



**GENNUM CORPORATION**

Audited Consolidated Financial Statements

For the Year ended November 30, 2009

*(Amounts in thousands of U.S. Dollars)*

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Gennum Corporation and the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

Gennum Corporation maintains systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and the Board is ultimately responsible for reviewing and approving the financial statements.

An Audit Committee is appointed by the Board and all of its members are outside directors. The Committee meets periodically with management, as well as with the external auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to review the annual financial statements. The Committee reports its findings to the Board of Directors for consideration in approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditor.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditor, in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

(Signed) Franz Fink

(Signed) Gord Currie

Franz J. Fink  
President and Chief Executive Officer

Gordon E. Currie  
Senior Vice-President, Finance & Administration  
and Chief Financial Officer

## AUDITORS' REPORT

### To the Shareholders of Gennum Corporation

We have audited the balance sheets of Gennum Corporation as at November 30, 2009 and 2008 and the consolidated statements of earnings (loss), changes in shareholders' equity, comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst & Young LLP*

Ernst & Young LLP

Chartered Accountants

Licensed Public Accountants

Toronto, Canada

February 8, 2010

# Gennum Corporation

## CONSOLIDATED BALANCE SHEETS

As at November 30 (U.S. dollars, amounts in thousands)

	2009	2008 *
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	36,958	48,748
Instruments held for trading (note 10)	42	268
Accounts receivable, net	17,355	22,726
Inventories (note 4)	21,677	14,219
Prepaid expenses and other assets	3,882	4,863
Promissory note receivable (note 11)	1,068	816
Consideration receivable (note 7)	250	---
Income taxes receivable	1,577	547
Future income taxes (note 23)	6,713	11,913
Assets held for sale (note 7)	---	142
<b>Total current assets</b>	<b>89,522</b>	<b>104,242</b>
Capital assets, net (note 5)	22,002	20,579
Long-term investments (note 10)	---	1,300
Intangible assets, net (note 13)	12,309	8,652
Promissory note receivable (note 11)	---	606
Consideration receivable (note 7)	870	---
Goodwill (note 13)	21,638	18,029
Future income taxes (note 23)	19,385	895
Assets held for sale (note 7)	---	1,616
	<b>165,726</b>	<b>155,919</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	12,230	18,849
Deferred revenue (note 14)	386	308
Current portion of long-term payable (note 12)	1,185	1,013
Income taxes payable	641	1,138
Future income taxes (note 23)	9	---
<b>Total current liabilities</b>	<b>14,451</b>	<b>21,308</b>
Long-term payable (note 12)	---	1,013
Deferred revenue (note 14)	3,691	3,430
Future income taxes (note 23)	488	458
<i>Commitments and contingencies (note 25)</i>		
<b>Shareholders' equity</b>		
Capital stock (note 15)	8,576	8,576
Deferred compensation	(2,350)	(2,092)
Retained earnings	106,994	113,658
Contributed surplus	3,956	2,493
Accumulated other comprehensive income	29,920	7,075
<b>Total shareholders' equity</b>	<b>147,096</b>	<b>129,710</b>
	<b>165,726</b>	<b>155,919</b>

ON BEHALF OF THE BOARD

See accompanying notes

\* Restated – See Note 3

(Signed) F. Fink

Dr. Franz Fink

President & CEO

(Signed) R. Weiss

Robert S. Weiss

Chairman

## Gennum Corporation

### CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Years ended November 30 (U.S. dollars, amounts in thousands except per share data)

	2009	2008 *
Revenue (note 17)	85,240	126,912
Cost of goods sold	24,343	30,467
Gross margin	60,897	96,445
Sales, marketing and administration expense	30,577	36,259
Research and development expense	30,567	36,586
Amortization of intangible assets	1,767	1,816
Less government assistance	(4,496)	(5,921)
Operating expenses before restructuring charge and deferred development charge impairment	58,415	68,740
Restructuring charge and deferred development impairment (note 20)	5,934	---
Operating income (loss)	(3,452)	27,705
Investment income	324	1,162
Other income (expense) (note 21)	(3,574)	4,701
Provisions on loans and investments (note 22)	(1,069)	(2,840)
Earnings (loss) from continuing operations before income taxes	(7,771)	30,728
Recovery of (provision for) income taxes (note 23)	5,166	(11,426)
Net earnings (loss) for the year, from continuing operations	(2,605)	19,302
Net earnings on discontinued operations, net of tax (note 6)	---	7,370
<b>Net earnings (loss) for the year</b>	<b>(2,605)</b>	<b>26,672</b>
<b>Earnings (loss) per share (note 15)</b>		
Continuing operations – basic and diluted	(0.07)	0.54
Discontinued operations – basic and diluted	---	0.21
Net earnings (loss) – basic and diluted	(0.07)	0.75

See accompanying notes

\* Restated – See Note 3

## Gennum Corporation

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended November 30 (U.S. dollars, amounts in thousands)

	2009	2008 *
<b>Capital stock</b>		
Balance at beginning of the year	8,576	8,680
Shares repurchased under normal course issuer bid	---	(104)
Balance at end of the year	8,576	8,576
<b>Deferred compensation</b>		
Balance at beginning of the year	(2,092)	(3,404)
New awards	(2,014)	(1,680)
Forfeitures	338	626
Amortization	1,418	2,366
Balance at end of the year	(2,350)	(2,092)
<b>Retained earnings</b>		
Balance at beginning of the year (as restated – note 3)	113,658	93,200
Transitional adjustment on adoption of new accounting policies (note 1)	212	---
Net earnings (loss)	(2,605)	26,672
Dividends	(4,271)	(4,857)
Repurchase of common shares	---	(1,357)
Balance at end of the year	106,994	113,658
<b>Contributed surplus</b>		
Balance at beginning of the year	2,493	1,078
Stock option amortization	1,463	1,415
Balance at end of the year	3,956	2,493
<b>Accumulated other comprehensive income (loss), net of income taxes</b>		
Balance at beginning of the year	7,075	36,802
Other comprehensive income (loss) for the year	22,845	(29,727)
Balance at end of the year	29,920	7,075
<b>Total shareholders' equity at end of the year</b>	<b>147,096</b>	<b>129,710</b>

See accompanying notes

\* Restated – See Note 3

## Gennum Corporation

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended November 30 (U.S. dollars, amounts in thousands)

	2009	2008 *
<b>Net earnings (loss) for the year</b>	<b>(2,605)</b>	26,672
<b>Other comprehensive income (loss), net of income taxes</b>		
Change in unrealized gains (losses) on translating financial statements	19,907	(26,819)
Change in gains (losses) on derivative instruments designated as cash flow hedges <sup>1</sup>	170	(3,097)
Reclassification to earnings of losses on settled cash flow hedges <sup>2</sup>	2,554	59
Change in unrealized losses on available for sale financial assets <sup>3</sup>	---	(1,343)
Reclassification to earnings of losses on available for sale financial assets <sup>4</sup>	214	1,473
Total other comprehensive income (loss), net of income taxes	22,845	(29,727)
<b>Comprehensive income (loss) for the year</b>	<b>20,240</b>	<b>(3,055)</b>

<sup>1</sup> – Net of income tax expense of \$75 for the year (2008 - recovery of \$1,526)

<sup>2</sup> – Net of income tax expense of \$1,451 for the year (2008 - expense of \$29)

<sup>3</sup> – Net of income tax recovery of \$nil for the year (2008 - recovery of \$51)

<sup>4</sup> – Net of income tax expense of \$51 for the year (2008 - nil)

See accompanying notes

\* Restated – See Note 3

# Gennum Corporation

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2009	2008 *
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss) from continuing operations for the year	(2,605)	19,302
Items not affecting cash		
Depreciation and amortization	7,017	7,262
Impairment of deferred development costs and other intangibles	1,928	---
Deferred compensation and stock option amortization	2,881	3,828
Provisions on loans and investments	1,069	2,840
Gain on sale of land and building	(1,000)	---
Gain on sale of BST technology group	(1,601)	---
Gain on sale of Toumaz investment	(268)	---
Government assistance	(4,496)	(5,921)
Future income taxes	(6,636)	8,765
Other	929	(171)
	<b>(2,782)</b>	35,905
<b>Net change in non-cash working capital balances related to continuing operations</b>	<b>(1,939)</b>	<b>(9,585)</b>
Cash (used in) provided by operating activities of continuing operations	(4,721)	26,320
Cash used in operating activities of discontinued operations	---	(8,702)
<b>Cash (used in) provided by operating activities</b>	<b>(4,721)</b>	<b>17,618</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(4,608)	(15,567)
Payment of license fees and deferred development charges	(6,102)	(3,791)
Acquisition, cash acquired	---	122
Acquisition, other than cash acquired (note 13)	(491)	(3,499)
Proceeds on sale of BST technology group (note 7)	2,276	---
Proceeds on sale of Toumaz investment (note 10)	1,019	---
Proceeds on sale of VXP® (note 8)	---	18,200
Proceeds on sale of land and building (notes 14 and 21)	1,437	17,492
Sale of CellPoint investment	---	497
Cash (used in) provided by investing activities of continuing operations	(6,469)	13,454
Cash provided by investing activities of discontinued operations	---	289
<b>Cash (used in) provided by investing activities</b>	<b>(6,469)</b>	<b>13,743</b>
<b>FINANCING ACTIVITIES</b>		
Deferred compensation paid, net of forfeitures	(1,676)	(1,343)
Shares repurchased under normal course issuer bid	---	(1,461)
Dividends paid	(4,271)	(4,857)
<b>Cash used in financing activities</b>	<b>(5,947)</b>	<b>(7,661)</b>
Effect of exchange rate changes on cash and cash equivalents	5,347	(9,093)
<b>Net (decrease) increase in cash and cash equivalents during the year</b>	<b>(11,790)</b>	<b>14,607</b>
Cash and cash equivalents, beginning of the year	48,748	34,141
<b>Cash and cash equivalents, end of the year</b>	<b>36,958</b>	<b>48,748</b>
<b>Dividends declared per share <sup>1</sup></b>	<b>\$0.12</b>	<b>\$0.14</b>

During the year, interest expense paid was nil (2008 - nil) and income taxes paid was \$3,244 (2008 - \$973). Cash and cash equivalents is comprised of \$23,726 in cash and \$13,232 in cash equivalents (2008 - Cash - \$15,802 and cash equivalents - \$32,946).

<sup>1</sup> – Dividends were paid in Canadian dollars at a rate of \$0.14 per share per year.

*See accompanying notes*

*\* Restated – See Note 3*

## 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 consolidated financial statements of Gennum Corporation (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles and within the framework of the significant accounting policies summarized below:

##### *Changes in accounting policies*

Effective December 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook Sections:

**General Standards of Financial Statement Presentation** – The CICA amended Section 1400 "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern. The Company adopted the amendments to this standard beginning December 1, 2008. There was no impact on the classification of the Company's consolidated financial statements.

**Inventories** – The CICA issued a new accounting standard, Section 3031 "Inventories", which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires reversal of previous inventory write-downs if economic circumstances have changed to support the higher inventory values. The Company adopted this standard beginning December 1, 2008 and adjusted opening inventory on this date by \$234 with an adjustment of \$212 net of tax made as an increase to retained earnings for additional transportation costs that are now required to be included in inventory. The prior period was not restated. Inventories are recorded at the lower of cost and net realizable value. Inventory cost is based on weighted average cost and includes material, labour, transportation and handling costs and manufacturing overhead where applicable.

**Goodwill and Intangible Assets** – The CICA issued a new accounting standard, Section 3064 "Goodwill and Intangible Assets", which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. The Company adopted the new standard retrospectively, the impact of which is described in note 3.

**Financial Statement Concepts** – Section 1000 "Financial Statement Concepts" was amended to provide consistency with the new standard, Section 3064. The amended standard was effective for the Company beginning December 1, 2008 and had no impact on the classification and valuation of the Company's consolidated financial statements.

**Principles of consolidation** – These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated.

**Translation of foreign currencies** – The Company's functional currency is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each accounting period end date. Exchange gains or losses are included in net earnings.

For foreign subsidiaries that are considered self-sustaining, the current rate method of translating foreign currencies has been used. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at each accounting period end date and revenue and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in other comprehensive income (loss).

For foreign subsidiaries that are considered integrated, the temporal method of translating foreign currencies has been used. Under this method, monetary items are translated into Canadian dollars at the exchange rates in effect at each accounting period end date. Non-monetary items and their related

amortization are translated at their historical exchange rates. Revenue and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in net earnings.

The Company uses the U.S. dollar as its reporting currency, therefore the Canadian dollar balances are converted to the U.S. dollar using the current rate method for reporting purposes (see note 2).

**Financial assets and financial liabilities** – The Company's 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. All financial instrument transactions are recorded at the settlement date, which is the date that an asset is delivered to or by the Company. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured at fair value except for held to maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These financial instruments are recorded at fair value on inception and are subsequently measured at fair value at each period end. Revaluation gains and losses are included in net earnings in the period in which they arise. Available for sale financial instruments are also recorded at fair value on inception and are subsequently measured at fair value at each period end and revaluation gains and losses related to fair value are included in other comprehensive income (loss) in the period in which they occur.

**Derivatives and hedge accounting** – The Company enters into foreign currency forward contracts to reduce its exposure to foreign currency denominated balances. All derivative instruments are recorded on the consolidated balance sheet at fair value. All changes in fair value are recorded in net earnings unless cash flow hedge accounting is used, in which case the changes in the fair value associated with the effective portions of the hedge are recorded in other comprehensive income.

Derivatives may be embedded in any contract (the "host contract"). Embedded derivatives are separated from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Embedded derivatives are measured at fair value with subsequent changes recognized in net earnings.

**Cash and cash equivalents** – Cash and cash equivalents include cash on deposit and investments with remaining maturities of three months or less on inception.

**Inventories** – Inventories are recorded at the lower of cost and net realizable value. Inventory cost is based on weighted average cost and includes material, labour, transportation and handling costs and manufacturing overhead where applicable.

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

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

**Research and development costs** – The Company follows the guidance in the CICA Handbook Section 3064, "Goodwill and Intangible Assets". Until February 29, 2008, expenditures such as research and development costs were expensed as incurred since the criteria for deferment of such costs were not met. However, effective March 1, 2008, the criteria for deferment of eligible costs were met. These criteria include whether the product and cost are clearly defined, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined and adequate resources are expected to be available to complete the product. These deferred development costs are included in intangible assets (see note 13). Upon commercial launch of the product, these costs are amortized over the number of expected product life unit sales. Research costs continue to be expensed as incurred.

**Government assistance** – The Company receives financial assistance under available government incentive programs including investment tax credits related to research and development activities. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets. Government assistance relating to research and development expense is recorded as a reduction of expenses when the related expenditures are incurred.

**Long-term investments** – Investments classified as available for sale are carried at fair value with the changes in fair value recorded in other comprehensive income. Available for sale securities are written down to fair value through net earnings whenever it is necessary to reflect an other than temporary impairment.

**Business combinations, goodwill and intangible assets** – The Company follows the guidance in the CICA Handbook Section 1581, “Business Combinations”, which requires all business combinations to be accounted for using the purchase method. In addition, any goodwill and intangible assets acquired in a business combination are accounted for under CICA Handbook Section 3064, “Goodwill and Other Intangible Assets”. This section requires that goodwill not be amortized, while identified intangible assets with finite useful lives be amortized over their useful lives.

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired. Goodwill and indefinite life intangibles are tested for impairment annually or more frequently if events or changes in circumstances indicate that those assets might be impaired. The impairment test is carried out in two steps. In the first step, the identification of a potential impairment is determined by comparing the fair value of the reporting unit to its carrying value. Fair value is based on estimates of discounted future cash flows. When the fair value of the reporting unit is less than its carrying value, the fair value is allocated to all its assets and liabilities based on their fair values. The amount that the fair value of the reporting unit exceeds the amounts assigned to its assets and liabilities is the fair value of goodwill. In the second step, impairment is determined by comparing the fair value of goodwill to its carrying value. Any shortfall is charged to net earnings.

Intangible assets with finite useful lives acquired through business combinations are recorded at their fair value at the date of acquisition. An impairment loss on an intangible asset with a finite useful life is recognized when its carrying value exceeds the total undiscounted cash flows expected from its use and disposition. The amount of loss is determined by deducting its fair value based on discounted cash flows expected from its use and disposition from its carrying value. The Company reviews definite life intangible assets for impairment whenever events or changes indicate that the carrying value may not be recoverable.

**Asset impairment** – The Company follows the guidance in CICA Handbook Section 3063, “Impairment of Long-Lived Assets” and CICA Handbook Section 3855, “Financial Instruments Recognition and Measurement”. The Company evaluates the carrying value of long-lived and intangible assets for potential impairment annually or more frequently if events or circumstances warrant a review. The carrying value of such assets is considered impaired when the anticipated net recoverable amount of the asset is less than its carrying value or when the change in value is other than temporary. In that event, the carrying value of the asset is adjusted to fair value and an impairment loss is charged to earnings. The Company reviews long-lived assets for impairment whenever events or changes indicate that the carrying value may not be recoverable.

**Held for sale and discontinued operations** – The Company follows the guidance in the CICA Handbook Section 3475, “Disposal of Long-Lived Assets and Discontinued Operations” in classifying certain of its operations as held for sale and discontinued operations. Assets classified as held for sale other than long-lived assets are reviewed quarterly for impairment. Long-lived assets are then recorded at the lower of carrying amount or fair value less cost to sell.

Discontinued operations include the income and cash flows from product lines with which the Company will have no significant ongoing involvement or significant continuing cash flows. Income and cash flows from assets held for sale with which the Company will have no ongoing involvement or significant continuing cash flows are also included in discontinued operations. Refer to note 6 for details of discontinued operations.

**Revenue recognition** – Revenue from sales of products to customers is recognized when title and risk of ownership are transferred to customers; when persuasive evidence of an arrangement exists; when the price to the buyer is fixed or determinable; and when collection is reasonably assured.

Revenue is recognized net of estimated product returns due to stock rotation and the product warranty program. Reductions to revenue for expected and actual payments to resellers for price adjustments are based on actual adjustments incurred during the period, on estimates of what is due to resellers for estimated credits earned during the period and any adjustments for credits based on actual activity. The estimated adjustments are based on contract terms or historical patterns. The Company reviews actual adjustments on a quarterly basis to ensure they are consistent with the estimates.

For the performance of service contracts with terms greater than one year, revenue has been recognized using the percentage of completion method based on labour hours. For contracts with terms less than one year, revenue is recognized when the service has been completed. Billings for time-based contracts are done monthly. Unbilled receivables are created when the Company accrues revenue before the contract terms permit billing the customer. Deferred revenue is created when the Company bills a customer in accordance with the contract, prior to having met the requirements for revenue recognition.

**Leases** – Leases are classified as capital or operating leases. A lease that transfers substantially all the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases.

**Deferred gain** – Deferred gain represents the unamortized portion of the gain arising on the sale of property, which was subsequently leased back. The deferred gain is amortized using the straight-line method over the life of the lease. The deferred gain is included in deferred revenue.

**Stock-based compensation plan** – The Company follows the guidance in the CICA Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments”, which includes the fair-value based method of accounting for all its stock-based compensation. For stock options granted on or after December 1, 2003, the options are measured on the grant date using a fair-value based method and expensed over the vesting period.

In addition, the Company has employee incentive plans which contain two components. The first is a stock option component, which is measured on the grant date using a fair-value based method and expensed over the vesting period. The second component is a restricted share component, which is recorded as deferred compensation as a charge to shareholders’ equity at the time of the grant and is expensed over the vesting period. The shares required for the restricted share component are acquired in the secondary market.

**Deferred share units ("DSUs")**

The Company grants deferred share units to directors as described in note 19. The number of DSUs issued is calculated by dividing the compensation by the fair market value of the Company’s shares on the date of grant. The DSUs outstanding are recorded as accrued liabilities and are re-evaluated monthly at the share market price, with all changes recorded to sales, marketing and administration expense.

**Income taxes** – The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

**Earnings (loss) per share** – The calculation of earnings (loss) per share from continuing and discontinued operations is based on reported net earnings (loss) from continuing and discontinued operations divided by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all dilutive securities using the treasury stock method.

**Use of estimates** – The preparation of the consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are

reasonable and prudent; however, actual results could differ from these estimates.

## **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.

**Business Combinations, Consolidated Financial Statements and Non-Controlling Interests** – In December 2008, the CICA approved three new accounting standards; Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, 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 to International Accounting Standard 27 – “Consolidated and Separate Financial Statements (January 2008)”, respectively. 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 this standard on its consolidated financial statements.

## **2. CHANGE OF 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. Management 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 year, revenue and expenses have been translated from Canadian dollars to U.S. dollars at the monthly average rates, and cash flows at the quarterly average rates. Assets and liabilities have been translated at the period end rate of \$0.9457 Canadian dollars to U.S. dollars (2008 - \$0.8083).

## **3. ADOPTION OF NEW ACCOUNTING POLICIES**

On December 1, 2008, the Company adopted the CICA Handbook Section 3064 “Goodwill and Intangible Assets”, replacing CICA Handbook Section 3062, “Goodwill and Other Intangibles” and EIC-27 “Revenue and Expenditures during the Pre-operating Period”.

Section 3064 clarifies the definition of an asset such that the Company is no longer able to defer and amortize costs associated with the set up and preparation of the Company’s new test facilities. Instead, these costs are to be expensed as incurred.

The new standard was adopted on a retroactive basis with restatement of the prior year comparatives, and as a result, the Company reduced December 1, 2008 opening retained earnings by \$323. For the year ended November 30, 2008, deferred costs of \$403 has been retroactively restated as sales, marketing and administration expense. Income tax expense in 2008 was reduced by \$159, offset by a reduction in future income tax assets of \$133. The Company also adjusted accumulated other

comprehensive income by \$53 to record the foreign exchange impact of the transaction. This retroactive change resulted in a \$0.01 reduction of earnings per share for 2008, down from \$0.76 to \$0.75.

#### 4. INVENTORIES

	As at November 30	
	2009	2008
Raw materials and supplies	404	301
Work in process	11,786	9,183
Finished goods	9,487	4,735
	<b>21,677</b>	<b>14,219</b>

Inventory is reviewed at least quarterly for obsolescence. The Company recorded a write-down of \$853 during the year. The inventory write-down in the year included restructuring activity (see note 20).

#### 5. CAPITAL ASSETS

	As at November 30	
	2009	2008
Land	930	1,133
Buildings	---	3,641
Equipment and furniture	27,442	25,151
Computer software and hardware	6,724	13,938
Operating systems	10,108	7,099
Leasehold improvements	2,351	1,371
	<b>47,555</b>	<b>52,333</b>
Less accumulated depreciation		
Buildings	---	3,588
Equipment and furniture	18,903	17,025
Computer software and hardware	5,263	11,063
Operating systems	940	59
Leasehold improvements	447	19
	<b>25,553</b>	<b>31,754</b>
	<b>22,002</b>	<b>20,579</b>

The cost of capital asset additions for 2009 was reduced by government assistance of \$495 (2008 - \$100). \$1,707 included in capital assets were not in use as of November 30, 2009 and therefore depreciation has not yet begun (2008 - \$2,455). Decreases in capital assets and accumulated depreciation related mainly to the sale of the BST technology group and associated assets, the sale of land and a vacant building and the removal of fully depreciated assets.

Depreciation expense from continuing operations for the year was as follows:

	2009	2008
Buildings	16	341
Equipment and furniture	3,398	4,038
Computer software and hardware	638	901
Operating systems	909	59
Leasehold improvements	224	19
	<b>5,185</b>	<b>5,358</b>

#### 6. RECONCILIATION OF DISCONTINUED OPERATIONS

As part of the Company's 2007 strategic decision-making process, it was determined that the Company would focus on its core business of designing, developing and marketing innovative optical and analog and mixed-signal products. As a result of this decision, divestitures of non-core businesses, including Hearing and Manufacturing Operations and VXP® Image Processing, were completed.

As a result, certain operating results for 2008 were classified as discontinued operations in accordance with CICA Handbook Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations". The following table summarizes the discontinued operations for 2008 (there were no discontinued operations in 2009):

### Discontinued Operations

	2008		
	Hearing/Mfg <sup>1</sup>	VXP® <sup>1</sup>	TOTAL
Revenue	---	1,290	1,290
Operating loss, before tax	(407)	(4,106)	(4,513)
Gain (loss) on sale	(1,173)	13,473	12,300
	(1,580)	9,367	7,787
Income tax (expense) recovery	523	(940)	(417)
<b>Net earnings (loss) from discontinued operations, net of tax</b>	<b>(1,057)</b>	<b>8,427</b>	<b>7,370</b>

<sup>1</sup> The gain and loss on sale are considered capital transactions and therefore are only 50% taxable/deductible.

### 7. SALE OF THE BST TECHNOLOGY GROUP AND ASSOCIATED ASSETS

On March 4, 2009, the Company completed the sale of its BST technology group and associated assets to Paratek Microwave, Inc. ("Paratek") for cash on closing of \$1,526 and future cash payments totaling \$2,150. The consideration receivable is non interest bearing with \$250 payable quarterly until December 31, 2009 and a long-term portion of \$1,150 payable by March 4, 2012. The long-term portion as at November 30, 2009 was discounted to \$870 using a rate of 12%.

The Company is also entitled to royalty payments based on Paratek's sales of BST related products over the next 5 years, but royalty payments could terminate earlier if Paratek were to undergo a change of control in that time frame. In the event that a change of control occurred on or before September 4, 2010, the royalty payments may only be terminated upon the payment of \$3,000 to the Company; in the event that any such transaction occurs on or before March 4, 2012, the royalty payments may only be terminated upon the payment of \$2,000 to the Company. No accruals have been made for royalty payments because an estimate cannot yet be made.

The Company does not have any continuing involvement in or retain any ownership interest in these operations.

The sale of the BST technology group and associated assets resulted in a gain of \$1,601, calculated as follows:

Capital assets	1,436
Inventory	164
Transaction costs	121
	1,721
Less proceeds:	
Cash	1,526
Consideration receivable	1,796
<b>Gain on sale recognized in 2009</b>	<b>1,601</b>

Inventory of \$142 and capital assets (net) of \$1,616 related to the BST technology group were reclassified to assets held for sale as at November 30, 2008.

### 8. SALE OF VXP® IMAGE PROCESSING BUSINESS

On February 8, 2008, the Company completed the sale of its VXP® Image Processing business to Sigma Designs for \$18,200. The sale of the VXP® Image Processing business resulted in the termination of approximately 30 employees in January 2008.

Following the close of the sale transaction, the Company received a final payment of fees from Sigma Designs in June 2008 for providing certain administrative functions and for the lease of office space. The Company does not have any significant continuing involvement in or retain any ownership interest in these operations and, therefore, the continuing cash flows are not considered direct cash flows of the disposal group.

The sale of the VXP® Image Processing business resulted in a gain of \$13,473 and was calculated as follows:

Accounts receivable	886
Inventories	1,305
Prepaid and other assets	273
Capital assets, net	738
Intangible assets	382
Transaction costs	1,364
Accounts payable and accrued liabilities	(221)
	<hr/> 4,727
Less proceeds:	
Cash	18,200
Gain on sale recognized in fiscal year 2008	<hr/> 13,473

The operating results related to the Company's VXP® Image Processing business were reclassified as discontinued operations in accordance with the CICA Handbook Section 3475 - "Disposal of Long-Lived Assets and Discontinued Operations" (see note 6).

## 9. ACQUISITION – ASIC ARCHITECT, INC.

On July 25, 2008, the Company acquired all of the shares of ASIC Architect, Inc. ("ASIC Architect"), a developer of high-speed controller intellectual property ("IP"), for a total initial cash consideration of \$1,582 including transaction related costs of \$82 and the following future cash consideration:

- a) Working capital surplus – a cash payment was required if the working capital of ASIC Architect on completion of the transaction was in a surplus position; a final payment of \$36 has been made to account for a working capital surplus and has been accounted for as an increase in the purchase price and goodwill.
- b) Earn-out – earn-out payments are required to be made based on attaining certain annual IP sales thresholds in the first three years past closing. This contingent consideration had not been accounted for in the initial purchase price because a reasonably accurate estimate could not be made at that time; however, payments made since closing are treated as purchase price adjustments. To date, \$118 related to the earn-out has been reflected as a purchase price adjustment to goodwill.

The acquisition was accounted for under the purchase method from the acquisition date. The purchase price allocation was assigned to the net identifiable assets acquired based on their fair values as follows and is adjusted quarterly for earn-out accruals:

Cash	122
Accounts receivable	164
Prepays and other assets	14
Capital assets	33
Identifiable intangible assets subject to amortization:	
Technology	339
Customer relationships	25
In process development	142
Customer value	290
Contracts in process	299
	<hr/> 1,428
Accounts payable and accrued liabilities	(263)
Future income taxes	(438)
	<hr/> (701)
Excess of adjusted purchase price over fair value of identifiable net assets acquired (goodwill) (note 13)	<hr/> 1,009
Total adjusted purchase price, including transaction costs	<hr/> 1,736

## 10. 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 Canadian \$1,500.

One-third of the shares have been classified as held for trading. The Company wrote the shares down to a fair value of \$42 as of November 30, 2009 (2008 - \$268). The fair value adjustment for the year was a \$225 loss recorded through earnings (2008 - \$138 (note 22)).

The remaining 1.1 million shares have been classified as available for sale. The shares were recorded on the balance sheet as at November 30, 2008 at a value of \$536. During the year, management considered the decrease in the fair value of the shares to be significant and prolonged and as a result wrote the balance off to nil and recorded a cumulative impairment charge of \$844 to earnings (note 22).

In November 2005, the Company received a 6% interest or \$2,734 in shares of Nanoscience Inc. (11.1 million shares) as consideration for the sale of its investment in Toumaz Technology Limited to Nanoscience Inc. The shares of Nanoscience Inc., which later changed its name to Toumaz Technology Limited ("Toumaz"), are traded on the AIM exchange in London, England. Since November 2005, the Company had recorded impairments through earnings totaling \$1,983 against the value of this investment, \$1,331 of which was taken in 2008. The fair value of the shares on November 30, 2008 was \$764. On May 26, 2009, the Company sold its investment in Toumaz for \$1,019, net of commissions, creating a gain of \$268 in the year (notes 21 and 22).

## 11. 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"). The promissory note bears interest at a fixed interest rate of 5% per annum with scheduled quarterly principal payments of Canadian \$250 which began in April 2008, and the remaining balance plus accrued interest due in April 2010. During the year, payment terms were renegotiated, with rate increases to 8% as of December 31, 2009, monthly payments of approximately \$80, and the remaining balance due in April 2010. The balance of \$1,068 has been classified as a current asset as at November 30, 2009 (2008 - \$816 current and \$606 long-term). The Company is in the process of renegotiating the promissory note, which will likely result in monthly payments of approximately \$60, maturing in August 2011.

## 12. LONG-TERM PAYABLE

As part of the consideration for the acquisition of Snowbush Microelectronics Inc. on October 30, 2007, the Company negotiated deferred purchase price payments to be paid in Canadian dollars. As at November 30, 2009, \$1,185 remains outstanding (Canadian \$1,255), all due in the fourth quarter of 2010 and therefore classified as current (2008 – long-term \$1,013 and current portion of the long-term payable \$1,013). The deferred cash 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.

## 13. GOODWILL AND INTANGIBLE ASSETS

### (i) Goodwill

Goodwill related to the Snowbush Microelectronics Inc. 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 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:

	2009	2008
SiGe Semiconductor Inc.	1,889	1,889
Snowbush Microelectronics Inc.	19,072	18,673
ASIC Architect (note 9)	1,009	917
Exchange translation	(332)	(3,450)
	<b>21,638</b>	<b>18,029</b>

### (ii) Intangible Assets

	2009	2008
License fees	206	192
Less accumulated amortization	(122)	(58)
	<b>84</b>	<b>134</b>
<b><i>SiGe acquired in 2004</i></b>		
Technology	2,100	1,795
Less accumulated amortization	(1,676)	(1,175)
	<b>424</b>	<b>620</b>
<b><i>Snowbush acquired in 2007</i></b>		
Technology	3,878	3,314
Supplier relationships	1,229	1,051
In process development	662	566
Customer value	104	89
Contracts in process	132	113
	<b>6,005</b>	<b>5,133</b>
Less accumulated amortization	(2,792)	(1,250)
	<b>3,213</b>	<b>3,883</b>
<b><i>ASIC Architect acquired in 2008</i></b>		
Technology	314	279
Customer relationship	7	20
In process development	75	117
Customer value	201	238
Contracts in process	288	247
	<b>885</b>	<b>901</b>

Less accumulated amortization	(233)	(49)
	652	852
Deferred development cost	8,007	3,165
Less accumulated amortization	(71)	(2)
	7,936	3,163
	12,309	8,652

License fees are amortized using the straight-line method over the estimated useful lives ranging from three to five years. No new license fees were incurred in 2009 (2008 - \$58).

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 Microelectronics Inc. 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 that are 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 product life unit sales to a maximum of five years. Additional deferred development costs of \$6,102 were capitalized in 2009 (2008 - \$3,165).

Impairments related to deferred development costs were \$1,743 in 2009 (no impairments were recognized in 2008), most of which were included as part of the Company's restructuring activity and was therefore recorded under restructuring charge and deferred development impairment (see note 20). Other intangible asset impairments in 2009 included \$167 related to ASIC Architect intangible assets and \$18 related to license fees that are no longer expected to provide future benefit. No intangible assets were impaired in 2008. Intangible impairments are charged to research and development expense in the statement of earnings (loss).

Amortization expense related to total intangible assets in 2009 was \$1,832 (2008 - \$1,816) of which \$65 relates to deferred development costs and is charged to cost of goods sold.

#### 14. DEFERRED REVENUE

Deferred revenue is comprised of two components. The largest is the unamortized gain created by the sale leaseback of the corporate headquarters. On August 15, 2008, the Company sold land and an office building for net proceeds of \$13,161 and concurrently entered into a 15-year leaseback arrangement with the purchaser of the property. The \$4,518 gain arising on the disposal of the property was recorded as deferred revenue and is being amortized over the lease term.

The provisions of the lease provide for a 15-year term with an option to extend for two five-year terms, at the election of the Company. The lease has been accounted for as an operating lease as the criteria for such a lease under CICA Handbook Section 3065, "Leases" have been met.

Minimum lease payments in Canadian dollars for the first five years, the second five years and the final five years are \$5,270, \$5,610, and \$5,950, respectively.

The second component is created by the IP revenue when differences occur between the timing of customer payments and the recognition of revenue using the percentage of completion or the completed contract methods.

As at November 30, 2009, deferred revenue related to the unamortized gain was \$3,981, of which \$290 was classified as current and the balance of \$3,691 as long term (2008 - \$234 current and \$3,430 long

term), and deferred revenue related to collections in excess of earned IP revenue was \$96, all classified as current (2008 - \$74).

## 15. CAPITAL STOCK

The Company has authorized an unlimited number of common shares with no par value, of which 35,429,086 common shares (2008 - 35,429,086) were issued and outstanding as at November 30, 2009 with a stated value of \$8,576 (2008 - \$8,576). An unlimited number of preferred shares have also been authorized, none of which have been issued.

The Company announced a normal course issuer bid to acquire up to 3.4 million common shares between October 2, 2008 and October 1, 2009. The issuer bid was not renewed and no repurchases were made in 2009.

### 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 under this plan is 2,700,000, of which 771,952 remain available for new grants. An additional 930,000 options were issued outside the plan to new officers upon hiring at exercise prices ranging from Canadian \$9.75 - \$13.27. No stock options were issued outside the plan to new officers upon hiring in 2008 or 2009.

All options are granted for a term of seven years from the grant date with vesting of 25% 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 Corporation, 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 November 30. All exercise prices are presented in Canadian dollars:

	2009		2008	
	Number of shares	Weighted average exercise price (Cdn.\$)	Number of shares	Weighted average exercise price (Cdn.\$)
<b>Outstanding, beginning of year</b>	<b>2,117,077</b>	<b>10.99</b>	2,065,885	11.65
Granted	695,150	4.54	586,867	9.78
Forfeited	(282,641)	10.52	(395,362)	12.13
Expired	(29,500)	12.11	(140,313)	12.41
<b>Outstanding, end of year</b>	<b>2,500,086</b>	<b>9.24</b>	2,117,077	10.99
<b>Options exercisable at year end</b>	<b>984,334</b>	<b>11.02</b>	694,880	11.36

The following table summarizes information about all options outstanding to purchase common shares at November 30, 2009. Note 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.\$)
\$4.55 - \$7.53	703,550	6.3 years	4.69	12,500	6.66
\$7.54 - \$10.51	1,059,435	4.5 years	9.84	561,509	9.80
\$10.52 - \$13.49	737,101	4.2 years	12.72	410,325	12.83

The estimated weighted average fair value of stock options granted during 2009 was Canadian \$1.67

(2008 - Canadian \$2.75) per share using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<b>2009</b>	<b>2008</b>
Risk-free interest rate	<b>2.0%</b>	3.12%
Expected dividend yield	<b>3.1%</b>	1.5%
Expected volatility	<b>51.1%</b>	29.6%
Expected time until exercise	<b>5.5 years</b>	5.5 years

### Restricted share plan

The number and weighted average fair value of restricted shares of the Company granted under employee incentive plans in 2009 were 490,641 and Canadian \$5.07 respectively (2008 - 187,088, Canadian \$9.03).

The Company recorded compensation expense and credited to Contributed Surplus \$1,463 related to stock options during 2009 (2008 - \$1,415). Compensation expense in 2009 related to the restricted share plan was \$1,418 (2008 - \$2,366).

### 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:

	<b>2009</b>	2008
Net earnings (loss) from continuing operations	<b>(2,605)</b>	19,302
Net earnings from discontinued operations	---	7,370
<b>Net earnings (loss) for the period</b>	<b>(2,605)</b>	26,672
Weighted average shares outstanding (numbers in thousands)	<b>35,429</b>	35,594
Shares held in restricted share plan trust fund	<b>(602)</b>	---
Basic weighted average shares outstanding	<b>34,827</b>	35,594
Effect of dilutive stock options	---	1
<b>Diluted weighted average shares outstanding</b>	<b>34,827</b>	35,595
<b>Earnings (loss) per share</b>		
Earnings (loss) per share from continuing operations - basic and diluted	<b>(0.07)</b>	0.54
Earnings (loss) per share from discontinued operations - basic and diluted	---	0.21
<b>Earnings (loss) per share - basic and diluted</b>	<b>(0.07)</b>	0.75

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.

## 16. FINANCIAL INSTRUMENTS

### Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles, 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:

	<b>As at November 30</b>	
	<b>2009</b>	2008
Held for trading <sup>1</sup>	<b>37,029</b>	49,016
Available for sale <sup>2</sup>	---	1,300
Loans and receivables <sup>3</sup>	<b>21,477</b>	25,466
Other financial liabilities <sup>4</sup>	<b>14,056</b>	18,072
Derivatives designated as effective hedges – gain (loss) <sup>5</sup>	---	(3,941)

- 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 the CellPoint investment designated as available for sale
- 3 Includes accounts receivable, promissory note receivable, income taxes receivable, consideration receivable and certain financial instruments included in prepaid expenses and other assets
- 4 Includes accounts payable and accrued liabilities, long-term payable and income taxes payable
- 5 Includes the Company's foreign exchange forward contracts that are effective hedges

The Company, through its financial assets and liabilities, is exposed to various risks. The Company's overall risk management program focuses on 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 at November 30, 2009:

#### (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 and long-term payable resulting from the Snowbush Microelectronics Inc. acquisition was recorded at its fair value with the resulting discount being charged to earnings.

Instruments held for trading and long-term investments (classified as available for sale) are recorded at fair value based on the quoted share prices, where they exist and foreign exchange rates as at November 30, 2009.

#### (b) Foreign Exchange Rate Risk

The objective of the Company's foreign exchange risk management activities is to minimize translation exposures 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.

In the Canadian entity, 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 Canadian entity's books are primarily denominated in U.S. dollars while the functional currency of this entity 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 help mitigate this risk, starting in the third quarter of 2009, the Company entered 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 help to offset the impact of translation gains or losses due to currency movements from one balance sheet date to the next.

During the third quarter, the Company cancelled foreign exchange contracts entered into under its old hedging policy which resulted in a gain of \$280. Realized losses on foreign exchange forward and spot contracts, including the cancelled contracts, were \$1,809 in 2009 (2008 - gains of \$203).

In 2009, the Canadian dollar strengthened compared to the U.S. dollar (\$0.8083 on November 30, 2008 Canadian to U.S. dollar exchange rate compared to \$0.9457 on November 30, 2009). The net impact of this on our U.S.-based net monetary assets was a foreign exchange translation loss of \$3,455 in 2009 (2008 - gain of \$4,742) recorded to other income (expense) (see note 21).

The consolidated statement of earnings is translated from Canadian dollars to U.S. dollars for reporting purposes using monthly average rates. The average Canadian to U.S. dollar exchange rate used to translate the consolidated statement of earnings for 2009 was \$0.8610 compared to \$0.9738 in 2008.

The Company entered into a foreign exchange forward contract to sell an aggregate amount of U.S. \$16,400 as at November 30, 2009. This contract matures on December 23, 2009 at an exchange rate of Canadian \$1.0575 against the U.S. dollar. Management estimates that a before tax gain of \$29 would be realized if the contracts were terminated on November 30, 2009. The fair value of the foreign exchange forward contract is based on market information from major financial institutions. This forward contract is not considered a hedge for accounting purposes and therefore the gain is included in Other Income on the Statement of Earnings.

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 any cash impact and is not hedged by the Company. Any 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 gain in 2009 of \$19,907 from converting the Canadian dollar consolidation for U.S. dollar reporting. This translation gain is recorded in Other Comprehensive Income and is a result of a significant strengthening of the Canadian dollar compared to the U.S. dollar over the past year.

#### (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 at November 30, 2009, one customer accounted for more than 10% of revenue; no customers accounted for more than 10% of receivables.

The aging of trade receivable balances as of November 30 were as follows:

	2009	2008
Not past due	13,494	18,424
Past due 0-30 days	2,806	2,833
Past due 31-60 days	207	1,080
Past due over 61 days	848	389
<b>Accounts receivable, net</b>	<b>17,355</b>	<b>22,726</b>

These balances are net of provisions of \$496 (not past due) and \$785 (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 November 30, 2009, the Company was holding cash and cash equivalents of \$36,958 and accounts receivable of \$17,355. The following are the undiscounted contractual maturities of financial liabilities as at November 30, 2009:

	<b>Less than 1 year</b>
Accounts payable and accrued liabilities	12,230
Current portion of long-term payable	1,185
	<b>13,415</b>

The current ratio, calculated as current assets divided by current liabilities, for the Company as at November 30, 2009 was 6.2.

(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. Since the Sound Design promissory note has fixed interest rates, the Company is not exposed to any interest rate risk on this financial instrument.

(f) Price Risk

Price risk is the risk that the value of an investment will decline in the future. The Company currently holds an investment in CellPoint which is considered a start-up technology company with higher than average financial volatility due to the nature of the business. The price risk associated with this investment is high and the Company has written the investment down to a negligible amount. An impairment of the CellPoint investment was recognized through net earnings in the year, as management believes the decline in share price is other-than-temporary (see note 10).

## 17. SEGMENTED INFORMATION

As a result of the Company's leadership and product portfolio realignment at the end of 2007, the Company began operating and tracking 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 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:

	<b>2009</b>	2008
Analog and Mixed Signal	<b>60,995</b>	97,929
Optical	<b>12,408</b>	17,596
IP	<b>11,837</b>	11,387
	<b>85,240</b>	126,912

Revenue by principal markets is as follows:

	<b>2009</b>	2008
North America	<b>59,196</b>	70,764
Europe	<b>7,007</b>	14,452
Pacific Rim	<b>19,037</b>	41,696
	<b>85,240</b>	126,912

Revenue is attributable to countries based upon the location of customers.

Capital assets and goodwill per country are as follows:

	2009	2008
Canada *	41,423	36,696
United States	1,020	763
UK	949	994
Other *	248	155
	<b>43,640</b>	<b>38,608</b>

\* Goodwill of \$20,618 (2008 - \$ 17,266) is located in Canada and \$1,020 (2008 - \$763) is located in the United States.

## 18. DEFINED CONTRIBUTION PLAN

In 2009, the Company replaced the existing deferred profit sharing plan with a defined contribution plan equal to 5% of employee's salaries. The total cost incurred in 2009 was \$1,151.

## 19. DEFERRED SHARE UNITS

On February 1, 2008, the Board of Directors of the Company approved a deferred share unit ("DSU") plan for the benefit of the directors 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 the Company will maintain for each director. At such time as any director leaves the Board of Directors, such director will receive lump sum cash payment equal to his credit balance under the DSU plan.

As of November 30, 2009, the Company had recorded an amount payable of \$532 (2008 - \$185) which will be paid to directors if they leave the Board of Directors. During the year ended November 30, 2009, an amount of \$361 (2008 - \$196) was charged to sales, marketing and administration expense related to the expensing of awards and from a re-evaluation of the liability based on the Company's share market value.

## 20. 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, Gennum 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 related to the termination of approximately 10% of our total workforce in 2009 and additional restructuring actions to be completed over the next few quarters.

Severance costs	3,584
Deferred development cost impairment (net of investment tax credits)	1,200
Inventory and other asset impairments	1,150
<b>Total restructuring charge and deferred development impairment</b>	<b>5,934</b>

Severance costs incurred in the year	3,584
Severance costs paid in the year	(1,809)
<b>Severance costs included in accounts payable and accrued liabilities at year end</b>	<b>1,775</b>

## 21. OTHER INCOME (EXPENSE)

	2009	2008
Realized gain (loss) on foreign exchange hedge contracts	(1,809)	203
Foreign exchange gain (loss) on translation	(3,455)	4,742
Gain (loss) on foreign exchange, net	(5,264)	4,945
Gain on sale of building <sup>1</sup>	1,000	---
Corporate development charges	(2,448)	---
Tundra termination fee, net <sup>2</sup>	2,205	---
Gain on sale of BST technology group (note 7)	1,601	---
Gain on sale of Toumaz investment (note 10)	268	---
Other	(936)	(244)
	1,690	(244)
	(3,574)	4,701

<sup>1</sup> On August 14, 2009, the Company sold its land and vacant building located at 980 Fraser Drive in Burlington, Ontario for proceeds of \$1,437, which resulted in a gain of \$1,000.

<sup>2</sup> On March 19, 2009, Gennum Corporation announced it had entered into a definitive agreement providing for the acquisition by Gennum of all of the issued and outstanding shares of Tundra Semiconductor Corporation ("Tundra"). Tundra subsequently received an acquisition proposal which it determined to be a superior proposal and, therefore, the agreement was terminated. Pursuant to the terms of the agreement, Tundra paid Gennum a fee of \$4,188 (Cdn \$5,000) upon the termination of the agreement. Transaction costs such as legal, financial advisory and consulting fees have been netted against this fee, which resulted in income of \$2,205.

## 22. PROVISIONS ON LOANS AND INVESTMENTS

	2009	2008
Provision on Toumaz investment <sup>1</sup>	---	(1,331)
Provision on CellPoint promissory note <sup>2</sup>	---	(247)
Provision on CellPoint loan receivable	---	(1,124)
Provision on long-term investment (note 10)	(844)	---
Fair value loss on instruments held for trading (note 10)	(225)	(138)
	(1,069)	(2,840)

<sup>1</sup> An impairment charge of \$1,331 to net earnings in the fourth quarter of 2008 related to the Company's investment in Toumaz shares as management believed the decrease in fair value of the shares was significant and prolonged.

<sup>2</sup> As part of the Company sale of its Consumer Headset product line to CellPoint, the Company received a \$281 non-interest bearing promissory note and extended a \$1,262 loan to CellPoint, bearing interest at a fixed interest rate of 5%. Both the promissory note and the loan were defaulted on and, as a result, the Company recorded provisions in 2008 of \$247 and \$1,124 to net earnings.

These provisions are considered capital losses and therefore are only 50% deductible for tax purposes.

## 23. INCOME TAXES RELATED TO CONTINUING OPERATIONS

Recovery of (provision for) income taxes consists of the following:

	2009	2008
Future income taxes	6,636	(8,765)
Current income taxes	(1,470)	(2,661)
<b>Recovery of (provision for) income taxes</b>	<b>5,166</b>	<b>(11,426)</b>

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

	2009	2008
Expected income tax expense using statutory tax rates	2,564	(10,296)
Permanent differences	(219)	(920)
Changes in tax rates	668	(1,048)
Impact of Provincial harmonization	2,217	---
Different income tax rates on earnings of foreign subsidiaries	30	209
Other	(94)	629
<b>Recovery of (provision for) for income taxes</b>	<b>5,166</b>	<b>(11,426)</b>
<b>Effective tax rate</b>	<b>66.5%</b>	<b>37.2%</b>

Commencing in 2009, the Ontario and federal tax returns are being harmonized. The Company refilled prior year tax returns to maximize its tax position upon harmonization, which resulted in a credit to tax recovery of \$2,217 in the year.

Components of future income taxes by jurisdiction are summarized as follows:

	2009	2008
<b>Canada</b>		
Future income tax asset - current		
Research and development incentives	6,428	9,980
Mark to market foreign exchange contracts	---	1,301
Various accounting expenses not currently deductible for tax purposes	285	567
	<b>6,713</b>	<b>11,848</b>
Future income tax asset - long-term		
Research and development incentives	20,202	707
Tax depreciation in excess of book depreciation	(2,259)	(827)
Deferred gain on sale of building - long-term portion	937	1,004
Intangible amortization not deductible for tax	(931)	(1,192)
Various accounting expenses not currently deductible for tax purposes	1,157	940
	<b>19,106</b>	<b>632</b>
<b>Foreign</b>		
Future income tax asset - current		
Accounting expense not currently deductible for tax purposes	---	65
Future income tax asset - long-term		
Accounting expense not currently deductible for tax purposes	279	263
Future income tax liabilities - current		
Other	9	---
Future income tax liabilities - long-term		
Other	488	458

## 24. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to ensure that there is adequate capital to achieve its business objectives in order to provide returns for shareholders and benefits for other stakeholders and to maintain a conservative 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 to it 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.

## 25. COMMITMENTS AND CONTINGENCIES

The Company is committed to future minimum payments under operating leases for software design tools and buildings and equipment as at November 30, 2009 as follows:

	<b>Design Tools</b>	<b>Buildings and Equipment</b>	<b>Total</b>
2010	1,095	2,915	4,010
2011	1,095	2,395	3,490
2012	1,095	2,300	3,395
2013	547	2,026	2,573
2014 and beyond	---	15,795	15,795
	<b>3,832</b>	<b>25,431</b>	<b>29,263</b>

The Company has committed to approximately \$10.7 million in purchase obligations as at November 30, 2009, of which \$0.6 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, \$10.2 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. Management 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, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

## 26. COMPARATIVE AMOUNTS

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