

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			Nine Months Ended	
	Dec. 25, 2009	Sept. 25, 2009	Dec. 26, 2008	Dec. 25, 2009	Dec. 26, 2008
Revenue	\$ 54,425	\$ 53,596	\$ 53,726	\$ 161,629	\$ 176,064
Cost of revenue	26,074	26,665	27,215	79,484	91,386
Gross margin	28,351	26,931	26,511	82,145	84,678
Expenses:					
Research and development	10,930	10,601	10,402	31,067	33,560
Selling and administrative	11,219	10,124	10,877	31,636	36,960
Amortization of intangible assets	1,803	1,803	1,846	5,431	5,538
Contract impairment (recovery)	(94)	-	142	715	142
Impairment (recovery) of current asset	-	(768)	3,000	(768)	3,000
Impairment of asset held for sale	-	-	1,200	-	1,200
Gain on sale of assets	-	-	-	-	(936)
	23,858	21,760	27,467	68,081	79,464
Operating income (loss)	4,493	5,171	(956)	14,064	5,214
Gain (loss) on repurchase of convertible debentures	-	(316)	3,593	(316)	3,593
Interest income	69	43	392	157	1,108
Interest expense	(985)	(973)	(978)	(2,861)	(3,293)
Amortization of debt issue costs	(161)	(160)	(161)	(481)	(529)
Foreign exchange gain (loss)	(2,719)	(2,999)	10,302	(9,598)	11,920
Net income before income taxes	697	766	12,192	965	18,013
Income tax recovery (expense)	(66)	(46)	(92)	(130)	2,419
Net income	\$ 631	\$ 720	\$ 12,100	\$ 835	\$ 20,432
Net income (loss) attributable to common shareholders	\$ 112	\$ 135	\$ 11,642	\$ (758)	\$ 18,587
Net income (loss) per common share:					
Basic	\$ 0.00	\$ 0.00	\$ 0.09	\$ (0.01)	\$ 0.15
Diluted	\$ 0.00	\$ 0.00	\$ 0.08	\$ (0.01)	\$ 0.13
Weighted average number of common shares outstanding (thousands):					
Basic	122,293	122,426	123,942	122,381	125,589
Diluted	123,652	123,510	154,297	122,381	157,136
Percentage of revenue:					
Gross margin	52%	50%	49%	51%	48%
Research and development	20%	20%	19%	19%	19%
Selling and administrative	21%	19%	20%	20%	21%

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

	Three Months Ended			Nine Months Ended	
	Dec. 25, 2009	Sept. 25, 2009	Dec. 26, 2008	Dec. 25, 2009	Dec. 26, 2008
<u>CASH PROVIDED BY (USED IN)</u>					
Operating activities:					
Net income	\$ 631	\$ 720	\$12,100	\$ 835	\$20,432
Depreciation of fixed assets	939	949	1,205	2,864	3,588
Amortization of other assets	1,964	1,963	2,007	5,912	6,067
Stock compensation expense	475	325	575	1,163	1,575
Other non-cash changes in operating activities	2,802	2,665	(9,153)	9,857	(10,789)
Deferred income taxes	162	(71)	1,248	245	2,181
Decrease (increase) in working capital:					
Trade accounts and other receivables	(6,615)	2,692	8,836	(5,536)	3,091
Inventories	3,809	(878)	(383)	1,286	685
Prepaid expenses and other	951	(247)	2,175	634	3,744
Payables and other accrued liabilities	1,671	(796)	(11,492)	(208)	(16,270)
Deferred revenue	1,770	1,898	(1,084)	3,685	857
Total	8,559	9,220	6,034	20,737	15,161
Investing activities:					
Expenditures for fixed assets	(998)	(411)	(806)	(1,984)	(3,070)
Proceeds from disposal of fixed assets	-	-	-	-	984
Total	(998)	(411)	(806)	(1,984)	(2,086)
Financing activities:					
Repurchase of convertible debentures	-	(13)	(2,594)	(13)	(2,594)
Payment of dividends on preferred shares	(474)	(466)	(437)	(1,417)	(1,522)
Repurchase of preferred shares	(144)	(433)	(290)	(849)	(1,180)
Repurchase of common shares	(642)	-	(887)	(642)	(2,707)
Total	(1,260)	(912)	(4,208)	(2,921)	(8,003)
Effect of currency translation on cash	(102)	672	(1,613)	1,067	(2,154)
Increase (decrease) in cash and cash equivalents	6,199	8,569	(593)	16,899	2,918
Cash and cash equivalents, beginning of period	55,706	47,137	45,872	45,006	42,361
Cash and cash equivalents, end of period	\$ 61,905	\$ 55,706	\$ 45,279	\$ 61,905	\$ 45,279

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

	<u>Dec. 25, 2009</u>	<u>Sept. 25, 2009</u>	<u>March 27, 2009</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 61,905	\$ 55,706	\$ 45,006
Restricted cash and cash equivalents	14,704	15,455	13,145
Trade accounts receivable – net	30,352	23,209	24,556
Other accounts receivable – net	3,987	4,568	4,300
Inventories – net	26,535	30,344	27,821
Prepaid expenses and other	2,048	2,998	2,681
Current assets held for sale	1,935	1,935	1,935
	<u>141,466</u>	<u>134,215</u>	<u>119,444</u>
Fixed assets – net	11,528	11,803	12,530
Deferred income tax assets – net	5,561	5,723	5,800
Intangible assets – net	43,674	45,477	49,106
Other assets	2,081	2,283	2,655
	<u>\$ 204,310</u>	<u>\$ 199,501</u>	<u>\$ 189,535</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable	\$ 11,885	\$ 12,513	\$ 12,018
Employee-related payables	10,269	8,918	9,478
Income and other taxes payable	746	657	482
Current portion of provisions for exit activities	1,574	1,826	3,645
Other accrued liabilities	8,332	6,972	6,454
Deferred revenue	4,546	2,776	861
Deferred income tax liabilities – current portion	31	31	28
	<u>37,383</u>	<u>33,693</u>	<u>32,966</u>
Long-term debt – convertible debentures	67,567	64,923	57,203
Long-term portion of provisions for exit activities	323	558	200
Pension liabilities	16,208	17,075	14,690
Deferred income tax liabilities – long-term portion	31	31	28
Long-term accrued income taxes	2,192	2,350	2,408
Other long-term liabilities	545	833	830
	<u>124,249</u>	<u>119,463</u>	<u>108,325</u>
Redeemable preferred shares, unlimited shares authorized; 1,006,600 shares issued and outstanding as at December 25, 2009	<u>12,884</u>	<u>12,984</u>	<u>13,558</u>
Shareholders' equity:			
Common shares, unlimited shares authorized; no par value; 121,683,182 shares issued and outstanding as at December 25, 2009	734,337	738,818	738,818
Additional paid-in capital	38,795	34,526	33,969
Deficit	(670,454)	(670,611)	(669,872)
Accumulated other comprehensive loss	(35,501)	(35,679)	(35,263)
	<u>67,177</u>	<u>67,054</u>	<u>67,652</u>
	<u>\$ 204,310</u>	<u>\$ 199,501</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 Dec. 25, 2009	% of Total		Three Months Ended Sept. 25, 2009	% of Total		Three Months Ended Dec. 26, 2008	% of Total
Asia – Pacific	\$26,487	49 %		\$29,143	54 %		\$26,925	50 %
Europe	16,617	31		13,379	25		14,482	27
Americas	11,321	20		11,074	21		12,319	23
	<u>\$54,425</u>	<u>100 %</u>		<u>\$53,596</u>	<u>100 %</u>		<u>\$53,726</u>	<u>100 %</u>
				Nine Months Ended Dec. 25, 2009	% of Total		Nine Months Ended Dec. 26, 2008	% of Total
Asia – Pacific				\$84,059	52 %		\$89,225	51 %
Europe				44,302	27		46,617	26
Americas				33,268	21		40,222	23
				<u>\$161,629</u>	<u>100 %</u>		<u>\$176,064</u>	<u>100 %</u>

Product Group Information:

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

	Three Months Ended Dec. 25, 2009	% of Total		Three Months Ended Sept. 25, 2009	% of Total		Three Months Ended Dec. 26, 2008	% of Total
Communication Products	\$33,818	62 %		\$34,196	64 %		\$33,682	63 %
Medical Products	7,937	15		7,799	15		8,217	15
Optical Products	4,463	8		3,830	7		5,443	10
Custom & Other	8,207	15		7,771	14		6,384	12
	<u>\$54,425</u>	<u>100 %</u>		<u>\$53,596</u>	<u>100 %</u>		<u>\$53,726</u>	<u>100 %</u>
				Nine Months Ended Dec. 25, 2009	% of Total		Nine Months Ended Dec. 26, 2008	% of Total
Communication Products				\$100,662	62 %		\$112,464	64 %
Medical Products				24,720	15		25,195	14
Optical Products				12,246	8		18,491	11
Custom & Other				24,001	15		19,914	11
				<u>\$161,629</u>	<u>100 %</u>		<u>\$176,064</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.

Reconciliations of historical presentations of non-GAAP measures to their most directly comparable GAAP financial measures are provided in the following table. The Company is unable to reconcile these non-GAAP measures on a forward-looking basis primarily because it is impractical to project certain events, such as the impact of foreign exchange gains/losses.

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

	Three Months Ended			Nine Months Ended	
	Dec. 25, 2009	Sept. 25, 2009	Dec. 26, 2008	Dec. 25, 2009	Dec. 26, 2008
GAAP net income	\$ 631	\$ 720	\$ 12,100	\$ 835	\$20,432
Amortization of intangible assets	1,803	1,803	1,846	5,431	5,538
Contract impairment (recovery)	(94)	-	142	715	142
Foreign exchange loss (gain)	2,719	2,999	(10,302)	9,598	(11,920)
Restructuring and supply chain harmonization	592	889	604	2,573	3,884
Impairment of asset held for sale	-	-	1,200	-	1,200
Impairment (recovery) of current asset	-	(768)	3,000	(768)	3,000
Stock compensation expense	475	325	575	1,163	1,575
Gain on sale of assets	-	-	-	-	(936)
Loss (gain) on repurchase of convertible debentures	-	316	(3,593)	316	(3,593)
Non-GAAP net income	\$ 6,126	\$ 6,284	\$ 5,572	\$ 19,863	\$19,322
GAAP operating income (loss)	\$ 4,493	\$ 5,171	\$ (956)	\$ 14,064	\$ 5,214
Amortization of intangible assets	1,803	1,803	1,846	5,431	5,538
Contract impairment (recovery)	(94)	-	142	715	142
Restructuring and supply chain harmonization	592	889	604	2,573	3,884
Impairment of asset held for sale	-	-	1,200	-	1,200
Impairment (recovery) of current asset	-	(768)	3,000	(768)	3,000
Stock compensation expense	475	325	575	1,163	1,575
Gain on sale of assets	-	-	-	-	(936)
Non-GAAP operating income	\$ 7,269	\$ 7,420	\$ 6,411	\$ 23,178	\$19,617
GAAP net income (loss) per common share - basic	\$ 0.00	\$ 0.00	\$ 0.09	\$ (0.01)	\$ 0.15
Amortization of intangible assets	0.01	0.01	0.01	0.04	0.04
Contract impairment (recovery)	(0.00)	-	0.00	0.01	0.00
Foreign exchange loss (gain)	0.02	0.02	(0.08)	0.08	(0.10)
Restructuring and supply chain harmonization	0.00	0.01	0.00	0.02	0.03
Impairment of asset held for sale	-	-	0.01	-	0.01
Impairment (recovery) of current asset	-	(0.01)	0.02	(0.01)	0.02
Stock compensation expense	0.00	0.00	0.00	0.01	0.01
Gain on sale of assets	-	-	-	-	(0.01)
Loss (gain) on repurchase of convertible debentures	-	0.00	(0.03)	0.00	(0.03)
Non-GAAP net income per common share - basic*	\$ 0.05	\$ 0.05	\$ 0.04	\$ 0.15	\$ 0.14
GAAP net income (loss) per common share - diluted	\$ 0.00	\$ 0.00	\$ 0.08	\$ (0.01)	\$ 0.13
Amortization of intangible assets	0.01	0.01	0.01	0.04	0.04
Contract impairment (recovery)	(0.00)	-	0.00	0.00	0.00
Foreign exchange loss (gain)	0.02	0.02	(0.07)	0.06	(0.08)
Restructuring and supply chain harmonization	0.00	0.01	0.00	0.02	0.02
Impairment of asset held for sale	-	-	0.01	-	0.01
Impairment (recovery) of current asset	-	(0.01)	0.02	(0.01)	0.02
Stock compensation expense	0.00	0.00	0.00	0.01	0.01
Gain on sale of assets	-	-	-	-	(0.01)
Loss (gain) on repurchase of convertible debentures	-	0.00	(0.02)	0.00	(0.02)
Effect of dilutive potential common shares	0.00	0.00	-	0.02	-
Non-GAAP net income per common share - diluted*	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.13	\$ 0.13
Shares used to calculate non-GAAP net income per common share - basic	122,293	122,426	123,942	122,381	125,589
Shares used to calculate non-GAAP net income per common share - diluted	152,576	152,436	154,297	152,321	157,136

* Amounts may not add due to rounding.