.9	96.4
Operating income (loss)	27.4	(3.5)	27.7
Net earnings (loss) from continuing operations	18.6	(2.6)	19.3
Net earnings from discontinued operations	---	---	7.4
Net earnings (loss)	18.6	(2.6)	26.7
EPS basic and diluted:			
Net earnings (loss) per share from continuing operations	0.54	(0.07)	0.54
Net earnings per share from discontinued operations	---	---	0.21
Net earnings (loss) per share basic and diluted	0.54	(0.07)	0.75
Total assets	189.7	165.7	155.9
Total long-term debt	---	1.2	2.0
Cash dividends paid per share (Canadian dollars)	0.14	0.14	0.14

* as restated for adoption of new accounting pronouncements

The factors impacting these figures are discussed below in "Results from Operations".

RESULTS FROM OPERATIONS

The following discussion relates to changes in our operating results for fiscal year 2010 versus 2009 and for fiscal year 2009 versus 2008.

Revenue

(in millions of U.S. dollars)

Product lines	Years ended November 30				
	2010	2009	% Change in 2010	2008	% Change in 2009
AMS	95.8	61.0	57	97.9	(38)
Optical	22.5	12.4	81	17.6	(29)
Product revenue	118.3	73.4	64	115.5	(37)
IP	10.6	11.8	(10)	11.4	4
Total revenue	128.9	85.2	51	126.9	(33)

Revenue was up 51% or \$43.7 million compared to 2009 as the economy began to recover in the second half of 2009 and into 2010 and due to revenue from the sale of new products. Product revenue in 2010 was up 64% or \$44.9 million compared to 2009, but was impacted by average selling price pressures. Both the AMS and Optical product lines have experienced a significant recovery in revenue levels compared to the same period in 2009, while IP revenue was down by 10%. Optical product revenue reached a new high for the Company.

On a regional basis, 2010 revenue was higher across all regions compared to 2009, led by an increase of 95% in Japan, 83% in the Pacific Rim, 65% in Europe and 3% in North America. As set out in our third quarter 2010 financial statements, the methodology we employ for attributing revenue to principle markets has been changed to recognize revenue based on the billing location of the customer.

In 2009, revenue was down 33% compared to 2008 due to lower volumes and average selling prices as a result of the economic downturn. Both the AMS and Optical product groups were significantly impacted, while IP revenue remained consistent with 2008 levels.

AMS products

AMS product revenue increased to \$95.8 million or by 57% in 2010 from \$61.0 million in 2009, with the increase being attributable to increased sales due to the economic recovery in late 2009 and the adoption of new products. The CDR and SDI product lines accounted for the majority of the growth.

In 2009, AMS product revenue was significantly impacted by the economic downturn, resulting in a 38% decrease, or \$36.9 million, compared to 2008. The majority of the decline came from reduced sales of SDI products into the broadcast equipment market. CDR products that were sold into the optical transceiver market were not significantly impacted by the economic downturn and were at similar revenue levels to 2008.

Optical products

Optical product revenue increased to \$22.5 million or 81% in 2010 from \$12.4 million in 2009. This increase was due to increased sales due to the economic recovery and to continued expansion of this product group through entering Chinese markets and delivering new products in Japan. The majority of the growth in 2010 compared to 2009 resulted from sales of ROSA, TIA and laser driver products.

In 2009, optical product revenue declined by \$5.2 million or 29% compared to 2008. The majority of the decline came from TIA products, which was partially offset by a 53% increase in ROSA product revenue.

Intellectual Property

IP revenue was down by \$1.2 million to \$10.6 million in 2010 compared to \$11.8 million in 2009. The lower revenue in 2010 compared to 2009 was mainly due to a lower level of activity in the first half of 2010. IP revenue in 2009 was similar to 2008.

Gross margin

(in millions of U.S. dollars)

	Years ended November 30					
	2010	% of revenue	2009	% of revenue	2008	% of revenue
Gross margin on:						
Product revenue	83.6	70.6	49.1	66.8	85.1	73.6
IP revenue	10.6	100.0	11.8	100.0	11.4	100.0
Total gross margin	94.2	73.0	60.9	71.4	96.5	76.0

Total gross margin as a percentage of revenue was higher at 73% in 2010 compared to 71% in 2009. Gross margin on product revenue increased from 67% in 2009 to 71% in 2010 primarily due to favourable test operations absorption, which contributed to the higher total gross margin percentage. This was partially offset by lower IP revenue.

Gross margin as a percentage of revenue declined to 71% in 2009 from 76% in 2008 primarily due to a decline in unit volume caused by the economic downturn. The impact of the sudden reduction in volume was most significant in the first half of 2009 and resulted in underutilized resources in our test operations, causing the gross margin percentage to drop.

Sales, marketing and administration expenditures

(in millions of U.S. dollars)

	Years ended November 30				
	2010	2009	% Change in 2010	2008	% Change in 2009
Sales, marketing and administration expense	32.7	30.6	7	36.3	(16)
Percentage of revenue	25.4	35.9		28.6	

Sales, marketing and administration expenditures in 2010 increased 7%, or \$2.1 million, compared to 2009 but decreased by 11% as a percentage of revenue. The increased expenditure was partially due to the appreciation of the Canadian dollar compared to 2009, which increased our U.S. dollar reported expense by approximately \$3.4 million. Higher accrued variable compensation and commissions in 2010 were partially offset by lower salary costs related to the restructuring activity in August 2009 and higher provisions for bad debt in the prior year.

In 2009, sales, marketing and administration expenditures decreased 16% compared to 2008. Due to the economic downturn, management took actions to streamline its administrative cost structure through a restructuring program in the third quarter and by other temporary measures which included suspension of variable compensation programs, a salary freeze and a reduced workweek.

The average exchange rate for the Canadian to U.S. dollar in 2009 was weaker than in 2008 and also contributed to lower expenses in 2009 when reported in U.S. dollars.

R&D expenditures

(in millions of U.S. dollars)

	Years ended November 30				
	2010	2009	% Change in 2010	2008	% Change in 2009
R&D expense to the statement of earnings (loss)	37.0	30.5	21	36.6	(16)
Amortization of intangible assets	1.8	1.8	---	1.8	---
Government assistance	(4.7)	(4.5)	4	(5.9)	(24)
Total net R&D expense to the statement of earnings (loss)	34.1	27.8	22	32.5	(14)
Percentage of revenue	26.5	32.7		25.6	

The 2010 net R&D expense was \$34.1 million compared to \$27.8 million in 2009. The increase in expenditures resulted from an unfavourable currency impact of \$3.5 million related to reporting in U.S. dollars, higher salaries due to increased headcount, higher accruals for variable compensation and a non-cash impairment charge of \$1.1 million on deferred development costs that were no longer expected to provide sufficient future benefits to recover their costs. The 2009 impairment charge of \$1.7 million was related to the Company's restructuring activity and was therefore recorded under the restructuring charge.

The 2009 R&D expense of \$27.8 million was lower by 14% compared to the same period in 2008. The reduction in investment in 2009 resulted from the suspension of variable compensation programs, the sale of the BST product group and currency impacts related to reporting in U.S. dollars. Capitalization of eligible R&D expenditures which began in the second quarter of 2008 also contributed to higher R&D expenses in 2008.

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

	Years ended November 30				
	2010	2009	% Change in 2010	2008	% Change in 2009
R&D expense to the statement of earnings (loss)	37.0	30.5	21	36.6	(16)
Deferred development of costs (capitalized to intangible assets)	8.1	6.1	33	3.8	61
Total gross R&D expenditure	45.1	36.6	23	40.4	(9)
Amortization of intangible assets (excluding amortization of deferred development costs charged to cost of goods sold)	1.8	1.8	---	1.8	---
Government assistance	(6.1)	(4.5)	35	(5.9)	(24)
Total net R&D expenditure	40.8	33.9	20	36.3	(6)
Percentage of revenue	31.7	39.8		28.6	

Our total investment in R&D activities, before amortization and government assistance, was \$45.1 million, which included expenditures in 2010 of \$37.0 million and capitalized deferred development costs of \$8.1 million. This compares to a total investment of \$36.6 million in 2009.

Net R&D spending in 2010 was 32% of revenue, reflecting the Company's continued commitment and investment in its R&D product portfolio. Fiscal 2009 saw increased net R&D as a percentage of revenue as the Company maintained its commitment to investments in R&D despite lower revenue resulting from the global economic downturn.

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)

	Years ended November 30		
	2010	2009	2008
Deferred development costs, opening	7.9	3.2	---
Additional expenditures	8.1	6.1	3.2
Government assistance	(1.4)	---	---
Impairments	(1.1)	(1.7)	---
Amortization to cost of goods sold	(0.5)	(0.1)	---
Foreign exchange impact	0.3	0.4	---
Deferred development costs, ending	13.3	7.9	3.2

In 2010, \$8.1 million in deferred development costs were capitalized to intangible assets. These additions were partially offset by government assistance of \$1.4 million in 2010 related to deferred development charges. Also offsetting the additions were non-cash impairment charges of \$1.1 million against certain capitalized R&D projects that we estimate were not likely to recover the deferred development costs.

The deferred development cost increase in 2010 over 2009 was primarily due to the continued ramp in our new product development efforts.

Restructuring charge and deferred development impairment

In 2009, the Company implemented a restructuring plan to streamline its cost structure and align with its business model targets. The Company's plan included realigning its investment to maintain its R&D programs while reducing corporate infrastructure and business operations costs and capital expenditures. Additionally, Gennum focused its marketing, sales and administrative investment on short and mid-term customer revenue generation activities and new product development. This plan resulted in a restructuring charge and deferred development impairment of \$5.9 million related to the termination of approximately 10% of the Company's workforce in 2009.

There were no restructuring charges taken in 2010.

Operating income (loss) from continuing operations

(in millions of U.S. dollars)

	Years ended November 30		
	2010	2009	2008
Operating income (loss) from continuing operations	27.4	(3.5)	27.7
Percentage of revenue	21.2	n/a	21.8

Operating income in 2010 was \$27.4 million compared to an operating loss of \$3.5 million in 2009 mainly due to higher revenue in 2010 as a result of the recovery from the global economic downturn, increased new product sales and a restructuring charge of \$5.9 million taken in 2009. Operating income as a percentage of revenue in 2010 was in line with the Company's expectations.

Other income (expense)

(in millions of U.S. dollars)

	Years ended November 30		
	2010	2009	2008
Realized gain (loss) on foreign exchange hedges	(0.8)	(1.8)	0.2
Foreign exchange gain (loss) on translation	(0.1)	(3.5)	4.7
Gain (loss) on foreign exchange, net	(0.9)	(5.3)	4.9
Other	(0.1)	0.7	(3.0)
Total other income (expense)	(1.0)	(4.6)	1.9

Other expense in 2010 was \$1.0 million compared to other expense of \$4.6 million in 2009 and other income of \$1.9 million in 2008. The majority of the fluctuation in other income (expense) is due to the variability in the net foreign exchange gains or losses. The Company records currency translation gains or losses which arise mainly from the translation of U.S. dollar net monetary assets to the Company's Canadian dollar functional currency. In the first half of 2009, the Company recorded translation losses of \$5.7 million. Effective July 1, 2009, the Company changed its foreign currency hedging strategy to more closely offset the translation gains and losses recorded.

2009 also included a number of transactions which are not considered to be directly related to the operations of the Company including the following major transactions:

- The Company completed the sale of land and a vacant building in Burlington, Ontario, which resulted in a gain of \$1.0 million.
- Termination fees, net of transaction costs incurred, of \$2.2 million were received in connection with the terminated acquisition transaction involving Tundra Semiconductor Corporation.
- The Company recorded a gain on the sale of the BST technology group and associated assets of \$1.6 million.
- The Company impaired the majority of its investment in Cellpoint Connect shares resulting in a charge of \$1.1 million as the decline in the fair value of the shares was considered to be significant and prolonged.
- The Company incurred corporate development charges of \$2.4 million.

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

	Years ended November 30		
	2010	2009	2008
Recovery of (provision for) of income taxes	(8.1)	5.2	(11.4)
Percentage of earnings (loss) from continuing operations before tax	30.4	66.5	37.2

The 2010 income tax provision represented 30.4% of earnings before taxes, slightly under the Canadian entity's 31% statutory rate in 2010 as permanent differences such as stock option amortization were offset by the impact of the enactment of lower statutory tax rates on the Company's future income tax balances and different income tax rates on earnings of foreign subsidiaries.

In 2009, the Ontario and federal tax returns were harmonized. The Company refiled prior year tax returns to maximize its tax position upon harmonization, which resulted in a credit to tax recovery of \$2.2 million in the year. This adjustment, in addition to the impact of rate changes on the Company's future income tax balances resulted in a 66.5% tax recovery rate in 2009.

2008's income tax provision represented 37.2% of earnings before taxes. The higher rate in 2008 compared to the Canadian statutory rate of 33.5% was driven mainly by permanent differences and the impact of rate changes on the Company's future income tax assets.

Net earnings (loss) from continuing operations*(in millions of U.S. dollars except earnings per share)*

	Years ended November 30		
	2010	2009	2008*
Net earnings (loss) from continuing operations	18.6	(2.6)	19.3
Percentage of revenue	14.4	n/a	15.2
Earnings (loss) from continuing operations per share (basic and diluted)	0.54	(0.07)	0.54

* as restated to reflect the adoption of new accounting pronouncements

In 2010, the Company was able to produce net earnings of \$18.6 million, compared to a net loss of \$2.6 million in 2009. The turnaround in 2010 was attributable to higher revenue as a result of the recovery in late 2009 from the global economic downturn, growth in new products and entrance into new markets. In addition to higher revenue in 2010 and the restructuring charge in 2009, the impact of foreign exchange losses, which are recorded through other expense, have been reduced in the current year due to changes in the Company's hedging program which were introduced during 2009.

In 2008, net earnings were reduced by \$2.4 million, or \$0.07 per share, to \$19.3 million as a result of provisions taken in the fourth quarter of 2008 against our investments and loans in Toumaz and CellPoint.

Included in 2008 were \$7.4 million in earnings on discontinued operations, net of tax, primarily due to the gain realized on the sale of the VXP® product line. As a result, net income in 2008 was \$26.7 million. There were no discontinued operations in 2009 or 2010.

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 and stock-based compensation). 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. The term adjusted EBITDA refers to EBITDA before restructuring charges.

(in millions of U.S. dollars)

	Year 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Year 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Revenue	128.9	33.3	34.4	31.7	29.5	85.2	25.1	21.4	19.4	19.4
Operating income (loss)	27.4	7.8	7.6	5.8	6.1	(3.5)	3.0	(5.2)	(1.0)	(0.3)
Adjustments to reconcile to EBITDA:										
Depreciation expense	5.3	1.4	1.3	1.4	1.2	5.2	1.3	1.3	1.3	1.3
Amortization of:										
Intangibles	2.3	0.7	0.6	0.5	0.5	1.8	0.5	0.5	0.4	0.4
Stock based compensation	4.7	1.1	1.0	1.5	1.1	2.9	0.8	0.8	0.7	0.6
EBITDA	39.7	11.0	10.5	9.2	8.9	6.4	5.6	(2.6)	1.4	2.0
Restructuring charge and deferred development impairment	--	---	---	---	---	5.9	0.4	5.5	---	---
Adjusted EBITDA	39.7	11.0	10.5	9.2	8.9	12.3	6.0	2.9	1.4	2.0
Adjusted EBITDA as a % of revenue	31%	33%	30%	29%	30%	15%	24%	14%	7%	10%

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents

As of November 30, 2010, the Company has achieved five consecutive quarters of growth in cash and cash equivalents with sequential growth of 14% from the third quarter to the fourth quarter of 2010. Cash and cash equivalents increased 43% or \$15.8 million compared to fiscal 2009.

The Company believes that it is in a strong liquidity position and is able to meet its cash flow obligations as they come due. The Company's cash and accounts receivable represent a combined balance of \$74.7 million, which is sufficient to cover the combination of accounts payable and other short term liabilities. The current ratio, calculated as current assets divided by current liabilities as of November 30, 2010, was 5.7 times.

Summary of quarterly cash flow

(in millions of U.S. dollars)

	Year 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Year 2009	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Cash provided by (used in):										
operating activities	36.8	11.0	11.6	8.8	5.5	(4.7)	4.7	(0.3)	(6.2)	(2.9)
investing activities	(14.8)	(4.8)	(3.3)	(4.2)	(2.5)	(6.5)	(3.2)	(0.8)	0.1	(2.6)
financing activities	(7.2)	(1.1)	(1.2)	(2.2)	(2.7)	(5.9)	(1.1)	(0.9)	(2.9)	(1.0)
Effect of exchange rates	0.9	1.5	(0.8)	0.3	(0.2)	(5.4)	1.7	0.3	4.9	(1.5)
Net increase (decrease) in cash and equivalents	15.7	6.6	6.3	2.7	0.1	(11.7)	2.1	(1.7)	(4.1)	(8.0)
Cash and equivalents, beginning of period	37.0	46.1	39.8	37.1	37.0	48.7	34.9	36.6	40.7	48.7
Cash and equivalents, end of period	52.7	52.7	46.1	39.8	37.1	37.0	37.0	34.9	36.6	40.7

- Cash provided by (used in) operating activities*
Cash provided by operating activities was \$36.8 million in 2010, compared to a cash usage of \$4.7 million in 2009. The generation of cash from operating activities was primarily a result of higher earnings in 2010 compared to 2009 and the use of government research and development incentives to offset a significant portion of the tax provision.
- Cash used in investing activities*
Cash used in investing activities was \$14.8 million in 2010, compared to \$6.5 million in 2009. Investing activities in 2010 and 2009 related to continued investment in capital asset requirements and deferred development costs. The 2009 investing activities also included one-time proceeds of \$2.3 million on the sale of the BST technology group, \$1.0 million on the sale of our Toumaz investment, and \$1.4 million on the sale of land and a vacant building in Ontario.
- Cash used in financing activities*
Cash used in financing activities was \$7.2 million in 2010 compared to \$5.9 million in 2009. The cash used in both periods relates mainly to the payment of deferred compensation which was lower in 2009 due to the reduction in compensation plans, and regular quarterly dividends. Dividends declared per share were Canadian \$0.035 per quarter in 2010 and 2009.

Accounts receivable

Accounts receivable increased to \$21.9 million in 2010 from \$17.4 million in 2009. The increase in accounts receivable relates to higher sales.

The aging of trade receivable balances as of November 30, 2010 compared to November 30, 2009 was as follows:

(in millions of U.S. dollars)

	2010	% of total	2009	% of total
Current	17.5	79.7	13.5	77.8
Past due 0-30 days	3.4	15.4	2.8	16.2
Past due 31-60 days	0.4	2.0	0.2	1.1
Past due over 61 days	0.6	2.9	0.9	4.9
Accounts receivable, net	21.9		17.4	

The balances at 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 2010, compared to \$1.1 million of provisions

recognized in 2009. The bad debt expense in 2009 was related to collection issues with customers of our IP products who were severely impacted by the recession.

Inventories

As of November 30, 2010, inventories were \$21.4 million, compared to \$21.7 million at the end of November 30, 2009. Increases in inventory associated with the planned purchase of wafers related to a supplier's wafer fab transition were offset by provisions taken on and the sale of certain end-of-life inventory items.

Included in the inventory balance at the end of 2010 was \$8.4 million in end-of-life inventory compared to \$11.2 million at the end of 2009, of which a significant portion is expected to be sold subsequent to November 30, 2011.

Future income taxes (net)

Net future income tax assets decreased to \$25.1 million at the end of November 30, 2010, compared to \$25.6 million at November 30, 2009. During the fiscal year the Company determined that it was eligible for R&D income tax credits on deferred development costs and recorded these income tax credits as an offset to deferred development costs and increase in future income tax assets. Future income tax assets were also created due to the timing of deductibility of these deferred development costs. These increases in net future income tax assets were offset by the use of government incentive carry-forwards in 2010 to offset Canadian taxes payable by the Company.

The Company has analysed its future income tax position and has concluded that these future income tax assets will be utilized over time and that no valuation allowance is required.

Capital assets

Capital asset balances at November 30, 2010 were \$24.0 million compared to \$22.0 million at November 30, 2009. The increase is attributable to additional spending to support the increased level of activity in 2010. Fiscal 2009 included one-time transactions that included the sale of BST-related equipment and a sale of land and a vacant building in Ontario.

Intangible assets

Intangible assets increased by \$3.6 million to \$15.9 million in 2010 from \$12.3 million in 2009. The increase was attributable to deferred development expenditure additions of \$8.1 million, which was partially offset by government assistance of \$1.4 million related to deferred development charges. Also offsetting the increase were impairment charges of \$1.1 million related to deferred development costs that are no longer expected to provide future benefit. An additional \$0.2 million in impairment charges were taken on other intangible assets in the year.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased to \$17.7 million in 2010 from \$12.2 million in 2009. The increase is primarily related to the accrual for the Company's fiscal 2010 variable compensation plans and higher levels of purchasing activity in 2010. The 2009 variable compensation program was suspended due to the unfavourable economic conditions.

Accumulated other comprehensive income

Changes in accumulated other comprehensive income result mainly from translating the Canadian dollar functional currency consolidated financial statements to U.S. dollars for reporting purposes. Net assets of Canadian \$155.5 million as of November 30, 2009 were translated to U.S. dollars for reporting purposes at a rate of \$0.9457. The Canadian dollar strengthened to \$0.9743 as of November 30, 2010, resulting in a foreign currency translation gain of \$4.1 million recorded through other comprehensive income.

Dividends

During 2010, as in the prior two years, dividends were paid in Canadian dollars at an annual rate of Canadian \$0.14 per share. Dividends stated in U.S. dollars were \$4.8 million in 2010, \$4.3 million in 2009, and \$4.9 million in 2008.

Derivative financial instruments

During 2009, the Company modified its hedging strategy and elected 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 November 30, 2010, we had outstanding foreign exchange forward contracts to sell U.S. \$19.1 million and Japanese yen 266.0 million. The U.S. dollar contract matured on December 23, 2010 at an exchange rate of Canadian \$1.02600 against the U.S. dollar and the Japanese yen contracts matured between December 22, 2010 and January 31, 2011 at exchange rates between Canadian \$0.01264 and Canadian \$0.01226 against the Japanese yen. Management estimates that an immaterial before tax gain would have been realized had the contracts been terminated on November 30, 2010. The fair value of the foreign exchange forward contracts is based on market information from major financial institutions.

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	29.4	4.6	7.2	4.3	13.2
Purchase obligations ⁽¹⁾	7.6	7.5	0.1	---	---
Total contractual obligations	37.0	12.1	7.3	4.3	13.2

⁽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 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 year.

LITIGATION

In the ordinary course of 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

The preparation of the consolidated financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that the estimates utilized in preparing our consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

The Company's significant accounting policies are included in note 1 to the 2010 consolidated financial statements. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Valuation of long-lived assets, intangible assets and goodwill

We assess the impact of identifiable intangibles, long-lived assets and goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of goodwill to the fair value of the reporting segment to ensure that the fair value is greater than the carrying value. If carrying value exceeds fair value, a more detailed impairment assessment would be undertaken. In determining fair value, we use valuation models such as analysis of discounted cash flows, multiples of revenue and other such calculations. We must exercise judgment and make assumptions in determining fair value. These judgments and assumptions may affect the fair value and any resulting impairment or write down.

Long-lived assets, including intangible assets with finite useful lives, which are comprised mainly of IP and capital assets, are evaluated regarding their amortization method and estimated useful life upon acquisition and at least annually thereafter. In addition, fair value is tested for recoverability at least annually. The notes to the financial statements include more information as to our amortization policies.

We believe the accounting estimates related to long lived assets, intangibles and goodwill impairment assessments are "critical accounting estimates" because they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions.

Deferred development costs

The Company defers eligible development costs and amortizes those costs upon commercial launch of the product over the number of expected product life unit sales. We must make several assumptions regarding the technical feasibility, resource requirements to complete a project and the future marketability of these products in order to conclude that they have met the required criteria for deferment. Estimates must also be made as to expected product life unit sales to establish appropriate amortization periods. Projects that meet the criteria for deferment, including all related assumptions, are reviewed at least annually.

Future income tax assets

We have recorded future income tax assets in respect of investment tax credits, book-to-tax differences and other deductible temporary differences. We evaluate quarterly our ability to realize the full value of the future tax assets by assessing the valuation allowance and by adjusting the allowance as necessary. The assessment considers forecasts of future taxable income and tax planning strategies that could be implemented to realize the future income tax assets. Should operations not yield future taxable income, if tax planning strategies could not be implemented, or if significant income tax rate changes are substantially enacted, there could be a material impact on our consolidated tax expense or recovery and on the amount of future income tax assets reported on our consolidated balance sheet. Scientific research and experimental development claims have not been audited by the Canada Revenue Agency and our financial results could be adversely affected by a determination pursuant to an audit.

Inventory obsolescence

Our policy for the valuation of inventory, including the determination of obsolete or excess inventory, requires us to estimate the future demand for our products within specific time horizons. The Company's regular inventory uses a one year time horizon; however, inventory as of November 30, 2010 also includes end-of-life inventory of \$8.4 million, which has a longer time horizon. Inventory purchases and purchase commitments are based on such forecasts of future demand and scheduled rollout of new products. The business environment in which we operate is subject to rapid changes in technology and customer demand. We perform a detailed assessment of inventory each reporting period, which includes a review of, among other factors, demand requirements, component part purchase commitments, product life cycle and development plans, component cost trends, product pricing and quality issues. If customer demand subsequently differs from our forecasts, requirements for inventory write-offs that differ from our estimates could become necessary. If we believe that demand no longer allows us to sell inventories above cost or at all, such inventory is written down to net realizable value or excess inventory is written off.

Percentage of completion revenue recognition

The Company uses the percentage of completion method of accounting for recognizing revenue created by sales of IP. This requires us to estimate the total hours required to complete a contract in order to accrue revenue. Changes to these estimates could alter the revenue recognized in a specific period.

Stock-based compensation

The Company uses the fair value method of accounting for stock-based compensation. The fair value of the options is estimated using the Black-Scholes option pricing model including assumptions for stock volatility, expected life of the options and the risk-free interest rate.

Allowance for doubtful accounts

We determine an allowance for doubtful accounts to ensure that the trade receivable balance reflects an appropriate amount of collection risk. The allowance for doubtful accounts is based on a variety of factors, including the length of time receivables are past due, significant one-time events, and historical experience. Reserves are built on a customer-by-customer basis.

Disclosure controls and procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that such controls and procedures were effective at the reasonable assurance level as of November 30, 2010 and in respect of the fiscal 2010 year-end reporting period. Due to inherent limitations, the Company's disclosure controls and procedures do not guarantee timely communication of all material events to the certifying officers and projections of any evaluation of effectiveness of such controls and procedures to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or deterioration in the degree of compliance with the Company's policies and procedures.

Internal control over financial reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. We are responsible for establishing and maintaining adequate internal control over financial reporting. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Additionally, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the Company's internal control over financial reporting and concluded that, as of November 30, 2010, such internal control over financial reporting is effective and that there were no material weaknesses.

During the quarter ended November 30, 2010, there were no substantive changes in the nature of the Company's policies or procedures that have materially affected, or are reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

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 ("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 as the Company has started working 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 November 30, 2010, the following progress has been made relating to the Company's IFRS conversion plan:

Key Activity	Milestones	Progress as of November 30, 2010
<p>Project team and project management</p> <ul style="list-style-type: none"> ▪ Audit committee engagement. ▪ Steering committee creation. ▪ Engagement of external consultants. 	<p>Project team in place by end of Q1 2009 and meeting plan in place for steering committee and audit committee communication.</p>	<ul style="list-style-type: none"> ▪ 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.
<p>Accounting policies and procedures</p> <ul style="list-style-type: none"> ▪ Identification of differences between GAAP and IFRS applicable to Gennum. ▪ Selection of the Company's IFRS accounting policies. ▪ Determination of IFRS 1 choices. 	<p>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.</p>	<ul style="list-style-type: none"> ▪ 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.
<p>Financial statement preparation</p> <ul style="list-style-type: none"> ▪ Development of financial statement template under IFRS. ▪ Ensure data required for enhanced note disclosures will be available. 	<p>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.</p>	<ul style="list-style-type: none"> ▪ The implementation phase (Phase 3), which includes quantification of differences identified in Phase 2, began in late 2010 and will continue into 2011. ▪ Financial statement templates are being developed. ▪ System enhancements will be implemented to assist in the additional note disclosures.

<p>Disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR)</p> <ul style="list-style-type: none"> 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. 	<p>Review process changes and update DC&P and ICFR accordingly.</p>	<ul style="list-style-type: none"> DC&P and ICFR updates will commence after accounting policy choices and system requirement decisions have been made.
<p>Information technology impacts</p> <ul style="list-style-type: none"> Ensure systems are in place to create and disseminate required information accurately and in a timely manner. 	<p>Upgrade Genum's general ledger system to enable ability to run dual reporting during 2011.</p>	<ul style="list-style-type: none"> System requirements currently being investigated.
<p>Compensation plans</p> <ul style="list-style-type: none"> Employee incentive plans based on GAAP measures which may differ under IFRS. 	<p>Incentive plans to be reviewed for relevance following finalization of IFRS accounting policy choices.</p>	<ul style="list-style-type: none"> Incentive plans related to the 2012 fiscal period will be revised towards the end of 2011 in order to incorporate changes in accounting measures.
<p>Financial reporting expertise</p> <ul style="list-style-type: none"> Ensure members of the project team receive adequate training and guidance. Develop awareness of the impact of IFRS throughout the organization. Provide communication of project status to external stakeholders in a timely manner. 	<p>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.</p>	<ul style="list-style-type: none"> 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 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 Genum's financial statements:

Standard	Difference from existing GAAP	Potential impact
<p>IAS 1: Presentation of Financial Statements</p>	<p>IFRS requires significantly more disclosure than existing GAAP.</p> <p>In addition, classification and presentation may be different for some balance sheet and income statement items.</p>	<p>Genum has planned for required additional disclosure through system reviews.</p> <p>Genum is analyzing the impact of the classification and presentation changes on its financial statements.</p>

<p>IFRS 1: First-Time Adoption of IFRS</p>	<p>A number of mandatory and optional exemptions and elections are available upon first-time adoption of IFRS.</p>	<p>Genum has analyzed but has not yet concluded on IFRS 1 elections.</p> <p>For Genum, 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.</p>
<p>IFRS 2: Share-Based Payments</p>	<p>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.</p> <p>Estimates of forfeitures must also be factored into the determination of compensation costs, whereas GAAP allows forfeitures to be accounted for as they occur.</p> <p>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.</p>	<p>Genum 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.</p> <p>Genum 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.</p>
<p>IAS 11: Construction contracts IAS 18: Revenue</p>	<p>IFRS differs from existing GAAP on the timing and classification of certain types of revenue.</p>	<p>The implications of these standards differences are being investigated, as are changes to these standards currently being discussed.</p>
<p>IAS 12: Income Taxes</p>	<p>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.</p>	<p>Any impact will depend primarily on other adjustments made upon transition to IFRS.</p>

<p>IAS 16: Property, Plant and Equipment</p>	<p>IFRS allows the periodic revaluation of property, plant and equipment.</p> <p>IFRS has more specific guidance on capitalization and componentization of assets.</p>	<p>Genum is not likely to elect to periodically revalue its property, equipment and leaseholds, however the team is investigating all alternatives.</p> <p>Genum does not believe there will be any material changes due to the componentization of assets.</p>
<p>IAS 36: Impairment of Assets</p>	<p>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.</p>	<p>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.</p>
<p>IAS 21: Foreign Exchange</p>	<p>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.</p> <p>In addition, IFRS does not recognize the distinction under GAAP between integrated and self sustaining entities, and therefore resulting foreign exchange translation differences may occur.</p>	<p>Phase 3 includes the determination of appropriate functional currencies under IFRS for each entity and from an overall Company perspective.</p> <p>In addition, systems and process will be updated to reflect the appropriate conversion methodology under IFRS.</p>
<p>IAS 17: Leases</p>	<p>Genum 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</p>	<p>On transition, the balance of the deferred gain and the related future income tax asset will be adjusted through retained earnings.</p>

	transaction. GAAP requires the gain in this situation to be recognized rateably over the term of the lease.	
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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 Genum’s transition date. Certain standards, if approved and implemented in their current state, could result in material differences between Genum’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.

Genum 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 Genum’s financial performance, and to assess the status of Genum’s conversion to IFRS.

As of November 30, 2010, Genum cannot reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects Genum’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 Genum’s expectations based on information available as of November 30, 2010.

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.

COMMON SHARES OUTSTANDING

As of November 30, 2010 and February 8, 2011, there were 35,476,909 common shares of Genum outstanding, compared to 35,429,086 shares outstanding at November 30, 2009.

As of November 30, 2010, there were 3,122,393 outstanding options, each entitling the holder to purchase one common share of Gennum. Of these outstanding options, 1,338,113 were exercisable as of November 30, 2010.

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. Key risks include, among others:

Highly competitive environment – The fabless optical and analog and mixed-signal semiconductor supplier space is extremely competitive. We compete in our target markets with many companies including but not limited to Texas Instruments Incorporated, National Semiconductor Corporation, Maxim Integrated Products Inc. and Mindspeed Technologies Inc. We compete on the basis of technical performance, product features, price, availability, quality and sales and technical support. Our ability to compete successfully depends on elements both within and outside of our control, including successful and timely development of new products, product performance and quality, product availability, IP protection obtained by us and our competitors, customer service, pricing, industry trends and general economic trends. The entry of new competitors or new technologies into the market, or the introduction of competitive products on a timelier basis, or with superior functionality to our products, could have a material adverse effect on our business, results and financial condition.

Economic cycles – Historically, the semiconductor industry has been characterized by wide fluctuations in supply and demand. The industry has also experienced significant downturns, often in connection with, or in anticipation of, declines in general economic conditions. These downturns have been characterized by diminished product demand and production overcapacity. In times of high growth, production capacity may be unavailable. While we maintain constant dialogue with customers to gauge current and expected market conditions and spending patterns, fluctuations in the business environment can occur quickly and with little warning. In 2009, the semiconductor industry experienced a significant downturn which negatively impacted Gennum's results in the year. However, the economic recovery in late 2009 has allowed Gennum to return to pre-recessionary results in 2010.

Rapid technological change – The semiconductor industry is characterized by rapid technological change. Demand for the Company's products may change in ways it may not anticipate because of evolving industry standards or as a result of evolving customer needs that are increasingly sophisticated and varied, or because of the introduction by competitors of new services and technologies. Innovations aimed at offering enhanced or new services generally may require a substantial investment before the Company can determine their commercial viability, and we may not have the financial resources to fund such initiatives. Even if the Company were to succeed in creating new services or technologies, they may not produce revenue in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or by technologies or features offered by its competitors.

Foreign exchange – We are exposed to foreign currency rate fluctuations as revenue is predominantly earned in U.S. dollars and Japanese yen. Expenses are incurred mainly in Canadian dollars, but also in U.S. dollars and Japanese yen. In addition, we are exposed to rate fluctuations on assets and liabilities denominated in foreign currencies. From time to time, we may utilize a combination of forward, option or spot strategies to manage the risk associated with fluctuations in foreign exchange rates; however, these programs cannot fully offset the long-term impact of foreign currency rate movements.

In 2010, we estimate that approximately 77% of consolidated revenue and approximately 18% of operating expenses were transacted in U.S. dollars. As well, approximately 23% of consolidated revenue was transacted in Japanese yen and approximately 6% and 4% of operating expenses were transacted in British pounds and Japanese yen, respectively. As a result, the Company may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar and between the Canadian dollar and the Japanese yen. During 2009, the Company modified its hedging policy to more effectively offset exposure on the translation of U.S. dollar-based net monetary assets to the Canadian dollar functional currency. The conversion of our Canadian dollar consolidated financial statements to the U.S.

dollar reporting currency is not hedged, resulting in a reporting exposure of pre-tax \$0.3 million for a \pm change of one cent in the U.S. dollar to Canadian dollar exchange rate.

Reliance on foundries, ASIC providers and test providers and operations – We currently rely on external foundries and Application Specific Integrated Circuit (ASIC) providers to manufacture certain products used in our components. We also rely on certain external providers to test products. While we have been able to maintain good relationships with suppliers, economic recoveries in the semiconductor industry can lead to increased demand on these providers. Any disruption in supply could have a material adverse impact on our business, results and financial condition. In addition, we test a significant amount of our products internally. Any disruption in our internal operations as a result of equipment failures, shut-downs or other unforeseen circumstances could have a material adverse impact on our business, results and financial condition.

Reliance on key employees – Our future success is dependent on key employees. The competition in the industry for high-level and competent engineering, marketing and sales staff and executive management is significant, and it is necessary that we successfully attract and retain highly qualified personnel. This continues to be a challenge. The loss of certain key employees, or the inability to hire and attract key employees, could adversely affect our business, results and financial condition.

Investments and acquisitions – We may, in future, make strategic investments or acquisitions or enter into joint ventures or strategic alliances with other companies. Such transactions may entail risks, including: inability to successfully integrate businesses; inability to realize synergies or other value associated with such transactions; diversion of management's attention and disruption of ongoing business; and inability to retain key personnel. A failure to avoid such risks could have a material adverse effect on our business, results and financial condition. In addition, future investments or acquisitions may result in the issuance of additional equity or debt securities, borrowings, and significant one-time costs and write-offs. In the event that we need to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms.

Need to manage growth and expansion – To manage its growth, including geographic expansion, the Company must continue to implement and improve operational, financial, and management information systems and to hire, train, motivate, and effectively manage additional qualified personnel. The continued expansion by the Company into international operations exposes the Company to additional risks that include greater difficulties in collecting accounts receivable, increased costs with respect to changes in regulatory requirements, challenges in enforcing IP rights, language barriers, political instability, and potential adverse tax consequences. Failure to successfully manufacture and sell products internationally will impact the Company's ability to increase future revenue and grow the business.

Reliance on key customers – If one or more customers were to delay, reduce or cancel orders, the overall orders could fluctuate and adversely affect revenue either at the corporate or divisional level. Three customers accounted for more than 10% of total revenue in 2010, two of which are distributors.

Intellectual Property – To compete effectively we must protect our proprietary information. We rely on a combination of patent, copyright, trademark and trade secret laws to protect our rights. There can be no assurance that these efforts will prevent misappropriation of such IP by competitors. In addition, although we do not believe we are infringing on the IP rights of others, claims of infringement are becoming increasingly common in the industry.

In asserting claims or defending against claims, we may become involved in time-consuming and costly disputes or litigation. An unfavourable judgment or prolonged legal action may have a material adverse effect on our business, results and financial condition.

Taxes and tax credits – We make estimates for income tax expenses and liability, primarily regarding assumptions made in recognizing investment tax credits related to R&D activities in Canada. Our scientific research and experimental development claims for 2008 through to 2010 have not yet been audited. Our financial results could be negatively affected by a determination pursuant to an audit which is adverse to the Company.

Risks associated with information systems – The Company relies on information systems in its business to obtain, rapidly process, analyze and manage data in all areas of its operations. Results of operations could be adversely affected if these systems are interrupted, damaged by unforeseen events or fail for any extended period of time, including due to the actions of third parties.

Environmental and health & safety – We are subject to a variety of laws, rules and regulations relating to the discharge and disposal of hazardous chemicals used in manufacturing processes and the health and safety of employees. We believe we are complying with these laws, rules and regulations. The failure to comply with present or future regulations could result in legal claims, fines, suspension of production or a cessation of operations. A failure to avoid such results could have a material adverse effect on our business, results and financial condition. Also, we could be required to acquire equipment or incur other expense to achieve compliance, which might result in significant additional costs.

OUTLOOK

Gennum achieved 51% growth compared to 2009 and 33% growth compared to the fourth quarter of last year. Sales of new products remain strong and now account for 36% of total product sales.

We are encouraged by continued market demand across all of our product segments as both design wins and open opportunities continued to grow. Existing and new customers around the world continue to contribute to the momentum in our business.

Looking ahead, our current order book for the first quarter is solid and is similar to the order book at the same time in the fourth quarter of 2010. New products ramping into significant volumes have led to some capacity issues in our supply chain, which we are quickly addressing. As our new products continue to ramp, we expect to deliver another quarter of solid business performance. For the full year, we continue to believe we will achieve better than industry revenue growth, deliver operating results that are in line with our business model and achieve another year of strong cash flow generation.

We remain confident in our strategy. Our commitment to introducing innovative new products continues to be validated with the increasing design wins for these new products, expanding customer engagements and increasing penetration into our global markets.

February 7, 2011