

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

	Three months ended			Six months ended	
	Sept. 25, 2009	June 26, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
Revenue	\$ 53,596	\$ 53,608	\$ 61,827	\$ 107,204	\$ 122,338
Cost of revenue	26,665	26,745	31,250	53,410	64,171
Gross margin	26,931	26,863	30,577	53,794	58,167
Expenses:					
Research and development	10,601	9,536	11,218	20,137	23,158
Selling and administrative	10,124	10,293	13,626	20,417	26,083
Amortization of intangible assets	1,803	1,825	1,846	3,628	3,692
Contract impairment	-	809	-	809	-
Recovery of current asset	(768)	-	-	(768)	-
Gain on sale of assets	-	-	-	-	(936)
	21,760	22,463	26,690	44,223	51,997
Operating income	5,171	4,400	3,887	9,571	6,170
Loss on repurchase of convertible debentures	(316)	-	-	(316)	-
Interest income	43	45	349	88	716
Interest expense	(973)	(903)	(1,145)	(1,876)	(2,315)
Amortization of debt issue costs	(160)	(160)	(184)	(320)	(368)
Foreign exchange gain (loss)	(2,999)	(3,880)	1,940	(6,879)	1,618
Net income (loss) before income taxes	766	(498)	4,847	268	5,821
Income tax recovery (expense)	(46)	(18)	2,385	(64)	2,511
Net income (loss)	\$ 720	\$ (516)	\$ 7,232	\$ 204	\$ 8,332
Net income (loss) attributable to common shareholders	\$ 135	\$ (1,005)	\$ 6,566	\$ (870)	\$ 6,938
Net income (loss) per common share:					
Basic and diluted	\$ 0.00	\$ (0.01)	\$ 0.05	\$ (0.01)	\$ 0.05
Weighted average number of common shares outstanding (thousands):					
Basic	122,426	122,426	125,580	122,426	126,412
Diluted	123,510	122,426	157,723	122,426	158,555
Percentage of revenue:					
Gross margin	50%	50%	49%	50%	48%
Research and development	20%	18%	18%	19%	19%
Selling and administrative	19%	19%	22%	19%	21%

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

	Three months ended			Six months ended	
	Sept. 25, 2009	June 26, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
CASH PROVIDED BY (USED IN)					
Operating activities:					
Net income (loss)	\$ 720	\$ (516)	\$ 7,232	\$ 204	\$ 8,332
Depreciation of fixed assets	949	976	1,164	1,925	2,383
Amortization of other assets	1,963	1,985	2,030	3,948	4,060
Stock compensation expense	325	363	490	688	1,000
Other non-cash changes in operating activities	2,665	4,390	(1,186)	7,055	(1,636)
Deferred income taxes	(71)	154	996	83	933
Decrease (increase) in working capital:					
Trade accounts and other receivables	2,692	(1,613)	(2,943)	1,079	(5,745)
Inventories	(878)	(1,645)	610	(2,523)	1,068
Prepaid expenses and other	(247)	(70)	235	(317)	1,569
Payables and other accrued liabilities	(796)	(1,083)	(1,916)	(1,879)	(4,778)
Deferred credits	1,898	17	2,174	1,915	1,941
Total	9,220	2,958	8,886	12,178	9,127
Investing activities:					
Expenditures for fixed assets	(411)	(575)	(634)	(986)	(2,264)
Proceeds from disposal of fixed assets	-	-	11	-	984
Total	(411)	(575)	(623)	(986)	(1,280)
Financing activities:					
Repurchase of long-term debt	(13)	-	-	(13)	-
Payment of dividends on preferred shares	(466)	(477)	(519)	(943)	(1,085)
Repurchase of preferred shares	(433)	(272)	(440)	(705)	(890)
Repurchase of common shares	-	-	(980)	-	(1,820)
Total	(912)	(749)	(1,939)	(1,661)	(3,795)
Effect of currency translation on cash	672	497	(559)	1,169	(541)
Increase in cash and cash equivalents	8,569	2,131	5,765	10,700	3,511
Cash and cash equivalents, beginning of period	47,137	45,006	40,107	45,006	42,361
Cash and cash equivalents, end of period	\$55,706	\$47,137	\$45,872	\$55,706	\$45,872

Zarlink Semiconductor Inc.
CONSOLIDATED BALANCE SHEETS DATA
(in thousands of U.S. dollars, U.S. GAAP)
(Unaudited)

	<u>Sept. 25, 2009</u>	<u>June 26, 2009</u>	<u>March 27, 2009</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 55,706	\$ 47,137	\$ 45,006
Restricted cash and cash equivalents	15,455	13,783	13,145
Trade accounts receivable – net	23,209	26,247	24,556
Other accounts receivable – net	4,568	4,222	4,300
Inventories – net	30,344	29,465	27,821
Prepaid expenses and other	2,998	2,752	2,681
Current assets held for sale	1,935	1,935	1,935
	<u>134,215</u>	<u>125,541</u>	<u>119,444</u>
Fixed assets – net	11,803	12,153	12,530
Deferred income tax assets – net	5,723	5,654	5,800
Intangible assets – net	45,477	47,280	49,106
Other assets	2,283	2,489	2,655
	<u>\$ 199,501</u>	<u>\$ 193,117</u>	<u>\$ 189,535</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable	\$ 12,513	\$ 12,298	\$ 12,018
Employee-related payables	8,918	8,940	9,478
Income and other taxes payable	657	513	482
Current portion of provisions for exit activities	1,826	2,247	3,645
Other accrued liabilities	6,972	7,549	6,454
Deferred credits	2,776	878	861
Deferred income tax liabilities – current portion	31	32	28
	<u>33,693</u>	<u>32,457</u>	<u>32,966</u>
Long-term debt – convertible debentures	64,923	61,473	57,203
Long-term portion of provisions for exit activities	558	583	200
Pension liabilities	17,075	15,278	14,690
Deferred income tax liabilities – long-term portion	31	32	28
Long-term accrued income taxes	2,350	2,271	2,408
Other long-term liabilities	833	837	830
	<u>119,463</u>	<u>112,931</u>	<u>108,325</u>
Redeemable preferred shares, unlimited shares authorized; 1,014,400 shares issued and outstanding as at September 25, 2009	<u>12,984</u>	<u>13,298</u>	<u>13,558</u>
Shareholders' equity:			
Common shares, unlimited shares authorized; no par value; 122,425,682 shares issued and outstanding as at September 25, 2009	738,818	738,818	738,818
Additional paid-in capital	34,526	34,320	33,969
Deficit	(670,611)	(670,865)	(669,872)
Accumulated other comprehensive loss	(35,679)	(35,385)	(35,263)
	<u>67,054</u>	<u>66,888</u>	<u>67,652</u>
	<u>\$ 199,501</u>	<u>\$ 193,117</u>	<u>\$ 189,535</u>

Zarlink Semiconductor Inc.
SUPPLEMENTARY SCHEDULES
(in thousands of U.S. dollars, U.S. GAAP)
(Unaudited)

Geographic Information:

Revenue, based on the geographic location of Zarlink's customers, was distributed as follows:

	Three Months Ended Sept. 25, 2009	% of Total		Three Months Ended June 26, 2009	% of Total		Three Months Ended Sept. 26, 2008	% of Total
Asia – Pacific	\$29,143	54 %		\$28,429	53 %		\$32,782	53 %
Europe	13,379	25		14,306	27		15,130	24
Americas	11,074	21		10,873	20		13,915	23
	<u>\$53,596</u>	<u>100 %</u>		<u>\$53,608</u>	<u>100 %</u>		<u>\$61,827</u>	<u>100 %</u>
				Six Months Ended Sept. 25, 2009	% of Total		Six Months Ended Sept. 26, 2008	% of Total
Asia – Pacific				\$57,572	54 %		\$62,300	51 %
Europe				27,685	26		32,135	26
Americas				21,947	20		27,903	23
				<u>\$107,204</u>	<u>100 %</u>		<u>\$122,338</u>	<u>100 %</u>

Product Group Information:

Revenue, based on product group, was distributed as follows:

	Three Months Ended Sept. 25, 2009	% of Total		Three Months Ended June 26, 2009	% of Total		Three Months Ended Sept. 26, 2008	% of Total
Communication Products	\$34,196	64 %		\$32,648	61 %		\$39,729	64 %
Medical Products	7,799	15		8,984	17		7,810	13
Optical Products	3,830	7		3,953	7		6,839	11
Custom & Other	7,771	14		8,023	15		7,449	12
	<u>\$53,596</u>	<u>100 %</u>		<u>\$53,608</u>	<u>100 %</u>		<u>\$61,827</u>	<u>100 %</u>
				Six Months Ended Sept. 25, 2009	% of Total		Six Months Ended Sept. 26, 2008	% of Total
Communication Products				\$66,844	62 %		\$78,782	64 %
Medical Products				16,783	16		16,978	14
Optical Products				7,783	7		13,048	11
Custom & Other				15,794	15		13,530	11
				<u>\$107,204</u>	<u>100 %</u>		<u>\$122,338</u>	<u>100 %</u>

Non-GAAP Measures

As a supplement to Zarlink's consolidated financial statements presented in accordance with generally accepted accounting principles ("GAAP"), the Company provides additional non-GAAP measures for operating income, net income (loss), and basic and diluted net income (loss) per share.

A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The Company believes that the additional non-GAAP measures are useful to investors for the purpose of financial analysis. Management uses these measures internally to evaluate the Company's in-period operating performance before gains, losses and other charges that are considered by management to be outside of the Company's core operating results. These non-GAAP financial measures should assist investors in understanding how management views our core results of operations on an on-going basis, as well as enhance comparisons of our core results of operations with historical periods. In addition, the measures are used for planning and forecasting of the Company's future periods. Investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. The non-GAAP financial measures do not reflect all costs associated with our operations as determined in accordance with GAAP. Other companies may exclude or include different items in a particular non-GAAP financial measure, or provide different non-GAAP financial measures to those provided by Zarlink. Therefore, our non-GAAP financial measures are unlikely to be comparable to those presented by other companies.

Zarlink Semiconductor Inc.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(in thousands, except per share amounts)
(Unaudited)

	Three months ended			Six months ended	
	Sept. 25, 2009	June 26, 2009	Sept. 26, 2008	Sept. 25, 2009	Sept. 26, 2008
GAAP net income (loss)	\$ 720	\$ (516)	\$ 7,232	\$ 204	\$ 8,332
Amortization of intangible assets	1,803	1,825	1,846	3,628	3,692
Contract impairment	-	809	-	809	-
Foreign exchange loss (gain)	2,999	3,880	(1,940)	6,879	(1,618)
Restructuring and supply chain harmonization	889	1,093	1,339	1,981	3,280
Recovery of current asset	(768)	-	-	(768)	-
Stock compensation expense	325	363	490	688	1,000
Gain on sale of assets	-	-	-	-	(936)
Loss on repurchase of convertible debentures	316	-	-	316	-
Non-GAAP net income	<u>\$ 6,284</u>	<u>\$ 7,454</u>	<u>\$ 8,967</u>	<u>\$ 13,737</u>	<u>\$13,750</u>
GAAP operating income	\$ 5,171	\$ 4,400	\$ 3,887	\$ 9,571	\$ 6,170
Amortization of intangible assets	1,803	1,825	1,846	3,628	3,692
Contract impairment	-	809	-	809	-
Restructuring and supply chain harmonization	889	1,093	1,339	1,981	3,280
Recovery of current asset	(768)	-	-	(768)	-
Stock compensation expense	325	363	490	688	1,000
Gain on sale of assets	-	-	-	-	(936)
Non-GAAP operating income	<u>\$ 7,420</u>	<u>\$ 8,490</u>	<u>\$ 7,562</u>	<u>\$ 15,909</u>	<u>\$13,206</u>
GAAP net income (loss) per common share - basic	\$ 0.00	\$ (0.01)	\$ 0.05	\$ (0.01)	\$ 0.05
Amortization of intangible assets	0.01	0.01	0.01	0.03	0.03
Contract impairment	-	0.01	-	0.01	-
Foreign exchange loss (gain)	0.02	0.03	(0.02)	0.06	(0.01)
Restructuring and supply chain harmonization	0.01	0.01	0.01	0.02	0.03
Recovery of current asset	(0.01)	-	-	(0.01)	-
Stock compensation expense	0.00	0.00	0.00	0.01	0.01
Gain on sale of assets	-	-	-	-	(0.01)
Loss on repurchase of convertible debentures	0.00	-	-	0.00	-
Non-GAAP net income per common share – basic*	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>
GAAP net income (loss) per common share - diluted	\$ 0.00	\$ (0.01)	\$ 0.05	\$ (0.01)	\$ 0.05
Amortization of intangible assets	0.01	0.01	0.01	0.02	0.02
Contract impairment	-	0.01	-	0.01	-
Foreign exchange loss (gain)	0.02	0.03	(0.01)	0.05	(0.01)
Restructuring and supply chain harmonization	0.01	0.01	0.01	0.01	0.02
Recovery of current asset	(0.01)	-	-	(0.01)	-
Stock compensation expense	0.00	0.00	0.00	0.00	0.01
Gain on sale of assets	-	-	-	-	(0.01)
Loss on repurchase of convertible debentures	0.00	-	-	0.00	-
Effect of dilutive potential common shares	0.00	0.01	-	0.01	-
Non-GAAP net income per common share – diluted*	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>
Shares used to calculate non-GAAP net income per common share – basic	122,426	122,426	125,580	122,426	126,412
Shares used to calculate non-GAAP net income per common share – diluted	152,436	151,696	157,723	152,148	158,555

* Amounts may not add due to rounding.