

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 under the
Securities Exchange Act of 1934

For the month of: **November 2009**
Commission File Number: **1-8139**

Zarlink Semiconductor Inc.
(Name of Registrant)

400 March Road
Ottawa, Ontario, Canada K2K 3H4
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- _____

On November 2, 2009, Zarlink Semiconductor Inc. issued its financial statements and notes thereto for the three and six month periods ended September 25, 2009, as well as the related Management's Discussion and Analysis and CEO/CFO Certifications of Interim Filings filed on Form 52-109F2. This information is being furnished as Exhibits 99.1 through 99.3 to this report and incorporated herein by reference.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Consolidated Financial Statements for the three and six month periods ended September 25, 2009, and September 26, 2008, and the notes thereto.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and six month periods ended September 25, 2009, compared to the three and six month periods ended September 26, 2008.
99.3	CEO/CFO Certifications of Interim Filings filed on Form 52-109F2.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Zarlink Semiconductor Inc.

Dated: November 2, 2009

By: /s/ Andre Levasseur
Andre Levasseur
Senior Vice President of Finance and
Chief Financial Officer

ZARLINK SEMICONDUCTOR INC.

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"Zarlink", the "Corporation" and the "Company" refer to Zarlink Semiconductor Inc. and its consolidated subsidiaries, unless otherwise indicated.

Zarlink reports its financial accounts in U.S. dollars. All financial information and references to "\$" and "dollars", are expressed in U.S. dollars unless otherwise stated. For periods ended on or prior to March 27, 2009, Zarlink reported financial information expressed in millions of U.S. dollars unless otherwise stated. Comparative figures have been restated in thousands of U.S. dollars, unless otherwise stated, so as to conform to the presentation adopted in Fiscal 2010.

Applicable foreign exchange rates used in the translation of foreign currency balances and transactions are based on noon rates from the Bank of Canada website: <http://www.bankofcanada.ca/en/rates/exchange.html>.

CONSOLIDATED FINANCIAL STATEMENTS

Zarlink Semiconductor Inc.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except share amounts, U.S. GAAP)
(Unaudited)

	<u>Sept. 25,</u> <u>2009</u>	<u>March 27,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55,706	\$ 45,006
Restricted cash and cash equivalents	15,455	13,145
Trade accounts receivable – less allowance for doubtful accounts of \$Nil (March 27, 2009 – \$Nil)	23,209	24,556
Other accounts receivable – less allowance for doubtful accounts of \$172 (March 27, 2009 – \$632)	4,568	4,300
Inventories – net	30,344	27,821
Prepaid expenses and other	2,998	2,681
Current assets held for sale	1,935	1,935
	134,215	119,444
Fixed assets – net of accumulated depreciation of \$46,037 (March 27, 2009 – \$47,156)	11,803	12,530
Deferred income tax assets – net	5,723	5,800
Intangible assets – net	45,477	49,106
Other assets	2,283	2,655
	\$199,501	\$189,535
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 12,513	\$ 12,018
Employee-related payables	8,918	9,478
Income and other taxes payable	657	482
Current portion of provisions for exit activities	1,826	3,645
Other accrued liabilities	6,972	6,454
Deferred credits	2,776	861
Deferred income tax liabilities – current portion	31	28
	33,693	32,966
Long-term debt – convertible debentures	64,923	57,203
Long-term portion of provisions for exit activities	558	200
Pension liabilities	17,075	14,690
Deferred income tax liabilities – long-term portion	31	28
Long-term accrued income taxes	2,350	2,408
Other long-term liabilities	833	830
	119,463	108,325
Redeemable preferred shares, unlimited shares authorized; non-voting; 1,014,400 shares issued and outstanding (March 27, 2009 – 1,059,200)	12,984	13,558
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Common shares, unlimited shares authorized; no par value; 122,425,682 shares issued and outstanding (March 27, 2009 – 122,425,682)	738,818	738,818
Additional paid-in capital	34,526	33,969
Deficit	(670,611)	(669,872)
Accumulated other comprehensive loss	(35,679)	(35,263)
	67,054	67,652
	\$199,501	\$189,535

(See accompanying notes to the consolidated financial statements)

Zarlink Semiconductor Inc.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(In thousands of U.S. dollars, except per share amounts, U.S. GAAP)
(Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Sept. 25, 2009</u>	<u>Sept. 26, 2008</u>	<u>Sept. 25, 2009</u>	<u>Sept. 26, 2008</u>
Revenue	\$53,596	\$61,827	\$ 107,204	\$ 122,338
Cost of revenue	26,665	31,250	53,410	64,171
Gross margin	<u>26,931</u>	<u>30,577</u>	<u>53,794</u>	<u>58,167</u>
Expenses:				
Research and development ("R&D")	10,601	11,218	20,137	23,158
Selling and administrative ("S&A")	10,124	13,626	20,417	26,083
Amortization of intangible assets	1,803	1,846	3,628	3,692
Contract impairment	-	-	809	-
Recovery of current asset	(768)	-	(768)	-
Gain on sale of assets	-	-	-	(936)
	<u>21,760</u>	<u>26,690</u>	<u>44,223</u>	<u>51,997</u>
Operating income	5,171	3,887	9,571	6,170
Loss on repurchase of convertible debentures	(316)	-	(316)	-
Interest income	43	349	88	716
Interest expense	(973)	(1,145)	(1,876)	(2,315)
Amortization of debt issue costs	(160)	(184)	(320)	(368)
Foreign exchange gain (loss)	(2,999)	1,940	(6,879)	1,618
Net income before income taxes	766	4,847	268	5,821
Income tax recovery (expense)	(46)	2,385	(64)	2,511
Net income	<u>\$ 720</u>	<u>\$ 7,232</u>	<u>\$ 204</u>	<u>\$ 8,332</u>
Net income (loss) attributable to common shareholders after preferred share dividends and premiums on preferred share repurchases	<u>\$ 135</u>	<u>\$ 6,566</u>	<u>\$ (870)</u>	<u>\$ 6,938</u>
Net income (loss) per common share: Basic and diluted	<u>\$ 0.00</u>	<u>\$ 0.05</u>	<u>\$ (0.01)</u>	<u>\$ 0.05</u>
Weighted average number of common shares outstanding (thousands):				
Basic	<u>122,426</u>	<u>125,580</u>	<u>122,426</u>	<u>126,412</u>
Diluted	<u>123,510</u>	<u>157,723</u>	<u>122,426</u>	<u>158,555</u>

(See accompanying notes to the consolidated financial statements)

Zarlink Semiconductor Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars, U.S. GAAP)
(Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Sept. 25, 2009</u>	<u>Sept. 26, 2008</u>	<u>Sept. 25, 2009</u>	<u>Sept. 26, 2008</u>
CASH PROVIDED BY (USED IN)				
Operating activities:				
Net income	\$ 720	\$ 7,232	\$ 204	\$ 8,332
Depreciation of fixed assets	949	1,164	1,925	2,383
Amortization of other assets	1,963	2,030	3,948	4,060
Stock compensation expense	325	490	688	1,000
Other non-cash changes in operating activities	2,665	(1,186)	7,055	(1,636)
Deferred income taxes	(71)	996	83	933
Decrease (increase) in working capital:				
Trade accounts and other receivables	2,692	(2,943)	1,079	(5,745)
Inventories	(878)	610	(2,523)	1,068
Prepaid expenses and other	(247)	235	(317)	1,569
Payables and other accrued liabilities	(796)	(1,916)	(1,879)	(4,778)
Deferred credits	1,898	2,174	1,915	1,941
Total	<u>9,220</u>	<u>8,886</u>	<u>12,178</u>	<u>9,127</u>
Investing activities:				
Expenditures for fixed assets	(411)	(634)	(986)	(2,264)
Proceeds from disposal of fixed assets	-	11	-	984
Total	<u>(411)</u>	<u>(623)</u>	<u>(986)</u>	<u>(1,280)</u>
Financing activities:				
Repurchase of long-term debt	(13)	-	(13)	-
Payment of dividends on preferred shares	(466)	(519)	(943)	(1,085)
Repurchase of preferred shares	(433)	(440)	(705)	(890)
Repurchase of common shares	-	(980)	-	(1,820)
Total	<u>(912)</u>	<u>(1,939)</u>	<u>(1,661)</u>	<u>(3,795)</u>
Effect of currency translation on cash	<u>672</u>	<u>(559)</u>	<u>1,169</u>	<u>(541)</u>
Increase in cash and cash equivalents	8,569	5,765	10,700	3,511
Cash and cash equivalents, beginning of period	<u>47,137</u>	<u>40,107</u>	<u>45,006</u>	<u>42,361</u>
Cash and cash equivalents, end of period	<u>\$55,706</u>	<u>\$45,872</u>	<u>\$55,706</u>	<u>\$45,872</u>

(See accompanying notes to the consolidated financial statements)

Zarlink Semiconductor Inc.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars, U.S. GAAP)
(Unaudited)

	Common Shares		Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number (thousands)	Amount				
Balance, March 28, 2008	127,346	\$ 768,509	\$ 5,104	\$ (638,389)	\$ (35,781)	\$ 99,443
Net income	-	-	-	1,100	-	1,100
Foreign currency translation adjustment	-	-	-	-	29	29
Minimum pension liability	-	-	-	-	-	-
Comprehensive income	-	-	-	-	-	\$ 1,129
Common share repurchase	(900)	(5,431)	4,591	-	-	(840)
Stock compensation expense	-	-	510	-	-	510
Preferred share dividends	-	-	-	(566)	-	(566)
Premiums on preferred share repurchases	-	-	(162)	-	-	(162)
Balance, June 27, 2008	126,446	\$ 763,078	\$ 10,043	\$ (637,855)	\$ (35,752)	\$ 99,514
Net income	-	-	-	7,232	-	7,232
Foreign currency translation adjustment	-	-	-	-	(41)	(41)
Minimum pension liability	-	-	-	-	348	348
Comprehensive income	-	-	-	-	-	\$ 7,539
Common share repurchase	(1,020)	(6,156)	5,176	-	-	(980)
Stock compensation expense	-	-	490	-	-	490
Preferred share dividends	-	-	-	(519)	-	(519)
Premiums on preferred share repurchases	-	-	(140)	-	-	(140)
Balance, Sept. 26, 2008	125,426	\$ 756,922	\$ 15,569	\$ (631,142)	\$ (35,445)	\$ 105,904
Balance, March 27, 2009	122,426	\$ 738,818	\$ 33,969	\$ (669,872)	\$ (35,263)	\$ 67,652
Net loss	-	-	-	(516)	-	(516)
Foreign currency translation adjustment	-	-	-	-	(28)	(28)
Minimum pension liability	-	-	-	-	(94)	(94)
Comprehensive loss	-	-	-	-	-	\$ (638)
Stock compensation expense	-	-	363	-	-	363
Preferred share dividends	-	-	-	(477)	-	(477)
Premium on preferred share repurchases	-	-	(12)	-	-	(12)
Balance, June 26, 2009	122,426	\$ 738,818	\$ 34,320	\$ (670,865)	\$ (35,385)	\$ 66,888
Net income	-	-	-	720	-	720
Foreign currency translation adjustment	-	-	-	-	(4)	(4)
Minimum pension liability	-	-	-	-	(290)	(290)
Comprehensive income	-	-	-	-	-	\$ 426
Stock compensation expense	-	-	325	-	-	325
Preferred share dividends	-	-	-	(466)	-	(466)
Premiums on preferred share repurchases	-	-	(119)	-	-	(119)
Balance, Sept. 25, 2009	122,426	\$ 738,818	\$ 34,526	\$ (670,611)	\$ (35,679)	\$ 67,054

(See accompanying notes to the consolidated financial statements)

Zarlink Semiconductor Inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In U.S. dollars, U.S. GAAP)
(Unaudited)

1. Basis of Presentation

These unaudited interim consolidated financial statements have been prepared by Zarlink Semiconductor Inc. ("Zarlink" or "the Company") in United States ("U.S.") dollars, unless otherwise stated, and in accordance with accounting principles generally accepted in the U.S. for interim financial statements. Accordingly, these interim consolidated financial statements do not include all information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management of the Company, the unaudited interim consolidated financial statements reflect all adjustments, which consist of normal and recurring adjustments, necessary to present fairly the financial position at September 25, 2009, and the results of operations and cash flows of the Company for the three and six month periods ended September 25, 2009, and September 26, 2008, in accordance with U.S. GAAP, applied on a consistent basis. The consolidated financial statements include the accounts of Zarlink and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

The balance sheet at March 27, 2009, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 20-F for the year ended March 27, 2009. The Company's Fiscal year-end is the last Friday in March.

The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or future periods.

The Company has aggregated its operating segments under the criteria set forth by the Segment Reporting Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), and is viewed as a single reporting segment.

2. Recently Issued Accounting Pronouncements

In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a Replacement of FASB Statement No. 162* (the "Codification", or "FASB ASC"). The FASB ASC will be the single source of authoritative non-governmental U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB ASC is effective for interim and annual periods ending after September 15, 2009. All pre-Codification GAAP are superseded as described in FASB Statement No. 168. All other accounting literature not included in the Codification is non-authoritative. The Company adopted the Codification in the second quarter of Fiscal 2010. The Codification did not have a material impact on the Company's consolidated financial statements. The Company has updated references to the FASB ASC, as appropriate.

In October 2009, the FASB issued Accounting Standards Update ("ASU"), 2009-14, to address concerns raised by constituents relating to the accounting for revenue arrangements that contain tangible products and software. The amendments in this ASU change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality will no longer be within the scope of guidance in the Software – Revenue Recognition Subtopic of the FASB ASC. The amendments in this ASU will be effective prospectively for revenue arrangements entered into or materially modified in Fiscal Years beginning on or after June 15, 2010. The Company is required to adopt this ASU in Fiscal 2011. The Company is currently evaluating the effect that the adoption of this ASU will have on its consolidated financial statements.

In October 2009, the FASB issued ASU, 2009-13, to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. This ASU provides amendments to the criteria in the Revenue Recognition – Multiple-Element Arrangements

Subtopic of the FASB ASC. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments in this ASU will be effective prospectively for revenue arrangements entered into or materially modified in Fiscal Years beginning on or after June 15, 2010. The Company is required to adopt this ASU in Fiscal 2011. The Company is currently evaluating the effect that the adoption of this ASU will have on its consolidated financial statements.

In May 2009, the FASB issued the Subsequent Events Topic of the FASB ASC. This Topic establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Topic sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This Topic is effective for interim or annual periods ending after June 15, 2009. The Company adopted this Topic in the first quarter of Fiscal 2010. The adoption of this Topic did not have a material impact on the Company's financial position or results of operations.

In April 2009, the FASB issued an amendment to the Financial Instruments Topic of the FASB ASC, which requires disclosures about fair value of financial instruments in interim as well as annual financial statements. This amended Topic is effective for periods ending after June 15, 2009. The Company adopted this amended Topic in the first quarter of Fiscal 2010. The adoption of this Topic did not have a material impact on the Company's financial position or results of operations.

In December 2008, the FASB issued additional guidance on the Defined Benefit Plans Topic of the FASB ASC, as it relates to employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. This guidance is effective for financial statements issued for Fiscal Years ending after December 15, 2009. The Company is required to adopt this Topic in Fiscal 2010. The adoption of this will increase the disclosures in the Fiscal 2010 year-end financial statements related to the assets of the Company's defined benefit pension plans.

In April 2008, the FASB issued an amendment to the General Intangibles Other Than Goodwill Topic of the FASB ASC. This amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The Company adopted this amendment in the first quarter of Fiscal 2010. The requirements of the amendment are to be applied prospectively to intangible assets acquired after the effective date. As a result, the adoption did not have a material impact on the Company's financial position or results of operations.

In September 2006, the FASB issued the Fair Value Measurements and Disclosure Topic of the FASB ASC. This Topic defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. In February 2008, the FASB amended this Topic to exclude fair value requirements on leases and delayed the effective date for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to Fiscal Years beginning after November 15, 2008. The Company adopted certain provisions of the Topic in the first quarter of Fiscal 2009. In the first quarter of Fiscal 2010, the Company adopted the provisions previously deferred by the Topic, relating to non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis. The adoption of these provisions did not have a material impact on the Company's financial position or results of operations.

In December 2007, the FASB issued the Business Combinations Topic of the FASB ASC. This Topic significantly changes the accounting for acquisitions, both at the acquisition date and in subsequent periods. In April 2009, the FASB issued an amendment to this Topic, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This Topic is effective for public companies for Fiscal Years beginning on or after December 15, 2008. The Company adopted this amended Topic in the first quarter of Fiscal 2010, and is applied on a prospective basis. The adoption did not have a material impact on the Company's financial position or results of operations.

3. Derivatives and Hedging Activities

The Company operates globally, and therefore incurs expenses in currencies other than its U.S. dollar functional currency. The Company utilizes certain derivative financial instruments, including forward and option contracts, to enhance its ability to manage foreign currency exchange rate risk that exists as part of its ongoing operations. The

Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Company does not use derivative contracts for speculative purposes.

In accordance with the Derivatives and Hedging Topic of the FASB ASC, all derivative instruments are carried on the Company's balance sheet at fair value, and are reflected in prepaid expenses or other accrued liabilities. The Company primarily designates derivatives as cash flow hedges. When the derivative is designated as a cash flow hedge, the effective portions of changes in fair value of the derivative are recorded in Other Comprehensive Income ("OCI") and are recognized in net income (loss) against the hedged item when that hedged item affects net income (loss). The gains and losses associated with ineffective portions of the derivative, as well as any derivatives not designated as part of a hedging relationship, or terminated hedges, are recognized in net income (loss) immediately within the foreign exchange line item of the Statement of Income (Loss).

At September 25, 2009 and March 27, 2009, the Company held no derivative financial instruments.

4. Fair Value Measurements

The Company adopted the Fair Value Measurements and Disclosure Topic of the FASB ASC as of March 29, 2008. This Topic applies to certain assets and liabilities that are being measured and reported on a fair value basis. The Topic defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosure about fair value measurements. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Topic requires that financial assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Assets/Liabilities Measured at Fair Value on a Recurring Basis

Fair Value Measurement at Reporting Date (in thousands)

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
September 25, 2009				
Assets:				
Restricted cash and cash equivalents	\$15,455	\$ -	\$ -	\$15,455
	<u>\$15,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$15,455</u>
March 27, 2009				
Assets:				
Restricted cash and cash equivalents	\$13,145	\$ -	\$ -	\$13,145
	<u>\$13,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,145</u>

The Company's financial instruments include cash and cash equivalents, restricted cash and cash equivalents, trade and other accounts receivable, trade accounts payable, other accrued liabilities, foreign exchange forward and option contracts ("foreign exchange contracts"), redeemable preferred shares and 6.0% Convertible Unsecured Subordinated Debentures ("convertible debentures"). Due to the short-term maturity of cash and cash equivalents, restricted cash and cash equivalents, trade and other accounts receivable, trade accounts payable and other accrued liabilities, the carrying values of these instruments are reasonable estimates of their fair value.

The fair value of the foreign exchange contracts reflect the estimated amount that the Company would receive or would have been required to pay if forced to settle all outstanding contracts at period-end. This fair value represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows. The fair value of all the Company's financial instruments approximates their carrying value with the exception of the convertible debentures and redeemable preferred shares.

Fair value of financial instruments not accounted for at fair value but that are traded in active markets are as follows (in thousands):

	<u>Carrying Value</u>	<u>Fair Value</u>
September 25, 2009		
Convertible debentures	\$64,923	\$50,803
Redeemable preferred shares	\$12,984	\$18,634
March 27, 2009		
Convertible debentures	\$57,203	\$25,741
Redeemable preferred shares	\$13,558	\$8,975

See also Note 9 and Note 12 for additional disclosure on these balance sheet items.

5. Inventories

Inventories (net of obsolescence provisions of \$8.1 million and \$7.6 million at September 25, 2009 and March 27, 2009, respectively) consist of the following (in thousands):

	<u>Sept. 25, 2009</u>	<u>March 27, 2009</u>
Raw materials	\$ 3,735	\$ 2,622
Work-in-process	20,323	16,876
Finished goods	6,286	8,323
	<u>\$30,344</u>	<u>\$27,821</u>

6. Intangible Assets

The Company acquired the optical in/out ("I/O") business of Primarion Inc. ("Primarion") in Fiscal 2007 and the shares of Legerity Holdings Inc. ("Legerity") in Fiscal 2008. The intangible asset values related to these acquisitions are as follows (in thousands):

	<u>Sept. 25, 2009</u>			<u>March 27, 2009</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Proprietary technology	\$ 38,280	\$ (10,711)	\$27,569	\$ 38,280	\$ (8,281)	\$ 29,999
Customer relationships	23,115	(5,207)	17,908	23,115	(4,031)	19,084
Non-competition agreements	520	(520)	-	520	(497)	23
Total	<u>\$ 61,915</u>	<u>\$ (16,438)</u>	<u>\$45,477</u>	<u>\$ 61,915</u>	<u>\$(12,809)</u>	<u>\$ 49,106</u>

Total amortization expense in the three and six month periods ended September 25, 2009 was \$1.8 million and \$3.6 million, respectively, as compared to \$1.8 million and \$3.7 million for the same periods in Fiscal 2009.

Assuming no subsequent impairment of the underlying assets, the estimated future amortization expense related to these intangible assets is expected to be as follows: 2010 - \$3.6 million; 2011 - \$7.1 million; 2012 - \$7.1 million; 2013 - \$7.1 million; 2014 - \$6.9 million; thereafter - \$13.7 million.

The acquired intangible assets are being amortized on a straight-line basis over their weighted average useful lives as follows:

Proprietary technology	4 to 8 years
Customer relationships	6 to 10 years
Non-competition agreements	3 years
Total (weighted average life)	8.6 years

7. Provisions for Exit Activities

Workforce Reductions

The Company did not record any restructuring charges during the second quarter of Fiscal 2010.

During the fourth quarter of Fiscal 2009, as a result of the economic slowdown, the Company announced planned restructuring actions to help maintain profitability by reducing its workforce by 6-8 percent. In connection with this plan, in the first quarter of Fiscal 2010, the Company recorded charges of \$0.2 million. The remaining severance provision balance of \$1.1 million as at September 25, 2009 related to this plan is expected to be paid within the next year, with no additional significant severance expenses relating to this plan expected in future periods. In connection with the activities related to this plan, since initiation, a total of \$4.5 million has been incurred by the Company to September 25, 2009.

The Company also continued to finalize the integration plan of Legerity which was announced in the second quarter of Fiscal 2008 as a result of the Legerity acquisition. The remaining severance provision balance of \$0.1 million as at September 25, 2009 related to this plan is expected to be paid out by the end of the third quarter of Fiscal 2010, with no additional significant severance expenses expected under this plan in future periods. In connection with the activities related to this plan, since initiation, a total of \$8.3 million has been incurred by the Company to September 25, 2009.

Lease and Contract Settlement

The Company did not incur any charges related to lease and contract settlements in the second quarter of Fiscal 2010.

As part of the planned restructuring actions announced in the fourth quarter of Fiscal 2009, in the first quarter of Fiscal 2010, the Company incurred an additional \$0.8 million in costs relating to idle space under lease contract, primarily due to workforce reductions in its Austin, Texas facility.

Restructuring Provisions Continuity

The following table summarizes the continuity of these restructuring provisions for the three and six month periods ended September 25, 2009 (in thousands):

	<u>Workforce Reduction</u>	<u>Lease and Contract Settlement</u>	<u>Total</u>
Balance, March 27, 2009	\$ 3,143	\$ 702	\$ 3,845
Charges	202	809	1,011
Cash draw-downs	(2,001)	(149)	(2,150)
Reversals	(11)	-	(11)
Non-cash changes	130	5	135
Balance, June 26, 2009	1,463	1,367	2,830
Charges	-	-	-
Cash draw-downs	(295)	(234)	(529)
Reversals	-	-	-
Non-cash changes	51	32	83
Balance, September 25, 2009	1,219	1,165	2,384
Less: Long-term portion	-	(558)	(558)
Current portion of provisions for exit activities as at September 25, 2009	<u>\$ 1,219</u>	<u>\$ 607</u>	<u>\$ 1,826</u>

The lease and contract settlements of \$1.2 million relate to the plans implemented from Fiscal 2002 to 2009, and will be paid over the lease terms, unless settled earlier. The remaining severance payments of \$1.2 million are expected to be paid within the next year.

8. Sale of Assets

On May 20, 2008, the Company sold excess land in Swindon, U.K. The proceeds from the sale of land were \$1.0 million (0.5 million British pounds), resulting in a gain on sale of \$0.9 million, net of transaction costs. No gains or losses on the sale of assets were recorded in the first or second quarters of Fiscal 2010.

9. Long-Term Debt – Convertible Debentures

The Company has convertible debentures with a carrying amount of \$64.9 million (Cdn \$70.9 million), maturing on September 30, 2012, bearing interest at 6.0% per annum and paid semi-annually. The Company may, at its option, elect to satisfy its obligation to pay the principal or interest amount of the convertible debentures, in whole or part, by the issuance of freely tradable common shares of the Company.

The convertible debentures are convertible under certain conditions, at the option of the holder, into a maximum of 28.9 million common shares at a conversion price of \$2.24 (Cdn \$2.45) per share.

As a result of the convertible debentures being denominated in Canadian dollars, while the Company's functional currency is the U.S. dollar, the Company is required to revalue the convertible debentures into U.S. dollars at the period-end exchange rate. As a result of this revaluation, the Company incurs non-cash foreign currency gains or losses.

In July 2009, the Company completed a formal issuer bid, resulting in the repurchase of \$18,000 (Cdn \$21,000) principal amount of the convertible debentures for a total of \$13,000 (Cdn \$15,000). The Company expensed \$0.3 million of costs related to the formal issuer bid, resulting in a loss on repurchase of \$0.3 million, in the second quarter of Fiscal 2010.

10. Guarantees

Performance guarantees are contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an obligating agreement. The Company has an outstanding performance guarantee related to a managed services agreement ("project agreement") undertaken by the Communications Systems business ("Systems"), which is now operated as Mitel Networks Corporation ("Mitel"). This performance guarantee remained with the Company following the sale of the Systems business. The project agreement and the Company's performance guarantee extend until July 31, 2012. The terms of the project agreement continue to be fulfilled by Mitel. The maximum potential amount of future

undiscounted payments the Company could be required to make under the guarantee, at September 25, 2009, was \$31.9 million (20.0 million British pounds), assuming the Company is unable to secure the completion of the project. The Company was not aware of any factors as at September 25, 2009 that would prevent the project's completion under the terms of the agreement. In the event that Mitel is unable to fulfill the commitments of the project agreement, the Company believes that an alternate third-party contractor could be secured to complete the agreement requirements. The Company has not recorded a liability in its consolidated financial statements associated with this guarantee.

In connection with the sale of the Systems business, the Company provided to the purchaser certain income tax indemnities with an indefinite life and with no maximum liability for the taxation periods up to February 16, 2001, the closing date of the sale. As at September 25, 2009, the Company does not expect these tax indemnities to have a material impact on its consolidated financial statements.

The Company periodically has entered into agreements with customers and suppliers that include limited intellectual property indemnifications that are customary in the industry. These guarantees generally require the Company to indemnify the other party for certain damages and costs incurred as a result of third party intellectual property claims arising from these transactions. The nature of the intellectual property indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers and suppliers. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

The Company records a liability based on its assessment of current warranty claims outstanding and historical experience. The Company accrues for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. As at September 25, 2009, the warranty accrual was \$20,000 (March 27, 2009 - \$50,000).

11. Commitments and Contingencies

The Company has credit facilities of \$1.4 million (Cdn \$1.5 million) and had letters of credit outstanding as at September 25, 2009 of \$1.3 million (March 27, 2009 - \$1.1 million), related to the Company's Supplementary Executive Retirement Plan ("SERP"). These letters of credit expire within three months.

In addition, the Company has pledged \$15.5 million (107.2 million Swedish krona) as security toward the Swedish pension liability of \$17.4 million (121.0 million Swedish krona). This amount has been presented as restricted cash and cash equivalents.

The Company is a defendant in a number of lawsuits and party to a number of other claims or potential claims that have arisen in the normal course of its business. The Company recognizes a provision for estimated loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In the opinion of the Company, any monetary liabilities or financial impacts of such lawsuits and claims or potential claims that exceed the amounts already recognized would not be material to the consolidated financial position of the Company or the consolidated results of its operations.

The Company has recorded provisions for income taxes and valuation allowances related to its estimate of tax expenses and recoveries. Certain taxation years are still subject to audit by authorities in various jurisdictions, which could result in adjustments to the Company's tax provisions. Such adjustments could have a material impact on the consolidated financial position of the Company or the consolidated results of its operations.

12. Redeemable Preferred Shares

During the three and six months ended September 25, 2009, the Company purchased 24,500 and 44,800 preferred shares, and cancelled 30,800 and 44,800 preferred shares, respectively. During the same periods in Fiscal 2009, the Company purchased and cancelled 22,400 and 48,800 preferred shares, respectively.

During the second quarter of Fiscal 2010, the Company declared and paid dividends on its redeemable preferred shares of \$0.5 million, resulting in a cumulative dividend of \$0.9 million for the first half of Fiscal 2010. This was based on first and second quarter Fiscal 2010 dividends of \$0.46 (Cdn \$0.50), and \$0.46 (Cdn \$0.50) per share, respectively. In the second quarter of Fiscal 2009, the Company paid dividends of \$0.5 million, resulting in a cumulative dividend of \$1.1 million in the first half of Fiscal 2009. This was based on first and second quarter Fiscal 2009 dividends of \$0.49 (Cdn \$0.50), and \$0.48 (Cdn \$0.50) per share, respectively. See also Note 4 for fair value disclosure.

13. Capital Stock

- a) The Company has neither declared nor paid any dividends on its common shares.
- b) A summary of the Company's stock option activity is as follows:

	Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008
Outstanding Options:		
Balance, beginning of period	13,242,756	12,390,625
Granted	205,000	290,000
Exercised	-	-
Forfeited	(491,651)	(114,102)
Expired	(188,205)	(535,942)
Balance, end of period	<u>12,767,900</u>	<u>12,030,581</u>

As at September 25, 2009, there were 1,694,413 (March 27, 2009 - 1,219,557) options available for grant under the stock option plan approved by the Company's shareholders on December 7, 2001. The exercise price is calculated in accordance with the plan requirements as the average market price for the five trading days preceding the date of the grant. The exercise price of outstanding stock options ranges from \$0.23 to \$4.91 per share with exercise periods extending to August 2015. The exercise price of stock options issued in Canadian dollars was translated at the period-end U.S. dollar exchange rate.

- c) The net income (loss) per common share figures were calculated based on the net income (loss) after the deduction of preferred share dividends and premiums on the repurchase of preferred shares, and using the weighted average number of shares outstanding during the respective periods. Diluted earnings per share is computed in accordance with the treasury stock method based on the average number of common shares and dilutive common share equivalents.

Net income (loss) attributable to common shareholders is computed as follows (in thousands):

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Net income, as reported	\$ 720	\$ 7,232	\$ 204	\$ 8,332
Dividends on preferred shares	(466)	(520)	(943)	(1,086)
Premiums on repurchase of preferred shares	(119)	(146)	(131)	(308)
Net income (loss) attributable to common shareholders	<u>\$ 135</u>	<u>\$ 6,566</u>	<u>\$ (870)</u>	<u>\$ 6,938</u>
Interest expense on convertible debt after tax	-	777	-	1,569
Issue costs on convertible debt after tax	-	125	-	250
Net income (loss) attributable to common shareholders on a fully diluted basis	<u>\$ 135</u>	<u>\$ 7,468</u>	<u>\$ (870)</u>	<u>\$ 8,757</u>

The following table summarizes the common shares and dilutive common share equivalents used in the computation of the Company's basic and diluted net income per common share. Net income per common share is computed using the weighted average common shares outstanding assuming dilution. Net loss per common share is computed using the weighted average number of common shares and excludes the dilutive effect of stock options, as their effect is anti-dilutive. For the three and six month periods ended September 25, 2009, all common share equivalents related to the Company's convertible debentures have been excluded from the computation of diluted income (loss) per share because they were anti-dilutive.

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Weighted average common shares outstanding	122,425,682	125,579,968	122,425,682	126,412,380
Dilutive effect of stock options	1,084,406	-	-	-
Dilutive effect of convertible debt	-	32,142,857	-	32,142,857
Weighted average common shares outstanding, assuming dilution	<u>123,510,088</u>	<u>157,722,825</u>	<u>122,425,682</u>	<u>158,555,237</u>

The following stock options were excluded from the computation of common share equivalents because the options were anti-dilutive due to the average share price for the periods being less than the exercise price of the options:

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Number of outstanding options	10,326,338	12,030,581	10,326,338	12,030,581
Average exercise price per share	\$ 1.94	\$ 2.31	\$ 1.94	\$ 2.31

During the first six months ended September 25, 2009, an additional 792,982 options were excluded from the computation of diluted earnings per share as a result of the net loss attributable to common shareholders for the period.

The following common share equivalents relating to the Company's convertible debentures were excluded from the computation of diluted income (loss) per share because they were anti-dilutive:

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Number of common share equivalents upon conversion of debentures	28,925,871	-	28,929,262	-
Conversion price per share ⁽¹⁾	\$ 2.22	\$ -	\$ 2.15	\$ -

(1) Conversion price is fixed at Cdn \$2.45. Amount is calculated at the average Cdn/U.S. exchange rate for the quarter.

d) Share repurchase program

During the first quarter of Fiscal 2010, the Company renewed its common share buyback program. The share buyback program allows the Company to purchase from May 29, 2009 to May 28, 2010, up to 11,971,633 common shares, or about 10% of its public float as of May 25, 2009. The bid does not commit the Company to make any share repurchases. The timing and exact number of common shares purchased under the bid will be at the Company's discretion, will depend on market conditions, and may be suspended or discontinued at any time. All shares purchased by the Company under the bid will be cancelled. No share repurchases were made during the first or second quarters of Fiscal 2010.

During Fiscal 2009, in the three and six months ended September 26, 2008, the Company repurchased and cancelled 1,020,000 and 1,920,000 shares, with an aggregate purchase price of \$1.0 million and \$1.8 million, respectively. The previous normal course issuer bid expired on May 25, 2009, and a total of 4,920,000 common shares were repurchased and cancelled under the bid.

Details of the share repurchases are as follows (in thousands except number of shares and per share amounts):

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Number of shares	-	1,020,000	-	1,920,000
Aggregate purchase price	\$ -	\$ 980	\$ -	\$ 1,820
Weighted average cost per share	\$ -	\$ 0.92	\$ -	\$ 0.93

The difference between the average carrying value and the amount paid to acquire the shares has been recorded to additional paid-in capital.

14. Stock-Based Compensation

Effective April 1, 2006, the Company adopted the Stock Compensation Topic of the FASB ASC. This Topic requires that stock-based awards to employees be recorded at fair value. The fair value of the Company's stock-based awards to employees was estimated using the Black-Scholes-Merton option pricing model. This model considers, among other factors, share prices, option prices, share price volatility, the risk-free interest rate, and expected option lives. In addition, this Topic requires that the Company estimate the number of stock options that will be forfeited. Expected share price volatility is estimated using historical data on volatility of the Company's stock. Expected option lives and forfeiture rates are estimated using historical data on employee exercise patterns. The risk-free interest rate is based on the yield of government bonds at the time of calculating the expense and for the period of the expected option life.

Stock compensation expense is also recorded in circumstances where the terms of a previously fixed stock option were modified. Previous stock option modifications have included the extension of option lives for terminated employees and changes in vesting periods. The estimated fair value of the options is amortized to expense over the requisite service period of the awards.

Stock compensation expense has been recorded as follows (in thousands):

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Selling and administrative	\$ 266	\$ 402	\$ 564	\$ 820
Research and development	42	64	89	130
Cost of revenue	17	24	35	50
	<u>\$ 325</u>	<u>\$ 490</u>	<u>\$ 688</u>	<u>\$ 1,000</u>

The estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

Stock compensation expense has been determined using the Black-Scholes-Merton option pricing model with the following weighted average assumptions for the three and six month periods ended September 25, 2009, and September 26, 2008:

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Risk free interest rate	2.52%	3.12%	2.52%	3.15%
Dividend yield	Nil	Nil	Nil	Nil
Volatility factor of the expected market price of the Company's common stock	49.4%	44.6%	49.4%	44.6%
Weighted average expected life of the options	5.0 years	4.6 years	5.0 years	4.6 years

Using the Black-Scholes-Merton option-pricing model, the weighted average fair value of the stock options granted during the three and six month periods ended September 25, 2009 was \$0.31 and \$0.30, respectively, as compared to \$0.37 and \$0.37 for the same periods last year.

15. Government Assistance

The Company accounts for government grants by recognizing the benefit as a reduction in the related expense in the period incurred when there is reasonable assurance that the grant will be received.

During Fiscal 2007, the Company entered into an agreement with the Government of Canada through Technology Partnerships Canada ("TPC"), intended to provide partial funding for one of the Company's research and development projects. This agreement has provided funding for reimbursement of up to \$6.7 million (Cdn \$7.2 million) of eligible expenditures. To date, the Company has recognized reimbursement of expenses under this agreement totaling \$6.7 million and, therefore, will not be recognizing further reimbursements under this agreement in future periods. During the three and six month periods ended September 25, 2009, the Company's research and development expenses were reduced by \$Nil and \$0.7 million, respectively, related to this agreement. During the three and six month periods ended September 26, 2008, the Company's research and development expenses were reduced by \$0.6 million and \$1.2 million, respectively, related to this agreement. The TPC grant is repayable in the form of royalties of 2.61% on certain of the Company's revenues. Royalties are owing for the period from Fiscal 2007 to Fiscal 2016. If at the end of Fiscal 2016, the royalties meet or exceed \$13.0 million (Cdn \$14.2 million), the royalty period ceases. Otherwise, the royalty period will continue until cumulative royalties paid equal \$13.0 million (Cdn \$14.2 million) or until the end of Fiscal 2019, whichever is earlier. Royalty expense will be accrued in the period in which the related sales are recognized. As at September 25, 2009, accrued royalties related to this agreement were \$0.3 million (March 27, 2009 - \$0.3 million).

As part of the Company's research and development activities in the U.K. and Europe, the Company enters into research grant agreements with the U.K. government and the European Union. The agreements in place in Fiscal 2010 are for periods between 2-4 years in length and have a combined total allowable claim of \$1.2 million. For the three and six month periods ended September 25, 2009, the Company's research and development expenses were reduced by \$0.1 million and \$0.3 million, respectively, related to these agreements. This compares to \$0.1 million and \$0.2 million for the same periods in Fiscal 2009.

16. Income Taxes

Income tax expense of \$46,000 was recorded in the second quarter of Fiscal 2010 relating primarily to taxes payable in foreign jurisdictions. In the corresponding period in Fiscal 2009 the Company had an income tax recovery of \$2.4 million which included \$1.7 million related to the closure of tax audits and \$0.9 million related to recoveries in the period, offset by deferred taxes of \$0.2 million.

The Company recorded tax expense of \$64,000 for the six months ended September 25, 2009, as compared to a \$2.5 million tax recovery for the six months ended September 26, 2008. The income tax expense in Fiscal 2010 relates primarily to taxes payable in foreign tax jurisdictions. The recovery in the Fiscal 2009 period includes \$2.0 million in tax recoveries resulting from the closures of tax audits, and \$0.7 million of current tax recoveries net of \$0.2 of deferred tax expense.

The Company establishes a valuation allowance against deferred tax assets when management has determined that it is more likely than not that some or all of its deferred tax assets may not be realized. Based on historical taxable income and uncertainties relating to future taxable income over the periods in which the deferred tax assets are deductible, the Company has established a valuation allowance of \$251.2 million as at September 25, 2009 (March 27, 2009 – \$247.8 million). The change relates to movements in temporary timing differences, the utilization of losses in certain foreign jurisdictions offset by differences relating to changes in the foreign exchange rates between the Company's local tax reporting currencies and functional currency.

The Company continues to pursue the closure of outstanding audit issues with various governments. The settlement of any related uncertain tax positions ("UTPs") during the Fiscal Year will result in either the tax payment or derecognition of the UTPs. Based on the information currently available, the Company expects that the net unrecognized tax benefits will decrease by approximately \$0.2 million in the next twelve months due to the closing of audits for open tax years. During the six months ended September 25, 2009, the Company accrued \$Nil of interest and it derecognized \$0.3 million of UTPs previously recorded which were offset by a deferred tax asset in the same amount.

17. Pension Plans

The Company has defined benefit pension plans in Sweden and Germany.

As at September 25, 2009, the Swedish pension liability was \$17.4 million (121.0 million Swedish krona), comprised of \$14.5 million (100.4 million Swedish krona) as determined by the Pension Registration Institute, and an additional minimum pension liability of \$2.9 million as determined under the Retirement Benefits Topic of the FASB ASC. The pension plan is unfunded, however, as at September 25, 2009, \$15.5 million (107.2 million Swedish krona) in restricted cash and cash equivalents have been pledged to secure the Swedish pension liability.

As at March 27, 2009, the Swedish pension liability was \$15.0 million (122.3 million Swedish krona), comprised of \$12.4 million (\$101.3 million Swedish krona) as determined by the Pension Registration Institute, and an additional minimum pension liability of \$2.6 million as determined under the Retirement Benefits Topic of the FASB ASC.

As at September 25, 2009, the German pension liability of \$6.2 million (4.2 million euros) was insured with the Swiss Life Insurance Company. These insurance contracts of \$6.5 million (4.4 million euros) are recorded as a plan asset, and have been shown net of the pension liability. As the plan asset relates to insurance contracts, the Company does not control the investment strategy and thus cannot influence the return on investments. As at March 27, 2009, the German pension liability was \$5.5 million (4.1 million euros), with insurance contracts of \$5.8 million (4.4 million euros) recorded as a plan asset.

The Company also has an unfunded pension liability of \$0.3 million (March 27, 2009 - \$0.3 million) in the U.K. related to amounts owing to a former employee of the Company.

At the end of the second quarter of Fiscal 2010, the Company had net total pension liabilities of \$17.4 million, of which \$17.1 million is included in pension liabilities; \$0.6 million as current liabilities, included in employee-related payables; and \$0.3 million as a pension asset, included in other assets.

Net pension expense for the defined benefit plans was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Interest costs	\$ 249	\$ 265	\$ 424	\$ 607
Expected return on assets	(72)	(75)	(143)	(155)
Net pension expense	<u>\$ 177</u>	<u>\$ 190</u>	<u>\$ 281</u>	<u>\$ 452</u>

As of September 25, 2009, the Company made contributions to these pensions plans of \$24,000 (2009 - \$21,000).

18. Recovery of Current Asset

In Fiscal 2008, the Company sold its analog foundry in Swindon, U.K. to MHS Electronics U.K. Ltd. ("MHS"), a subsidiary of MHS Industries Group. At the time of sale, the Company agreed to prepay the purchase of certain wafers from MHS under a wafer supply agreement ("WSA") and enter into a transition services agreement ("TSA") under which a receivable balance was recorded. These items were recorded in current assets. In conjunction with this sale, the Company obtained two legal charges against the buildings sold to MHS. In January 2009, the Company was advised that MHS would be ceasing wafer supply to Zarlink from its Swindon analog foundry. In February 2009, MHS was placed into administration. Consequently, in the third quarter of Fiscal 2009, as the value of amounts receivable from MHS became most likely not recoverable, the Company recorded an impairment of \$3.0 million consisting of the remaining prepaid expense of \$2.2 million and the balance of the receivable of \$0.8 million. During the second quarter of Fiscal 2010, the Company received \$0.8 million relating to the prepaid expense from the MHS administrator and has, therefore, recorded the recovery in the period. In connection with this receipt, the Company no longer holds legal charges against the buildings previously sold to MHS. As the receipt of any further amounts owed from the MHS administrator remains uncertain, no additional recoveries have been recorded. However, in discussion with the administrator there is the possibility of an additional disbursement in the fourth quarter of Fiscal 2010.

19. Supplementary Cash Flow Information

The following table summarizes the Company's other non-cash changes in operating activities (in thousands):

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Foreign currency loss (gain) on convertible debentures	\$ 3,468	\$ (1,720)	\$ 7,740	\$ (1,256)
Foreign currency loss (gain) on cash and restricted cash	(2,334)	2,331	(3,477)	2,300
Loss on repurchase of convertible debentures	316	-	316	-
Change in pension liabilities	1,507	(1,763)	2,000	(1,763)
Contract impairment	-	-	809	-
Gain on sale of assets	-	-	-	(936)
Other	(292)	(34)	(333)	19
Other non-cash changes in operating activities	\$ 2,665	\$ (1,186)	\$ 7,055	\$ (1,636)

20. Subsequent Event

On October 30, 2009, the Toronto Stock Exchange ("TSX") approved a notice of intention to make a normal course issuer bid ("NCIB") permitting the Company to repurchase for cancellation up to Cdn\$7,076,400 in aggregate principal amount of its convertible debentures, being 10 percent of its public float of Cdn\$70,764,000 in aggregate principal amount of convertible debentures as of October 28, 2009. The Company plans to repurchase up to 10 percent of its public float of convertible debentures using available cash during a 12 month period from November 3, 2009 to November 2, 2010. The timing and exact number of convertible debentures purchased under the NCIB will be at the Company's discretion, will depend on market conditions, and may be suspended or discontinued at any time. All convertible debentures purchased by the Company under the NCIB will be cancelled.

Purchases under the NCIB will be made at the prevailing market price through the facilities of the TSX. The average daily trading volume of the convertible debentures over the last six complete calendar months was Cdn\$325,992 in aggregate principal amount ("ADTV"). Under the TSX rules, the Company may purchase up to 25% of the ADTV (or Cdn\$81,498 in aggregate principal amount of convertible debentures) per trading day, subject to the weekly block purchase exception.

To the knowledge of the Company, after reasonable inquiry, no director, senior officer or any of their associates, or any person acting jointly or in concert with the Company, currently intends to sell convertible debentures under the NCIB.

Subsequent events have been evaluated through November 2, 2009, the date the consolidated financial statements were issued.

21. Comparative Figures

Certain of the Fiscal 2009 comparative figures have been reclassified so as to conform with the presentation adopted in Fiscal 2010.

In Fiscal 2009, the Company reported financial information expressed in millions of U.S. dollars. Comparative figures have been restated in thousands of U.S. dollars, unless otherwise stated.

The Company reclassified \$0.9 million gain on sale of assets in the Fiscal 2009 Consolidated Statements of Income (Loss).

The Company reclassified \$0.4 million from other non-cash changes in operating activities to amortization of other assets in the Fiscal 2009 Consolidated Statements of Cash Flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS **(In U.S. dollars and in accordance with U.S. GAAP)**

The following discussion and analysis explains trends in our financial condition and results of operations for the three and six month periods ended September 25, 2009, compared with the corresponding periods in the previous Fiscal Year. This discussion is intended to help shareholders and other readers understand the dynamics of our business and the key factors underlying our financial results. You should read this discussion in conjunction with our consolidated financial statements and notes included elsewhere in this Quarterly Report and with our Annual Report for the Fiscal Year ended March 27, 2009.

Overview

Zarlink designs mixed-signal semiconductor products for a range of communications, optical and medical applications. Mixed-signal integrated circuits ("ICs") combine both analog and digital circuits on a single semiconductor chip.

Our core capabilities are in communication network timing and synchronization, voice telephony, telecom networking, optical interconnect and ultra low-power wireless communications. Zarlink has shipped more than 1 billion chips to date, and offers over 900 active products to its global customers. Our ICs, integrated chipsets, system-on-chip ("SoC") and module solutions address performance, power, cost and design concerns for telecom and medical equipment manufacturers, data center operators and system integrators. For more information, visit www.zarlink.com.

Forward-Looking Statements

Certain statements in this Quarterly Report contain forward-looking statements which involve risks and uncertainties that are based on our current expectations, estimates and projections about the industries, in which we operate, and our beliefs and assumptions. We use words such as anticipate, expect, estimate, believe, and similar expressions to identify such forward-looking statements. Our actual results could differ materially from those anticipated in our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements. You should carefully consider the following risks and uncertainties prior to investing:

- Our dependence on the development of new products, and our ability to introduce these products to the market in a cost-effective and timely manner;
- Our ability to integrate any businesses, technologies, product lines or services that we have or will acquire;
- Our dependence on our foundry suppliers and third-party subcontractors;
- Our dependence on revenue generation from our legacy products in order to fund development of our new products;
- Our limited visibility of demand in our end markets, and the industry practice whereby our customers may cancel and/or defer orders on short notice;
- We experienced operating losses in Fiscal 2009, as well as in several prior Fiscal Years, and may not be able to maintain current profitability;
- Our ability to attract and retain key employees;
- Significant fluctuations in foreign exchange rates may adversely impact our results of operations;
- Risks inherent in our international operations;
- Failure to protect our intellectual property or infringing on patents and proprietary rights of third parties could have a material adverse effect on our business, financial condition and results of operations;
- Our substantial amount of indebtedness could adversely affect our financial position;
- The current worldwide economic slowdown may result in lower revenues and net income as customers and suppliers manage through these events; and

- Other factors referenced in our Annual Report on Form 20-F for the Fiscal Year ended March 27, 2009.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 25, 2009

Summary of Results from Operations <i>(in thousands of U.S. dollars, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Revenue:	\$53,596	\$61,827	\$107,204	\$122,338
Net income for the period	\$ 720	\$ 7,232	\$ 204	\$ 8,332
Net income (loss) per common share:				
Basic and diluted	\$ 0.00	\$ 0.05	\$ (0.01)	\$ 0.05
Weighted average common shares outstanding (in thousands):				
Basic	122,426	125,580	122,426	126,412
Diluted	123,510	157,723	122,426	158,555

Our revenue in the second quarter of Fiscal 2010 was \$53.6 million, down 13% from revenue of \$61.8 million in the second quarter of Fiscal 2009. The revenue decrease in the second quarter of Fiscal 2010, as compared to the same period of the previous year, mainly reflects lower sales volume in our Communications and Optical product groups, as global economic conditions continue to impact consumer and enterprise spending, resulting in lower demand for some of our products. Within all our product groups, we continue to see the gradual shift in product sales from our legacy products towards our new products. Consistent with the first quarter of Fiscal 2010, during the second quarter of Fiscal 2010 this shift is most prevalent in our Medical Products group, where revenue from our new medical telemetry products increased by 16%, offset by a 16% decline in sales of our legacy audiologic medical devices, when compared to the corresponding period of Fiscal 2009. We consider our legacy products to be items on which we spend little R&D effort to maintain, and our new products to be those for which we have concentrated our recent R&D spending to develop. We view our new products as the source of future revenue growth and anticipate that revenue from our legacy products will gradually decline.

Revenue in the six months ended September 25, 2009, was \$107.2 million, down 12% from revenue of \$122.3 million in the corresponding period of Fiscal 2009. Consistent with Fiscal 2010 second quarter results discussed above, the revenue in the first half of Fiscal 2010 has been negatively impacted by the global economic slowdown, mainly reflected in decreased revenue in our Communications and Optical product groups.

The global economic slowdown may continue to result in lower revenues through the third quarter of Fiscal 2010 and beyond. We use opening 90-day backlog as one indicator of future revenue. We view 90-day backlog as orders received from customers, which have been requested to be delivered within 90 days. At the beginning of the third quarter of Fiscal 2010 our 90-day backlog was \$45 million, down from \$49 million at the opening of the second quarter of Fiscal 2010. We experienced softness in both our order bookings and billings in the third and fourth quarters of Fiscal 2009, which continued into the first half of Fiscal 2010. This softness is due to the economic slowdown which has resulted in our customers and end users scaling back deployment plans. Although revenues stabilized during the first and second quarters of Fiscal 2010 from the declines seen during the second half of Fiscal 2009, if this economic slowdown should continue to broaden and deepen, we may see customers reduce or cancel orders already placed. Also, our customers continue to decrease inventory levels and demand short order lead times, further contributing to a lack of visibility into our end customer's demand that creates uncertainty in our forecasted revenues.

We recorded net income of \$0.7 million, or break even per share, in the second quarter of Fiscal 2010. This compares to net income of \$7.2 million, or \$0.05 per share, in the same period of Fiscal 2009. This reduction in net income in the second quarter of Fiscal 2010 was driven primarily by decreased revenues from the comparable quarter of Fiscal 2009, the foreign exchange loss of \$3.0 million, as well as supply chain harmonization costs of \$0.9 million. Supply chain harmonization costs include costs incurred in transferring production within our foundry suppliers, in order to consolidate our supply chain and achieve increased economies of scale. We do not expect these costs to extend past Fiscal 2010. These items were partially offset by increased gross margin as a percentage of revenue, \$0.8 million in recovery of current asset, as well as lower R&D and S&A expenditures achieved in the second quarter of Fiscal 2010 in comparison to the same period of Fiscal 2009. Although we have been able to achieve cost savings through integration and restructuring activities, if our customers and end users of our products continue to reduce their spending levels in response to the global economic slowdown, our revenues and ultimately our net income could be

further reduced. Net income in the second quarter of Fiscal 2009 was driven primarily by higher product shipments, an income tax recovery of \$2.4 million, and gains from foreign exchange of \$1.9 million.

Net income for the first half of Fiscal 2010 was \$0.2 million, as compared to \$8.3 million for the same period in Fiscal 2009. Consistent with the second quarter activities discussed above, net income in the first half of Fiscal 2010 was driven mainly by reduced revenues from the comparable period of Fiscal 2009, a foreign exchange loss of \$6.9 million, as well as supply chain harmonization costs of \$2.0 million. In addition, we also recorded contract impairment of \$0.8 million in the first quarter of Fiscal 2010. The net income in the first half of Fiscal 2009 was a result of the items discussed above, as well as a gain on sale of excess land of \$0.9 million in the first quarter of Fiscal 2009.

GEOGRAPHIC REVENUE

Revenue, based on the geographic location of customers, was distributed as follows (in thousands):

	Three Months Ended				Six Months Ended			
	Sept. 25, 2009	% of Total	Sept. 26, 2008	% of Total	Sept. 25, 2009	% of Total	Sept. 26, 2008	% of Total
Revenue:								
Asia/Pacific	\$29,143	54%	\$32,782	53%	\$57,572	54%	\$62,300	51%
Europe	13,379	25	15,130	25	27,685	26	32,135	26
United States	10,417	20	12,446	20	20,611	19	24,732	20
Canada	212	0	779	1	607	0	1,459	1
Other Regions	445	1	690	1	729	1	1,712	2
Total	<u>\$53,596</u>	<u>100%</u>	<u>\$61,827</u>	<u>100%</u>	<u>\$107,204</u>	<u>100%</u>	<u>\$122,338</u>	<u>100%</u>

Asia/Pacific

Asia/Pacific revenue in the second quarter of Fiscal 2010 was \$29.1 million, down 11% compared with revenue in the same period of Fiscal 2009. Consistent with the first quarter of Fiscal 2010, the decrease in the second quarter is due mainly to lower Communication Products and Optical Products revenues, offset by increased revenues from Medical Products, each contributing (11%), (1%), and 1% to the change, respectively.

Asia/Pacific revenue for the six months ended September 25, 2009 was down 8% from the comparable period in Fiscal 2009. This was due to a decrease in Communication Products and Optical Products revenues, offset by increased revenues from Medical Products, each contributing (8%), (1%), and 1% to the change, respectively.

Europe

European revenue decreased by 12% in the second quarter of Fiscal 2010 as compared to the same period of Fiscal 2009. Increased revenues from Custom and Other were offset by decreased Communication Products, Medical Products, and Optical Products revenues, each contributing 5%, (5%), (5%) and (7%) of the change, respectively.

European revenue for the six months ended September 25, 2009, was \$27.7 million, down 14% from the same period in Fiscal 2009. Increased revenues from Custom and Other were offset by decreased Communication Products, Medical Products, and Optical Products revenues, each contributing 10%, (11%), (8%) and (5%) of the change, respectively.

United States

Revenue from customers in the United States decreased by 16% to \$10.4 million, during the second quarter of Fiscal 2010 as compared to the same quarter of Fiscal 2009. Consistent with the first quarter of Fiscal 2010, decreases in product shipments from Optical Products, Communication Products, and Custom and Other, were offset by increased revenues from Medical Products, each contributing (13%), (6%), (5%) and 8% of the change, respectively.

Revenue from customers in the United States decreased by 17% to \$20.6 million, for the six month period ended September 25, 2009, as compared to the same period in Fiscal 2009. The decrease was due to lower product revenues from Optical Products, Communication Products, and Custom and Other, offset by increased revenues from Medical Products, each contributing (12%), (10%), (4%) and 9% of the change, respectively.

Canada

Revenue from customers in Canada decreased by 73% to \$0.2 million during the second quarter of Fiscal 2010 as compared to the same quarter of Fiscal 2009. Consistent with the first quarter of Fiscal 2010, the decrease in the second quarter was due mainly to decreased product shipments of Medical and Communication products, each contributing (56%) and (21%) of the change, respectively.

Revenue from customers in Canada decreased by 58% to \$0.6 million for the six months ended September 25, 2009, as compared to the same period in Fiscal 2009. This was due mainly to decreased product shipments of Medical and Communication products, each contributing (46%) and (15%) of the change, respectively.

Other Regions

For the second quarter of Fiscal 2010, revenue from customers in other regions decreased by 36% to \$0.4 million as compared to the second quarter of Fiscal 2009, due to lower Communication Products revenue.

Revenues from customers in other regions decreased by 57% for the six month period ended September 25, 2009, as compared to the same period in Fiscal 2009. The decrease was primarily due to lower revenues from Communication Products and Custom and Other, each contributing (45%) and (8%) of the change, respectively.

REVENUE BY PRODUCT GROUP

<i>(in thousands)</i>	Three Months Ended				Six Months Ended			
	Sept. 25, 2009	% of Total	Sept. 26, 2008	% of Total	Sept. 25, 2009	% of Total	Sept. 26, 2008	% of Total
Revenue:								
Communication Products	\$34,196	64%	\$39,729	64%	\$ 66,844	62%	\$ 78,782	64%
Medical Products	7,799	15	7,810	13	16,783	16	16,978	14
Optical Products	3,830	7	6,839	11	7,783	7	13,048	11
Custom and Other	7,771	14	7,449	12	15,794	15	13,530	11
Total	<u>\$53,596</u>	<u>100%</u>	<u>\$61,827</u>	<u>100%</u>	<u>\$107,204</u>	<u>100%</u>	<u>\$122,338</u>	<u>100%</u>

Communication Products

Communication Products revenue decreased by \$5.5 million or 14% in the second quarter of Fiscal 2010 when compared to the same period in Fiscal 2009. The decrease is mainly due to lower sales of both telecom networking products and voice telephony products, each contributing (9%) and (5%) to the decrease, respectively. The slowdown in enterprise communication equipment spending is the main reason for the decreased revenue seen in these products.

Revenue from this group for the six months ended September 25, 2009 was \$66.8 million, a decrease of \$11.9 million or 15% over the same period a year ago. This is due to lower sales from all products, driven mainly by a decrease in sales of telecom networking products, which contributed (11%) to the decrease over the comparable period in Fiscal 2009.

Medical Products

Medical Products revenue was flat in the second quarter of Fiscal 2010 compared to the same period in Fiscal 2009. Within this group we saw lower product shipments of our legacy audiologic medical devices, offset by an increase in our medical telemetry products, each contributing (16%) and 16% to the percentage change in revenue, respectively.

Medical Products revenue through six months decreased 1% when compared to the same period in the prior year, represented by a decrease in legacy audiologic medical devices, offset by an increase in medical telemetry products, each contributing (20%) and 19% to the percentage change in revenue, respectively.

Optical Products

Our Optical Products revenue for the second quarter of Fiscal 2010 decreased by 44% compared to the second quarter of Fiscal 2009. This was due mainly to lower product shipments of our optical in/out products and serial optical

components, each contributing (33%) and (15%) of the change in this product group, respectively. This is a trend that has continued since the first quarter of Fiscal 2010, and is due mainly to the reduced enterprise spending as a result of the economic slowdown.

Revenue through six months has decreased 40% from the comparable period in Fiscal 2009, due to a decrease in shipments of our optical in/out products and serial optical components, each contributing (22%) and (15%) of the decrease, respectively.

Custom and Other

For the three and six month periods ended September 25, 2009 Custom and Other revenue was up 4% and 17%, respectively, when compared to the same period in Fiscal 2009. The increase in revenue for both periods is the result of increased product shipments for communication application specific integration circuits (“ASIC”) products for two customers.

GROSS MARGIN

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Gross Margin	\$26,931	\$30,577	\$53,794	\$58,167
As a percentage of revenue	50%	49%	50%	48%

Gross margin in the three month period ended September 25, 2009, was 50%, an increase of one percentage point as compared to the same period in Fiscal 2009. Our margins may fluctuate slightly from period to period as a result of the changes in sales volume from our different products, which we refer to as a change in product mix. The improved gross margin in the second quarter of Fiscal 2010 is mainly a result of increased efficiencies as well as a change in product mix. Additionally, during the second quarter of Fiscal 2010, we incurred \$0.9 million of supply chain harmonization costs that were included in costs of goods sold. Supply chain harmonization costs include costs incurred in transferring production within our foundry suppliers, in order to consolidate our supply chain and achieve increased economies of scale. We do not expect these costs to extend past Fiscal 2010. In comparison, during the second quarter of Fiscal 2009, we incurred \$0.8 million of severance and integration costs which were included in costs of goods sold.

Gross margin in the six month period ended September 25, 2009 increased by 2% to 50% compared to the same period in Fiscal 2009. In addition to the factors discussed above, the impact of the outsourcing of our test and assembly functions, which began in the first quarter of Fiscal 2009, has resulted in lower costs in the first half of Fiscal 2010 in comparison to the same period of Fiscal 2009. Also, during the first half of Fiscal 2010 we incurred \$2.0 million of supply chain harmonization costs that were included in costs of goods sold. In comparison, during the first half of Fiscal 2009, we incurred \$2.2 million of severance and integration costs that were included in costs of goods sold.

OPERATING EXPENSES

Research and Development

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
R&D expenses – gross	\$10,793	\$12,356	\$22,168	\$25,905
Less: NREs and government assistance	(192)	(1,138)	(2,031)	(2,747)
R&D expenses	<u>\$10,601</u>	<u>\$11,218</u>	<u>\$20,137</u>	<u>\$23,158</u>
As a percentage of revenue	20%	18%	19%	19%

Net R&D expenses decreased by 6%, or \$0.6 million, in the second quarter of Fiscal 2010 compared to the same period in Fiscal 2009. The decrease is due mainly to cost reduction strategies implemented as part of the Legerity

integration plan, as well as the restructuring actions announced in the fourth quarter of Fiscal 2009, which has resulted in lower headcount and material spending. Additionally, the stronger U.S. dollar in comparison to most other currencies in the second quarter of Fiscal 2010 compared to the second quarter of Fiscal 2009, resulted in reducing our R&D costs in locations outside the U.S., when converted to U.S. dollars.

For the six months ended September 25, 2009, net R&D expenses were \$3.0 million lower than in the comparable period of Fiscal 2009. Consistent with the second quarter of Fiscal 2010, the main factors for the decreased net R&D expenses during the first half of Fiscal 2010 were the cost reduction activities, as well as the stronger U.S. dollar, as discussed above.

For custom designs, we receive non-recurring engineering (“NRE’s”) reimbursements, which are recorded as recoveries of R&D expenditures. These NRE’s are recognized upon achievement of milestones within development programs, thus the amounts will fluctuate from period to period. During the first quarter of Fiscal 2010, NRE’s included reimbursements related to the TPC agreement of \$0.7 million. These were the final reimbursements under the TPC agreement. The primary reason for the decrease in NRE reimbursements during the three and six month periods ended September 25, 2009, as compared to the same periods in Fiscal 2010, was due to there being no further reimbursements received under the TPC agreement during the second quarter of Fiscal 2010. During the three and six month periods ended September 26, 2008, we recorded NRE reimbursements related to the TPC agreement of \$0.6 million and \$1.2 million, respectively.

Our R&D activities focused on the following areas:

- Ultra low-power integrated circuits and modules supporting short-range wireless communications for implantable medical devices and associated monitoring and programming equipment;
- Timing products that support the delivery of time-sensitive services over packet-based networks;
- Optical physical-layer integrated circuits, modules and complete solutions that provide communications systems customers with the ability to implement and easily manage high capacity, lower power fiber-optic interconnect links; and
- Voice interface products for access and residential equipment that enables carrier-class voice over-cable and voice-over-packet applications.

Selling and Administrative

<i>(in thousands)</i>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Sept. 25, 2009</u>	<u>Sept. 26, 2008</u>	<u>Sept. 25, 2009</u>	<u>Sept. 26, 2008</u>
S&A Expenses	\$10,124	\$13,626	\$20,417	\$26,083
As a percentage of revenue	19%	22%	19%	21%

S&A expenses were \$10.1 million in the second quarter of Fiscal 2010, down \$3.5 million or 26% from the comparable period last year. The decrease is attributable to cost reduction strategies implemented as part of the Legerity integration plan, as well as the restructuring actions announced in the fourth quarter of Fiscal 2009. Additionally, many of our S&A expenses are incurred in currencies other than the U.S. dollar, particularly the Canadian dollar, British pound, Swedish krona, and the euro. Therefore the strength of the U.S. dollar in the second quarter of Fiscal 2010 as compared to the same period of the previous year has aided in lowering S&A costs.

S&A expenses for the six months ended September 25, 2009 were down 22% as compared to the same period in Fiscal 2009. Consistent with the second quarter of Fiscal 2010, the decrease in S&A expenses in the first half of Fiscal 2010 as compared to the same period of Fiscal 2009 was due mainly to cost reduction strategies and U.S. dollar strengthening, as discussed above.

Amortization of Intangible Assets

During the three and six month periods ended September 25, 2009, we recorded amortization on intangible assets of \$1.8 million and \$3.6 million as compared to \$1.8 million and \$3.7 million in the same periods of Fiscal 2009, respectively. These costs are related to our acquisitions of Legerity and Primarion.

Contract Impairment

During the three and six month periods ended September 25, 2009, we recorded contract impairments of \$Nil and \$0.8 million, respectively, as compared to \$Nil in the same periods of Fiscal 2009. The costs incurred in the first quarter of Fiscal 2010 relate primarily to the contract impairment on leased space at our Austin, Texas, U.S. facility, and was due to headcount reductions associated with our restructuring announced in the fourth quarter of Fiscal 2009 as a result of the economic downturn.

Recovery of Current Asset

In Fiscal 2008, we sold our Swindon foundry to MHS. At the time of sale, we agreed to prepay the purchase of certain wafers from MHS under a WSA and enter into a TSA under which we recorded a receivable balance. These items were recorded in current assets. In conjunction with this sale, we obtained two legal charges against the buildings sold to MHS. In January 2009, we were advised that MHS would be ceasing wafer supply to Zarlink from its Swindon analog foundry. In February 2009, MHS was placed into administration. Consequently, in the third quarter of Fiscal 2009, as the value of amounts receivable from MHS became most likely not recoverable, we recorded an impairment of \$3.0 million consisting of the remaining prepaid expense of \$2.2 million and the balance of the receivable of \$0.8 million. During the second quarter of Fiscal 2010, we received \$0.8 million relating to the prepaid expense from the MHS administrator and have, therefore, recorded a recovery in the period. In connection with this receipt, we no longer hold legal charges against the buildings previously sold to MHS. As the receipt of any further amounts owed from the MHS administrator remains uncertain, no additional recoveries have been recorded. However, in discussion with the administrator there is the possibility of an additional disbursement which is anticipated to occur in the fourth quarter of Fiscal 2010.

Gain on Sale of Assets

During the first quarter of Fiscal 2009, we sold excess land in Swindon, U.K. The proceeds from the sale of land were \$1.0 million (0.5 million British pounds), resulting in a \$0.9 million gain, net of transaction costs. No gains or losses on the sale of assets were recorded in the first or second quarters of Fiscal 2010.

Stock Compensation Expense

At the beginning of Fiscal 2007, we adopted the Stock Compensation Topic of the FASB ASC, and began expensing the fair value of stock-based awards to employees under the provisions of this Topic.

Stock compensation expense was recorded as follows (in thousands):

	Three Months Ended		Six Months Ended	
	Sept. 25, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Selling and administrative	\$ 266	\$ 402	\$ 564	\$ 820
Research and development	42	64	89	130
Cost of revenue	17	24	35	50
	<u>\$ 325</u>	<u>\$ 490</u>	<u>\$ 688</u>	<u>\$ 1,000</u>

As at September 25, 2009, total unrecognized compensation cost related to non-vested awards was \$1.8 million, and the weighted average period over which this expense is expected to be recognized is approximately two years. Our stock compensation expense in future periods will be impacted by many variables and thus is expected to fluctuate based on factors including number of options granted, share prices, option prices, share price volatility, forfeitures, the risk-free interest rate, and expected option lives.

NON-OPERATING INCOME AND EXPENSE

Loss on Repurchase of Convertible Debentures

In July 2009, we completed a formal issuer bid, resulting in the repurchase of \$18,000 (Cdn \$21,000) principal amount of the convertible debentures for a total of \$13,000 (Cdn \$15,000). We expensed \$0.3 million of costs related to the formal issuer bid, resulting in a loss on repurchase of \$0.3 million, in the second quarter of Fiscal 2010.

Interest Income

Interest income for the three and six months ended September 25, 2009 was \$43,000 and \$88,000, as compared to \$349,000 and \$716,000 for the comparable periods in Fiscal 2009. The decrease was primarily due to the lower interest rate environment in the first half of Fiscal 2010 as compared to the first half of Fiscal 2009.

Interest Expense

Interest expense for the three and six months ended September 25, 2009 was \$1.0 million and \$1.9 million, as compared to \$1.1 million and \$2.3 million for the comparable periods in Fiscal 2009. The decrease in interest expense when compared to the same periods a year ago was due to the repurchase and cancellation of \$6.5 million (Cdn \$7.9 million) principal amount of our convertible debentures during the third quarter of Fiscal 2009, as well as changes in the Canadian dollar exchange rates between the periods. The convertible debentures pay interest in Canadian dollars, thus the stronger U.S. dollar in the first half of Fiscal 2010 as compared to the same period in Fiscal 2009, resulted in lower interest expense when converted to U.S. dollars.

Amortization of Debt Issue Costs

We incurred approximately \$3.7 million in transactions costs relating to the issuance of our convertible debentures during the second quarter of Fiscal 2008. These costs have been capitalized, are included in other assets and are being amortized over five years, which is the term of the convertible debentures. Amortization costs for the three and six months ended September 25, 2009 were \$160,000 and \$320,000, respectively, as compared to \$184,000 and \$368,000 for the same periods in Fiscal 2009. The decrease is due to the repurchase and cancellation of convertible debentures in the third quarter of Fiscal 2009.

Foreign Exchange Gain (Loss)

Foreign exchange loss in the three and six months ended September 25, 2009 was \$3.0 million and \$6.9 million as compared to foreign exchange gains of \$1.9 million and \$1.6 million for the same periods in Fiscal 2009. We record net gains and losses on monetary assets and liabilities denominated in currencies other than the U.S. dollar functional currency, according to period-end market rates. As a result of our convertible debentures being denominated in Canadian dollars, while our functional currency is the U.S. dollar, we are required to revalue these debentures to U.S. dollars at the period-end market rates. As a result of this revaluation, we will incur non-cash foreign currency gains or losses. The foreign exchange loss during the first half of Fiscal 2010 was primarily a result of the impact of the weakening U.S. dollar on our convertible debentures. With regards to our convertible debentures, a five percentage point change in the Cdn/U.S. exchange rate will have a non-cash foreign exchange impact of approximately \$3.2 million to our earnings in a given Fiscal period.

Income Tax Recovery (Expense)

We recorded income tax expense of \$46,000 in the second quarter of Fiscal 2010 which related primarily to taxes payable in foreign jurisdictions. In the corresponding period in Fiscal 2009, we had an income tax recovery of \$2.4 million which included \$1.7 million related to the closure of tax audits and \$0.9 million related to recoveries in the period, offset by deferred taxes of \$0.2 million.

We recorded income tax expense of \$64,000 for the six months ended September 25, 2009, as compared to a \$2.5 million tax recovery for the six months ended September 26, 2008. The income tax expense in Fiscal 2010 relates primarily to taxes payable in foreign jurisdictions. The recovery in the Fiscal 2009 period includes \$2.0 million in tax recoveries resulting from the closures of tax audits, \$0.7 million of current tax recoveries net of \$0.2 of deferred tax expense.

We must assess the likelihood that we will be able to recover our deferred tax assets. When we determine that it is more likely than not that some or all of our deferred tax assets may not be realized, we establish a valuation allowance against our deferred tax assets. Based on historical taxable income and uncertainties relating to future taxable income in the periods in which the deferred tax assets are deductible, we have established a valuation allowance as of September 25, 2009, of \$251.2 million (March 27, 2009 - \$247.8 million). The change relates to movements in temporary timing differences, the utilization of losses in certain foreign jurisdictions offset by differences relating to changes in the foreign exchange rates between our local tax reporting currencies and functional currency.

We continue to pursue the closure of outstanding corporate tax audit issues with various governments. The settlement of any related Uncertain Tax Positions ("UTPs") during the Fiscal Year will result in either a tax payment to the taxing

authority or a derecognition of the UTPs. Based, on information currently available to us, we expect that the unrecognized tax benefits will decrease by approximately \$0.2 million in the next twelve months due to the closing of audits for open tax years. During the six months ended September 25, 2009, we accrued \$Nil of interest for UTPs and we derecognized \$0.3 million in previously recognized UTPs which were offset by a deferred tax asset in the same amount.

We periodically review our provision for income taxes and valuation allowance to determine whether the overall tax estimates are reasonable. When we perform our quarterly assessments of the provision and valuation allowance, we may record an adjustment, which may have a material impact on our financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity as at September 25, 2009 was cash and cash equivalents totaling \$55.7 million (March 27, 2009 - \$45.0 million).

Operating Activities

Cash generated from operating activities during the six months ended September 25, 2009 was \$12.2 million, as compared to cash generated of \$9.1 million in the same period of Fiscal 2009.

Cash generated from operating activities before working capital changes was \$13.9 million for the six months ended September 25, 2009, as compared to cash generated of \$15.1 million in the first six months of Fiscal 2009. Our cash flows from operations in the period were due to \$0.2 million net income, combined with a number of non-cash charges. Included in net income during the first half of Fiscal 2010 were non-cash charges including a foreign exchange loss of \$6.9 million, amortization of \$3.9 million, depreciation of \$1.9 million, contract impairment of \$0.8 million, and loss on repurchase of convertible debentures of \$0.3 million. Since March 27, 2009, our non-cash working capital increased by \$1.7 million, thereby reducing cash, mainly as a result of the following:

- An increase in inventories of \$2.5 million, driven primarily by the purchase of inventory relating to last time buy's from certain of our vendors; and
- A decrease in payables and other accrued liabilities of \$1.9 million, driven mainly by the payment of liabilities under the provisions for exit activities.

Partially offset by:

- An increase in deferred credits of \$1.9 million, driven by the prepayment made by one vendor for a last time buy order; and
- A decrease in accounts and other receivables of \$1.1 million, related primarily to timing of shipments and payments during the period.

In comparison, our non-cash working capital increased by \$5.9 million during the first six months of Fiscal 2009, thereby reducing cash, primarily as a result of the following:

- An increase in accounts and other receivables of \$5.7 million, as a result of the timing of product revenues and collections during the period; and
- A decrease in payables and other accrued liabilities totaling \$4.8 million, driven mainly by the result of adjustments to certain tax provisions.

Partially offset by:

- A decrease in inventories of \$1.1 million as a result of higher shipments;
- A decrease in prepaid expenses of \$1.6 million, primarily as a result of the draw-down from certain design tool agreements; and
- An increase in deferred credits of \$1.9 million as a result of advance funding received for a research and development project.

Investing Activities

Cash used in investing activities during the six months ended September 25, 2009 was \$1.0 million, resulting from cash outlays for fixed assets during the period.

In comparison, cash used in investing activities during the six months ended September 26, 2008 was \$1.3 million, due to the following:

- Net expenditures for fixed assets totaling \$2.3 million, relating to the purchase of production equipment.

Partially offset by:

- Proceeds from the sale of excess land of \$1.0 million.

Financing Activities

Cash used in financing activities during the six months ended September 25, 2009, was \$1.7 million. The decrease in cash resulted primarily from the following:

- Payment of dividends on preferred shares of \$0.9 million; and
- Repurchase of preferred shares of \$0.7 million.

In comparison, cash used in financing activities during the six months ended September 26, 2008 was \$3.8 million. The decrease in cash resulted primarily from the following:

- Payment of dividends on preferred shares of \$1.1 million;
- Repurchase of preferred shares of \$0.9 million; and
- Repurchases of common shares of \$1.8 million.

There were no common share repurchases during the three and six months ended September 25, 2009, under our current common share buyback program. We repurchased 1,020,000 shares for a total consideration of \$1.0 million, and 1,920,000 shares for a total consideration of \$1.8 million for the same periods in Fiscal 2009, respectively, under the Fiscal 2009 normal course issuer bid.

Any purchases made under the current share buyback program will be made at the prevailing market price through the facilities of the TSX. The current share buyback program allows us to purchase up to 11,971,633 common shares, or about 10% of the public float as of May 25, 2009. The bid does not commit us to make any share repurchases. We may repurchase up to 10% of the public float of common shares using available cash during a twelve month period from May 29, 2009 to May 28, 2010. The timing and exact number of common shares purchased under the bid will be at our discretion, will depend on market conditions, and may be suspended or discontinued at any time. All shares purchased under the bid will be cancelled.

The conditions attaching to our preferred shares entitle their holders to receive a quarterly dividend of \$0.46 (Cdn\$0.50) per share. Subject to foreign exchange rate fluctuations, we expect to pay approximately \$0.9 million in dividends in the remainder of Fiscal 2010. We are also required to make reasonable efforts to purchase 22,400 preferred shares in each calendar quarter at a price not exceeding \$22.90 (Cdn\$25.00) per share plus costs of purchase. During the second quarter of Fiscal 2010, we repurchased \$0.4 million of preferred shares. In addition, if the market price of the shares remains below \$22.90 (Cdn\$25.00), we expect to make reasonable efforts to repurchase an additional 44,800 of preferred shares in the remainder of Fiscal 2010.

In addition to our cash and cash equivalents, we have credit facilities of \$1.4 million (Cdn \$1.5 million) available for letters of credit. As at September 25, 2009, we had used \$1.3 million of our credit facilities, accordingly, we had \$0.1 million of unused facilities available for letters of credit. The outstanding letters of credit related to our SERP.

As at September 25, 2009, we have pledged \$15.5 million (107.2 million Swedish krona) in restricted cash and cash equivalents to secure our pension liability of \$17.4 million (121.0 million Swedish krona) in Sweden. The Swedish pension liability is comprised of \$14.5 million (100.4 million Swedish krona) as determined by the Pension Registration

Institute, and an additional minimum pension liability of \$2.9 million as determined under the Retirement Benefits Topic of the FASB ASC.

We believe that our existing cash and cash equivalents, together with our existing financing facilities, will be sufficient to cover operating and working capital needs, capital expenditures, common share repurchase, preferred share dividend and repurchase, and other cash outflows for the foreseeable future.

CONTINGENCIES

We are a defendant in a number of lawsuits and party to a number of other claims or potential claims that have arisen in the normal course of our business. We recognize a provision for estimated loss contingencies when it is probable that a liability has been incurred and we can reasonably estimate the amount of the loss. We do not believe that any monetary liabilities or financial impacts of these lawsuits and claims or potential claims that exceed the amounts already recognized would be material to our financial position or results of operations.

CONTRACTUAL OBLIGATIONS

There have been no significant changes to our contractual obligations included in Item 5F – Operating and Financial Review and Prospects – Tabular Disclosure of Contractual Commitments of our Annual Report on Form 20-F for the year ended March 27, 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) IMPLEMENTATION

Publicly accountable enterprises in Canada are required to adopt IFRS for financial periods beginning on or after January 1, 2011. As an SEC issuer, within the meaning of Canadian securities legislation, we have opted to prepare our financial statements in accordance with US GAAP. This option is made available under *National Instrument 52-107 – Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (“NI 52-107”) adopted by the Canadian Securities Administrators (“CSA”).

On June 27, 2008 the CSA released Staff Notice 52-321 – Early Adoption of IFRS, Use of US GAAP and Reference to IFRS-IASB. This allows us the ability as a Canadian and SEC issuer to continue using US GAAP despite the pending change to IFRS for publicly accountable enterprises in Canada.

Securities Act Release No. 33-8879 by the SEC allows foreign private issuers such as us the option of filing financial statements under IFRS. Additionally, the SEC has issued a proposed Roadmap for the adoption of IFRS by primary U.S. issuers. At the time of preparing this MD&A we are considering a transition to IFRS but have not confirmed timing or finalized a changeover plan.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are based on the selection and application of accounting policies, some of which require us to make estimates and assumptions. There have been no changes in our critical accounting estimates included in Item 5, Operating and Financial Review and Prospects, of our Annual Report on Form 20-F for the year ended March 27, 2009.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a Replacement of FASB Statement No. 162 (the “Codification” or “FASB ASC”). The FASB ASC will be the single source of authoritative non-governmental U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB ASC is effective for interim and annual periods ending after September 15, 2009. All pre-Codification GAAP are superseded as described in FAS 168. All other accounting literature not included in the Codification is non-authoritative. We adopted the Codification in the second quarter of Fiscal 2010. The Codification did not have a material impact on our consolidated financial statements. We have updated references to the FASB ASC, as appropriate.

In October 2009, the FASB issued ASU, 2009-14, to address concerns raised by constituents relating to the accounting for revenue arrangements that contain tangible products and software. The amendments in this ASU change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product’s essential functionality will no longer be within the scope of guidance in the Software – Revenue

Recognition Subtopic of the FASB ASC. The amendments in this ASU will be effective prospectively for revenue arrangements entered into or materially modified in Fiscal Years beginning on or after June 15, 2010. We are required to adopt this ASU in Fiscal 2011. We are currently evaluating the effect that the adoption of this ASU will have on our consolidated financial statements.

In October 2009, the FASB issued ASU, 2009-13, to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. This ASU provides amendments to the criteria in the Revenue Recognition – Multiple-Element Arrangements Subtopic of the FASB ASC. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments in this ASU will be effective prospectively for revenue arrangements entered into or materially modified in Fiscal Years beginning on or after June 15, 2010. We are required to adopt this ASU in Fiscal 2011. We are currently evaluating the effect that the adoption of this ASU will have on our consolidated financial statements.

In May 2009, the FASB issued the Subsequent Events Topic of the FASB ASC. This Topic establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Topic sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This Topic is effective for interim or annual periods ending after June 15, 2009. We adopted this Topic in the first quarter of Fiscal 2010. The adoption of this Topic did not have a material impact on our financial position or results of operations.

In April 2009, the FASB issued an amendment to the Financial Instruments Topic of the FASB ASC, which requires disclosures about fair value of financial instruments in interim as well as annual financial statements. This amended Topic is effective for periods ending after June 15, 2009. We adopted this amended Topic in the first quarter of Fiscal 2010. The adoption of this Topic did not have a material impact on our financial position or results of operations.

In December 2008, the FASB issued additional guidance on the Defined Benefit Plans Topic of the FASB ASC, which provides additional guidance on employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. This is effective for financial statements issued for Fiscal Years ending after December 15, 2009. We are required to adopt this Topic in Fiscal 2010. The adoption of this will increase the disclosures in the Fiscal 2010 year-end financial statements related to the assets of our defined benefit pension plans.

In April 2008, the FASB issued an amendment to the General Intangibles Other Than Goodwill Topic of the FASB ASC. This amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. We adopted this in the first quarter of Fiscal 2010. The requirements are to be applied prospectively to intangible assets acquired after the effective date. As a result, the adoption did not have a material impact on our financial position or results of operations.

In September 2006, the FASB issued the Fair Value Measurements and Disclosure Topic of the FASB ASC. This Topic defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. In February 2008, the FASB amended this Topic to exclude fair value requirements on leases and delayed the effective date for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to Fiscal Years beginning after November 15, 2008. We adopted certain provisions in the first quarter of Fiscal 2009. In the first quarter of Fiscal 2010, we adopted the provisions previously deferred, relating to non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis. The adoption of these provisions did not have a material impact on our financial position or results of operations.

In December 2007, the FASB issued the Business Combinations Topic of the FASB ASC. This Topic significantly changes the accounting for acquisitions, both at the acquisition date and in subsequent periods. In April 2009, the FASB issued an amendment to this Topic, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This Topic is effective for public companies for Fiscal Years beginning on or after December 15, 2008. We adopted this Topic in the first quarter of Fiscal 2010, and apply it on a prospective basis. The adoption did not have a material impact on our financial position or results of operations.

SUBSEQUENT EVENTS

On October 30, 2009, the Toronto Stock Exchange ("TSX") approved our notice of intention to make a normal course issuer bid ("NCIB") permitting us to repurchase for cancellation up to Cdn\$7,076,400 in aggregate principal amount of our convertible debentures, being 10 percent of the public float of Cdn\$70,764,000 in aggregate principal amount of convertible debentures as of October 28, 2009. We plan to repurchase up to 10 percent of the public float of convertible debentures using available cash during a 12 month period from November 3, 2009 to November 2, 2010. The timing and exact number of convertible debentures purchased under the NCIB will be at our discretion, will depend on market conditions, and may be suspended or discontinued at any time. All convertible debentures purchased by us under the NCIB will be cancelled.

Purchases under the NCIB will be made at the prevailing market price through the facilities of the TSX. The average daily trading volume of the convertible debentures over the last six complete calendar months was Cdn\$325,992 in aggregate principal amount ("ADTV"). Under the TSX rules, we may purchase up to 25% of the ADTV (or Cdn\$81,498 in aggregate principal amount of convertible debentures) per trading day, subject to the weekly block purchase exception.

To our knowledge, after reasonable inquiry, no director, senior officer or any of their associates, or any person acting jointly or in concert with us, currently intends to sell convertible debentures under the NCIB.

Subsequent events have been evaluated through November 2, 2009, the date the consolidated financial statements were issued.

CONTROLS AND PROCEDURES

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) of the Exchange Act) during the three months ended September 25, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

COMMON SHARES OUTSTANDING

As at November 2, 2009, there were 122,425,682 common shares of Zarlink Semiconductor Inc., no par value, issued and outstanding.

Form 52-109F2 Certifications by Chief Executive Officer and Chief Financial Officer of Quarterly Report

**Form 52-109F2
CERTIFICATION OF INTERIM FILINGS
FULL CERTIFICATE**

I, Kirk K. Mandy, President and Chief Executive Officer of Zarlink Semiconductor Inc., certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of Zarlink Semiconductor Inc. (the "issuer") for the interim period ended September 25, 2009.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officers and I have, as at the end of the period covered by the interim filings

(a) Designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is COSO framework.

5.2 **ICFR – material weakness relating to design:** N/A

5.3 **Limitation on scope of design:** N/A

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on June 27, 2009 and ended on September 25, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: November 2, 2009

/s/ KIRK K. MANDY
Kirk K. Mandy
President and Chief Executive Officer

Form 52-109F2
CERTIFICATION OF INTERIM FILINGS
FULL CERTIFICATE

I, Andre Levasseur, Senior Vice-President of Finance and Chief Financial Officer of Zarlink Semiconductor Inc., certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of Zarlink Semiconductor Inc. (the "issuer") for the interim period ended September 25, 2009.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

4. **Responsibility:** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officers and I have, as at the end of the period covered by the interim filings

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is COSO framework.

5.2 **ICFR – material weakness relating to design:** N/A

5.3 **Limitation on scope of design:** N/A

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on June 27, 2009 and ended on September 25, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: November 2, 2009

/s/ ANDRE LEVASSEUR

Andre Levasseur
Senior Vice President of Finance and
Chief Financial Officer