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As filed with the Securities and Exchange Commission on October 15, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PIXELWORKS, INC.

(Exact name of registrant as specified in its charter)

Oregon

(State or other jurisdiction of
Incorporation or Organization)

91-1761992

(I.R.S. Employer Identification Number)

**8100 SW Nyberg
Suite 300
Tualatin, Oregon 97062
(503) 454-1750**

(Address, including zip code and telephone number, including area code,
of registrant's principal executive offices)

**Allen H. Alley
President
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(Name, address, including zip code and telephone number,
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box:

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this Form is a post-effective amendment filed pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

| Title of each class of securities to be registered | Amount to be registered | Proposed maximum offering price per unit(1) | Proposed maximum aggregate offering price(1) | Amount of registration fee(1) |
|--|-------------------------|---|--|-------------------------------|
| Common Stock | 1,731,009 | \$4.25 | \$7,356,788 | \$676.83 |

- (1) Pursuant to Rule 457(f), the registration fee was computed on the basis of the market value of the 1,731,009 shares of Pixelworks Common Stock to be issued by the registrant in connection with the exchange or redemption of the exchangeable shares, computed in accordance with Rule 457(c) on the basis of the average (\$4.25) of the high and low price of the shares of Pixelworks Common Stock reported on the Nasdaq on October 14, 2002.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission relating to these securities is effective. This prospectus is not an offer to sell these securities and is not seeking an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 15, 2002

PROSPECTUS



1,731,009 SHARES

PIXELWORKS, INC.

COMMON STOCK
(PAR VALUE \$0.001 PER SHARE)

This is an offering of shares of Common Stock of Pixelworks, Inc., an Oregon corporation. We are offering up to 1,731,009 shares of Common Stock to the holders of Exchangeable Shares of Jaldi Semiconductor Corp., a Canadian corporation, incorporated under the laws of Ontario. Jaldi issued the Exchangeable Shares in exchange for outstanding Jaldi common shares in connection with the acquisition of Jaldi by Pixelworks. Holders of Exchangeable Shares may exchange one Exchangeable Share for one share of Common Stock of Pixelworks, and in some cases we may redeem each Exchangeable Share for one share of Common Stock. We describe the process by which Exchangeable Shares may be exchanged for Common Stock on page 21 of this Prospectus under the heading "Exchangeable Shares." Holders of Exchangeable Shares may exchange their Exchangeable Shares for shares of our Common Stock immediately upon the completion of the acquisition of Jaldi by Pixelworks or at a later time. We are offering the shares of our Common Stock on a continuous basis pursuant to Rule 415 under the Securities Act of 1933 only during the period when the registration statement relating to this Prospectus is effective. We will bear the registration costs incurred in connection with this offering.

Our Common Stock is traded on the Nasdaq National Market under the symbol "PXLW." On October 14, 2002, the closing price of our Common Stock, as reported on the Nasdaq National Market, was \$4.31 per share.

You should read this prospectus carefully before you invest. Investing in our Common Stock involves substantial risks. See "Risk Factors" beginning on page 1.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED ON THE ADEQUACY OR ACCURACY OF THE DISCLOSURES IN THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is October , 2002.

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THE COMPANY

We design, develop and market system-on-a-chip integrated circuits ("ICs") and software for the advanced display industry. Our technology translates and optimizes video, computer graphics, and visual Web information for display on a wide variety of electronic devices. We have announced products in production with Compaq, Dell, Hewlett-Packard, Hitachi, InFocus Corporation, NEC-Mitsubishi, Samsung, SANYO, Seiko Epson, Sharp, Sony and ViewSonic.

In the prospectus, "Pixelworks," "we" and "our" refer to Pixelworks, Inc. unless the context otherwise requires. We are incorporated in Oregon and our principal offices are located at 8100 Nyberg Street, Suite 300, Tualatin, Oregon 97062. Our telephone number is 503-454-1750.

RISK FACTORS

The Common Stock being offered by this Prospectus involves a high degree of risk. You should carefully consider the following risk factors in addition to other information contained in this prospectus in deciding whether to invest in Pixelworks Common Stock.

RISKS RELATED TO THE COMMON STOCK, EXCHANGEABLE SHARES AND THE EXCHANGE.

Taxability of the Exchange.

If you exchange your Exchangeable Shares for shares of our common stock, you may be required to pay tax on any gain you have under the laws of Canada and the United States.

Tax Treatment of the Acquisition.

The discussion of the tax consequences of the transaction contained in this prospectus assumes that for Canadian and United States federal income tax purposes the form of the transaction relating to the Exchangeable Shares will be respected and the Exchangeable Shares will be treated as capital stock of Jaldi. If that treatment is not given, the tax consequences of the transaction could differ materially from that set forth in this prospectus.

Tax Considerations of the Exchange for Canadian Residents.

If you are a Canadian resident holding Exchangeable Shares as capital property and deal at arm's length with and are not otherwise affiliated with us, and Exchangeable Shares are redeemed or retracted, you will generally be deemed to have received a dividend equal to the amount paid on the redemption or retraction less the paid-up capital of the Exchangeable Shares. You will also generally be deemed to have realized a capital gain (or capital loss) to the extent that your proceeds of disposition (net of reasonable costs of disposition) exceed (or are less than) your adjusted cost base for your shares. If you otherwise exchange your Exchangeable Shares for shares of our common stock, you will generally be considered to have realized a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition (net of reasonable costs of disposition) exceed (or are less than) your adjusted cost base for the Exchangeable Shares exchanged.

Holding and Disposition of Common Stock- Canadian Tax Considerations for Canadian Residents.

If you are a Canadian resident, dividends that you receive (or are deemed to receive) on shares of our common stock must be included in your income. If you are an individual, the dividends will not be subject to the gross-up and dividend tax credit rules that normally apply to taxable dividends received from taxable Canadian corporations. If you are a corporation, the dividends will not be deductible in computing your taxable income. In certain circumstances you may be entitled to a foreign tax credit for any U.S. withholding tax paid on the dividends, subject to detailed rules in the Canadian Tax Act. Your cost amount of shares of our common stock that you receive on retraction, redemption or exchange of an Exchangeable Share will in general be equal to the fair market value of the shares of our common

stock at the time of such event. When you dispose of shares of our common stock held by you as capital property, you will generally recognize a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition (net of reasonable costs of disposition) exceed (or are less than) your adjusted cost base of the shares of our common stock.

Certain United States Federal Income Tax Considerations for Non-United States Persons.

Although not free from doubt, if you are not a United States person for United States federal income tax purposes, dividends that you receive with respect to Exchangeable Shares should not be subject to withholding of United States federal income tax; however, if the dividend is effectively connected with your conduct of a trade or business within the United States it will be taxed at ordinary United States federal income tax rates. If you are not a United States person, dividends that you receive with respect to shares of our common stock generally will be subject to United States withholding tax at a rate of 30 percent unless the dividend is effectively connected with your conduct of a trade or business within the United States, in which case the dividend will be taxed at ordinary United States federal income tax rates. If you are not a United States person, you will generally not be subject to United States federal income tax on any gain that you realize when you exchange your Exchangeable Shares for shares of our common stock or when you sell or exchange shares of our common stock, unless such gain is effectively connected with your conduct of a trade or business within the United States or, if you are an individual, you are present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are satisfied.

Certain United States Federal Income Tax Considerations for United States Persons.

If you are a United States person, dividends paid to you as a holder of Exchangeable Shares or shares of our common stock will generally be included in your gross income as ordinary income. Subject to applicable United States federal income tax limitations, if dividends on your Exchangeable Shares are subject to Canadian income taxation, you should be entitled to either a tax credit or a tax deduction for United States federal income tax purposes equal to the amount of Canadian income taxes paid or accrued. Except in limited circumstances, if you are a United States person for United States federal income tax purposes, you will generally recognize a gain or loss when you exchange your Exchangeable Shares for shares of our common stock. Under certain limited circumstances, the exchange of Exchangeable Shares for shares of our common stock may be characterized as a tax-free exchange. In particular, if you exchange your Exchangeable Shares for shares of our common stock pursuant to the Redemption Call Right or Liquidation Call Right (each as defined below), or at a time when our wholly owned subsidiary, Pixelworks Nova Scotia, owns at least 80 percent of the issued and outstanding Exchangeable Shares, the exchange may be tax free for United States federal income tax purposes. If you are a United States person, you will generally recognize gain or loss when you sell or exchange your shares of our common stock.

Foreign Property/Qualified Investment Issues for Canadian Shareholders.

If you hold your Exchangeable Shares through a trust governed by a registered retirement savings plan, a registered retirement income fund or a deferred profit sharing plan, you should consult your tax advisors as to whether the Exchangeable Shares will be "qualified investments" under the Canadian Tax Act. If you are such a holder, your shares of our common stock will also be "qualified investments" under the Canadian Tax Act, as long as those shares are listed on a prescribed stock exchange (which currently includes Nasdaq). The Exchangeable Shares and our common stock will be "foreign property" under the Canadian Tax Act.

WE STRONGLY URGE YOU TO CONSULT WITH YOUR TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE TRANSACTIONS DESCRIBED HEREIN. For a more detailed discussion regarding certain United States and Canadian income tax considerations that may be applicable to you see "Plan of Distribution—Income Tax Considerations," below.

Differences in Canadian and U.S. Trading Markets.

Our common stock is traded only on the Nasdaq National Market. There is no trading market for the Exchangeable Shares. We do not intend to list either the Exchangeable Shares or our common stock on any other stock exchange or market in the United States or Canada. Accordingly, there will be no public trading market for the Exchangeable Shares and the trading price for our common stock will be based upon the market for that stock on the Nasdaq National Market. We cannot assure you that the market price for our common stock will be the same as, or even similar to, the market price for the Exchangeable Shares.

RISKS RELATED TO OUR OPERATIONS.

While we have had quarterly periods of net income, including the most recently completed quarter ended June 30, 2002, we have incurred net losses on an annual basis since our inception and may not be able to achieve or sustain profitability on either a quarterly or annual basis in the future.

We incurred net losses of approximately \$2.5 million for the six months ended June 30, 2002 and cumulative net losses of approximately \$52.5 million through June 30, 2002. In the future we expect our research and development and selling, general and administrative expenses to increase. Given expected increases in operating expense, we must increase revenues and gross profit to become profitable. We cannot be certain that we will achieve profitability in the future or, if we do, that we can sustain or increase profitability on a quarterly or annual basis. This may in turn cause the price of our common stock to decline. In addition, if we are not profitable in the future we may be unable to continue our operations.

Fluctuations in our quarterly operating results make it difficult to predict our future performance and may result in volatility in the market price of our common stock.

Our quarterly operating results are likely to vary significantly in the future based on a number of factors related to our industry and the markets for our products, some of which are not in our control and any of which may cause the price of our common stock to fluctuate. These

factors include:

- demand for flat panel monitors, advanced television displays, multimedia projectors and Internet appliances;
- demand for our products and the timing of orders for our products;
- the deferral of customer orders in anticipation of our new products or product enhancements or due to a reduction in our end customers' demand;
- the loss of one or more of our key distributors or customers or a reduction, delay or cancellation of orders from one or more of these parties;
- changes in the available production capacity at the semiconductor fabrication foundries that manufacture our products and changes in the costs of manufacturing;
- our ability to provide adequate supplies of our products to customers and avoid excess inventory;
- announcement or introduction of products and technologies by our competitors;
- changes in product mix, product costs or pricing, or distribution channels; and
- general economic conditions and economic conditions specific to the personal computer, display and semiconductor markets.

These factors are difficult to forecast, and these or other factors could seriously harm our business. We anticipate the rate of new orders may vary significantly from quarter to quarter. Our operating expenses and inventory levels are based on our expectations of future revenues and our operating

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expenses are relatively fixed in the short term. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, operating expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters may be negatively impacted. Any shortfall in our revenues would have a direct impact on our business. In addition, fluctuations in our quarterly results could adversely affect the price of our common stock in a manner unrelated to our long-term operating performance. Because our operating results are volatile and difficult to predict, you should not rely on the results of one quarter as an indication of our future performance. It is possible that in some future quarter our operating results will fall below the expectations of securities analysts and investors. In this event, the price of our common stock may decline significantly.

Our highly integrated products and high-speed mixed signal products are difficult to manufacture without defects and the existence of defects in the manufactured products could result in an increase in our costs and delays in the availability of our products.

The manufacture of semiconductors is a complex process and it is often difficult for semiconductor foundries to produce semiconductors free of defects. Because our products are more highly integrated than many other semiconductors and incorporate mixed analog and digital signal processing and embedded memory technology, they are even more difficult to produce without defects.

The ability to manufacture products of acceptable quality depends on both product design and manufacturing process technology. Since defective products can be caused by either design or manufacturing difficulties, identifying quality problems can occur only by analyzing and testing our semiconductors in a system after they have been manufactured. The difficulty in identifying defects is compounded because the process technology is unique to each of the multiple semiconductor foundries we contract with to manufacture our products. Failure to achieve defect-free products due to their increasing complexity may result in an increase in our cost and delays in the availability of our products. For example, we have experienced field failures of our IC's in certain customer system applications that required us to institute additional IC level testing. As a result of these field failures we have incurred additional costs due to customers returning potentially affected products and have been required to resell products from third parties in order to meet certain customer commitments. Additionally, customers have experienced delays in receiving product shipments from us that resulted in the loss of revenue and profits.

If we do not achieve additional design wins in the future, our ability to grow would be seriously limited.

Our future success will depend on developers of advanced display devices designing our products into their systems. To achieve design wins we must define and deliver cost-effective, innovative and integrated semiconductors. Once a supplier's products have been designed into a system, the developer may be reluctant to change its source of components due to the significant costs associated with qualifying a new supplier. Accordingly, the failure on our part to obtain additional design wins with leading branded manufacturers or integrators, and to successfully design, develop and introduce new products and product enhancements could harm our business, financial condition and results of operations.

Achieving a design win does not necessarily mean that a developer will order large volumes of our products. A design win is not a binding commitment by a developer to purchase our products. Rather, it is a decision by a developer to use our products in the design process of that developer's products. Developers can choose at any time to discontinue using our products in their designs or product development efforts. If our products are chosen to be incorporated into a developer's products, we may still not realize significant revenues from that developer, if that developer's products are not commercially successful.

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Because of the complex nature of our semiconductor designs and the associated manufacturing process and the rapid evolution of

our customers' product design we may not be able to develop new products or product enhancements in a timely manner, which could decrease customer demand for our products and reduce our revenues.

The development of our semiconductors, which incorporate mixed analog and digital signal processing, is highly complex. These complexities require that we employ advanced designs and manufacturing processes that are unproven. Since commencing our operations, we have experienced increased development time and delays in introducing new products. We will not always succeed in developing new products or product enhancements nor do so in a timely manner. With the acquisitions of Panstera, Inc., ("Panstera") in January 2001, nDSP, Inc., ("nDSP") in January 2002 and Jaldi in September 2002, we significantly added to the complexity of our product development efforts. We must now coordinate very complex product development programs between multiple, geographically dispersed locations that were formerly done in one location.

Many of our designs involve the development of new high-speed analog circuits that are difficult to simulate and require physical prototypes not required by the primarily digital circuits we currently design. The result could be longer and less predictable development cycles.

Successful development and timely introduction of new or enhanced products depends on a number of other factors, including:

- accurate prediction of customer requirements and evolving industry standards, including digital interface and content piracy protection standards;
- development of advanced display technologies and capabilities;
- timely completion and introduction of new product designs;
- use of advanced foundry processes and achievement of high manufacturing yields; and
- market acceptance of the new products.

If we are not able to successfully develop and introduce our products in a timely manner, our business and results of operations will be adversely affected.

Integration of software in our products adds complexity and cost that may affect our ability to achieve design wins and may affect our profitability.

Our products incorporate software and software development tools. The integration of software adds complexity, may extend our internal development programs and could impact our customers' development schedules. This complexity requires increased coordination between hardware and software development schedules and may increase our operating expenses without a corresponding increase in product revenue. Some customers and potential customers may choose not to use our products because of the additional requirements of implementing our software, preferring to use a product that works with their existing software. This additional level of complexity lengthens the sales cycle and may result in customers selecting competitive products requiring less software integration.

A significant amount of our revenue comes from a few customers and distributors and any decrease in revenues from, or loss of any of, these customers or distributors could significantly reduce our total revenues.

We are and will continue to be dependent on a limited number of large distributors and customers for a substantial portion of our revenue. For the six months ended June 30, 2002, and year ended December 31, 2001, sales to distributors represented 64% and 61% of total revenue, respectively. For the six months ended June 30, 2002, and year ended December 31, 2001, sales to Tokyo Electron Device Limited, our distributor in Japan, represented 43% and 52% of total revenue, respectively. During the six months ended June 30, 2002 there were no end customers that represented 10% or more of total revenue. Sales to our top five customers for the six months ended June 30, 2002 accounted for approximately 42% of our total sales. Sales to our top five customers accounted for approximately 43%, 52% and 62% for the years ended December 31, 2001, 2000 and 1999, respectively. As a result of this customer and distributor concentration, any one of the following factors could significantly impact our revenues:

- a significant reduction, delay or cancellation of orders from one or more of our key distributors, branded manufacturers or integrators; or
- a decision by one or more significant customers to select products manufactured by a competitor, or its own internally developed semiconductor, for inclusion in future product generations.

The display manufacturing market is highly concentrated among relatively few large manufacturers. We expect our operating results to continue to depend on revenues from a relatively small number of distributors that sell our products to display manufacturers and their suppliers.

The concentration of our accounts receivable with a limited number of distributors exposes us to increased credit risk and could seriously harm our operating results and cash flows.

At June 30, 2002, we had two customers that represented more than 10% of our accounts receivable balance. Tokyo Electron Device was the largest accounts receivable representing 46% of our total accounts receivable. The failure of this distributor or any other customer representing 10% or more of our total accounts receivable to pay these accounts receivable would result in a significant expense that would seriously harm our operating results and would reduce our cash flows.

International sales account for a significant portion of our revenue, and if we do not successfully address the risks associated with our international operations, our revenue could decrease.

Sales outside of the U.S. accounted for 99% for the six months ended June 30, 2002 and 91%, 96% and 93% of our total revenue in 2001, 2000 and 1999, respectively. Most of our customers are concentrated in Japan, Korea and Taiwan, with aggregate sales from those three countries accounting for 77% of total revenue for the first six months of 2002 and 82% and 88% of our total revenue during the year ended December 31, 2001 and 2000, respectively. We anticipate that sales outside the U.S. will continue to account for a substantial portion of our revenues in future periods. In addition, customers who incorporate our products into their products sell them outside of the U.S., thereby exposing us indirectly to foreign risks. In addition, all of our products are manufactured outside of the U.S. We are, therefore, subject to many international risks, including:

- increased difficulties in managing international distributors and manufacturers of our products and components due to varying time zones, languages and business customs;
- foreign currency exchange fluctuations such as the Asian financial crisis that occurred in 1998 which caused a devaluation in the currencies of Japan, Taiwan and Korea resulting in an increased cost of procuring our semiconductors;

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- potentially adverse tax consequences such as license fee revenue taxes imposed in Japan;
 - difficulties regarding timing and availability of export and import licenses, which have limited our ability to freely move demonstration equipment and samples in and out of Asia;
 - political and economic instability, particularly in Taiwan and Korea;
 - reduced or limited protection of our intellectual property, significant amounts of which are contained in software which is more prone to design piracy;
 - increased transaction costs related to sales transactions conducted outside of the U.S. such as charges to secure letters of credit for foreign receivables;
 - difficulties in maintaining sales representatives outside of the U.S. that are knowledgeable of the display processor industry and our display processor products;
 - changes in the regulatory environment in Japan, Korea, Taiwan and China that may significantly impact purchases of our products by our customers; and
 - difficulties in collecting accounts receivable.

Our dependence on selling through distributors and integrators increases the complexity of managing our supply chain and may result in excess inventory or inventory shortages.

Selling through distributors reduces our ability to forecast sales and increases the complexity of our business. Since our distributors are an intermediary between us and the companies using our products, we must rely on our distributors to accurately report inventory levels and production forecasts. This arrangement requires us to manage a more complex supply chain and monitor the financial condition and credit worthiness of our distributors and customers. Our failure to manage one or more of these challenges could result in excess inventory or shortages that could seriously impact our operating revenue or limit the ability of companies using our semiconductors to deliver their products.

Dependence on a limited number of sole-source, third party manufacturers for our products exposes us to shortages based on capacity allocation, price increases with little notice, volatile inventory levels and delays in product delivery which could result in delays in satisfying customer demand, increased costs and loss of revenues.

We do not own or operate a semiconductor fabrication facility and we do not have the resources to manufacture our products internally. We rely on third party foundries for wafer fabrication and other contract manufacturers for assembly and electrical testing of our products. Our requirements represent only a small portion of the total production capacity of our contract manufacturers. Our third-party manufacturers have in the past re-allocated capacity to other customers even during periods of high demand for our products. We expect that this may occur in the future. We do not have a long-term supply contract with any of our contract manufacturers and they are not obligated to supply us with products for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order. From time to time our third-party manufacturers increase prices charged to manufacture our products with little notice. This requires us to either increase the price we charge for our products or suffer a decrease in our gross margins. We try not to maintain substantial inventories of products, but need to order products long before we have firm purchase orders for those products which could result in excess inventory or inventory shortages.

If we are unable to obtain our products from manufacturers on schedule, our ability to satisfy customer demand will be harmed, and revenue from the sale of products may be lost or delayed. If orders for our products are canceled, expected revenues would not be realized. In addition, if the price charged by our third-party manufacturers increases we will be required to increase our prices, which could harm our competitiveness, or suffer declines in our gross margin.

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We use a COT, or customer-owned tooling, process for manufacturing some of our products which exposes us to the possibility of poor yields on manufactured products negatively impacting our gross profit margins and could also result in a reduction or loss of revenue.

We have assumed greater responsibility for the process for our next-generation of products by subcontracting separately for the production of

wafers and for their assembly and testing. We are building some products on a customer owned tooling basis, also known in the semiconductor industry as COT, where we directly contract the manufacture of wafers and assume the responsibility for the assembly and testing of our products. As a result, we are subject to increased risks arising from wafer manufacturing yields and associated with coordination of the manufacturing, assembly and testing process. Failure to effectively use this approach to manufacturing would reduce our revenues and harm our gross margin and results of operations.

We are dependent on our foundries to implement complex semiconductor technologies, which could adversely affect our operations if those technologies are not available, delayed or inefficiently implemented.

In order to increase performance and functionality and reduce the size of our products, we are continuously developing new products using advanced technologies that further miniaturize semiconductors. However, we are dependent on our foundries to develop and provide access to the advanced processes that enable such miniaturization. We cannot be certain that future advanced manufacturing processes will be implemented without difficulties, delays or increased expenses. Our business, financial condition and results of operations could be materially and adversely affected if advanced manufacturing processes are unavailable to us, substantially delayed or inefficiently implemented.

If we have to qualify a new contract manufacturer or foundry for any of our products, we may experience delays that result in lost revenues and damaged customer relationships.

Our products require manufacturing with state-of-the-art fabrication equipment and techniques. Because the lead-time needed to establish a relationship with a new contract manufacturer is at least six months, and the estimated time for us to adapt a product's design to a particular contract manufacturer's processes is at least four months, there is no readily available alternative source of supply for any specific product. This could cause significant delays in shipping products, which may result in lost revenues and damaged customer relationships.

Our future success depends upon the continued services of key personnel, many of whom would be difficult to replace and the loss of one or more of these employees could seriously harm our business by delaying product development.

Our future success depends upon the continued services of our executive officers, key hardware and software engineers, and sales, marketing and support personnel, many of whom would be difficult to replace. The loss of one or more of these employees could seriously harm our business. Particularly, because of the highly technical nature of our business, the loss of key engineering personnel could delay product introductions and significantly impair our ability to successfully create future products. In particular, the loss of the services of Allen Alley, our President, Chief Executive Officer and Chairman; Michael West, our Vice President and Chief Technology Officer; or Robert Greenberg, our Senior Vice President, could materially and adversely affect us. We are currently planning to hire a significant number of additional employees this year and in future periods, and we believe our success depends, in large part, upon our ability to identify, attract and retain qualified hardware and software engineers, and sales, marketing, finance and managerial personnel. Competition for talented personnel is intense and we may not be able to retain our key personnel or identify, attract or retain other highly qualified personnel in the future. We have experienced, and may continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. If we do not succeed in hiring and retaining

employees with appropriate qualifications, our product development efforts, revenues and business could be seriously harmed.

Because we do not have long-term commitments from our customers, and plan purchases based on estimates of customer demand, which may be inaccurate, we must contract for the manufacture of our products based on those potentially inaccurate estimates.

Our sales are made on the basis of purchase orders rather than long-term purchase commitments, which our customers may cancel or defer at any time. This process requires us to make multiple demand forecast assumptions, each of which may introduce errors into our estimates. If our customers or we overestimate demand, we may purchase products, which we may not be able to sell. As a result, we would have excess inventory, which would increase our losses. Conversely, if our customers or we underestimate demand or if sufficient manufacturing capacity were unavailable, we would forego revenue opportunities, lose market share and damage our customer relationships.

Development arrangements may cause us to incur substantial operating expenses without the guarantee of any associated revenue or far in advance of revenue.

We have had development arrangements with customers and other parties such as Intel Corporation that consume large amounts of engineering resources far in advance of product revenue. Our work under these arrangements is technically challenging and may require deliverables on an accelerated basis. These arrangements place considerable demands on our limited resources, particularly on our most senior engineering talent, and may not result in revenue for twelve to eighteen months, if at all. In addition, allocating significant resources to these arrangements may detract from or delay the completion of other important development projects. Any of these development agreements could be canceled at any time without notice. These factors could have a material and adverse effect on our long-term business and results of operations.

Because of our long product development process and sales cycle, we may incur substantial expenses before we earn associated revenues and may not ultimately sell as many units of our products as we forecasted.

We develop products based on anticipated market and customer requirements and incur substantial product development expenditures, which can include the payment of large up-front, third-party license fees and royalties, prior to generating associated revenues. Because the development of our products incorporates not only our complex and evolving technology, but also our customers' specific requirements, a lengthy sales process is often required before potential customers begin the technical evaluation of our products. Our customers typically perform numerous tests and extensively evaluate our products before incorporating them into their systems. The time required for testing, evaluation and design of our products into a customer's equipment can take up to six months or more. It can take an additional six months before a customer commences volume shipments of systems that incorporate our products. However, even when we achieve a design win, the customer may never ship systems incorporating our products. Because of our relatively limited history in selling our products, we cannot assure you that the time required for the testing, evaluation and design of our products by our customers would not exceed six months. Because of this lengthy development cycle, we will experience delays between the time we incur expenditures for research and development, sales and marketing, inventory levels and the time we generate revenues, if any, from these expenditures. Additionally, if actual sales volumes for a particular product

are substantially less than originally forecasted, we may experience large write-offs of capitalized license fees and prepaid royalties that would negatively affect our operating results.

Shortages of other key components for our customers' products could delay our ability to sell our products.

Shortages of components and other materials that are critical to the design and manufacture of our customers' products could limit our sales. These components include liquid crystal display panels and other display components, analog-to-digital converters, digital receivers and video decoders. During 2000, some companies that used our products experienced delays in the availability of key components from other suppliers, which, in turn, threatened a delay in demand for the products that we supplied to them.

Shortages of materials used in the manufacturing of our products may increase our costs or limit our revenues and impair our ability to ship our products on time.

From time to time, shortages of materials that are used in our products may occur. In particular, we may experience shortages of semiconductor wafers and packages. If material shortages occur, we may incur additional costs or be unable to ship our products to our customers in a timely fashion, all of which could harm our business and negatively impact our earnings.

Our products could become obsolete if necessary licenses of third-party technology are not available to us or are only available on terms that are not commercially viable.

We license technology from third parties that is incorporated into our products or product enhancements. Future products or product enhancements may require additional third-party licenses that may not be available to us or are not available on terms that are commercially reasonable. If we are unable to obtain any third-party license required to develop new products and product enhancements, we may have to obtain substitute technology of lower quality or performance standards or at greater cost, either of which could seriously harm the competitiveness of our products.

We may not be able to respond to the rapid technological changes in the markets in which we compete, or we may not be able to comply with industry standards in the future making our products less desirable or obsolete.

The markets in which we compete or seek to compete are subject to rapid technological change, frequent new product introductions, changing customer requirements for new products and features, and evolving industry standards. The introduction of new technologies and the emergence of new industry standards could render our products less desirable or obsolete, which could harm our business. Examples of changing industry standards include the introduction of high-definition television, or HDTV, new digital receivers and displays with resolutions that have required us to accelerate development of new products to meet these new standards.

Our software development tools may be incompatible with industry standards and challenging to implement, which could slow product development or cause us to lose customers and design wins.

Our existing products incorporate complex software tools designed to help customers bring products into production. Software development is a complex process and we are dependent on software development languages and operating systems from vendors that may compromise our ability to design software in a timely manner. Also, software development is a volatile market and new software languages are introduced to the market that may be incompatible with our existing systems and tools. New software development languages may not be compatible with our own requiring significant engineering efforts to migrate our existing systems in order to be compatible with those new languages. Existing or new software development tools could make our current products obsolete or hard to use. Software development disruptions could slow our product development or cause us to lose customers and design wins.

Our integrated circuits and software could contain defects, which could reduce sales of those products or result in claims against us.

Despite testing by our customers and us, performance problems or errors may be found in existing or new semiconductors and software. This could result in a delay in the recognition or loss of revenues, loss of market share or failure to achieve market acceptance. These defects may cause us to incur significant warranty, support and repair costs. They could also divert the attention of our engineering personnel from our product development efforts and harm our relationships with our customers. The occurrence of these problems could result in the delay or loss of market acceptance of our semiconductors and would likely harm our business. Defects, integration issues or other performance problems in our semiconductors and software could result in financial or other damages to our customers or could damage market acceptance of our products. Our customers could also seek damages from us for their losses. A product liability claim brought against us even if unsuccessful, would likely be time consuming and costly to defend.

The concentration of our manufactures and customers in the same geographic region increases our risk that a natural disaster, labor strike or political unrest could disrupt our operations.

Most of our current manufacturers and customers are located in Japan, Korea and Taiwan. The risk of earthquakes in the Pacific Rim region is significant due to the proximity of major earthquake fault lines in the area. In September 1999, a significant earthquake in Taiwan affected a current manufacturer's facilities. As a consequence of this earthquake, this manufacturer suffered power outages and disruption that impaired its production capacity. Earthquakes, fire, flooding and other natural disasters in the Pacific Rim region, or political unrest, labor strikes or work stoppages in countries where our manufacturers' and customers are located likely would result in the disruption of our foundry partners' assembly capacity. Any disruption resulting from extraordinary events could cause significant delays in shipments of our solutions until we are able to shift our manufacturing or assembling from the affected contractor to another third-party vendor. There can be no assurance that alternative capacity

could be obtained on favorable terms, if at all.

Others may bring infringement actions against us that could be time-consuming and expensive to defend.

We may become subject to claims involving patents or other intellectual property rights. For example, in early 2000 we were notified by InFocus Corporation ("InFocus") that we were infringing patents held by InFocus. In February 2000, we entered into a license agreement with InFocus granting us the right to use the technology covered by the InFocus patents. As a result, we recorded a one-time charge of \$4.1 million for patent settlement expense in the first quarter of 2000. Intellectual property claims could subject us to significant liability for damages and invalidate our proprietary rights. In addition, intellectual property claims may be brought against customers that incorporate our products in the design of their own products. These claims, regardless of their success or merit and regardless of whether we are named as defendants in a lawsuit, would likely be time-consuming and expensive to resolve and would divert the time and attention of management and technical personnel. Any future intellectual property litigation or claims also could force us to do one or more of the following:

- stop selling products using technology that contains the allegedly infringing intellectual property;
- attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all;
- attempt to redesign those products that contain the allegedly infringing intellectual property; and
- pay damages for past infringement claims that are determined to be valid or which are arrived at in settlement of such litigation or threatened litigation.

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If we are forced to take any of the foregoing actions, we may be unable to manufacture and sell our products, which could seriously harm our business. In addition, we may not be able to develop, license or acquire non-infringing technology under reasonable terms. These developments could result in an inability to compete for customers or could adversely affect our ability to increase our earnings.

Our limited ability to protect our intellectual property and proprietary rights could harm our competitive position by allowing our competitors to access our proprietary technology and to introduce similar display processor products.

Our ability to compete effectively with other companies will depend, in part, on our ability to maintain the proprietary nature of our technology, including our semiconductor designs and software. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our proprietary technologies. We cannot assure you that the degree of protection offered by patents or trade secret laws will be sufficient. Furthermore, we cannot assure you that any patents will be issued as a result of any pending applications, or that, if issued, any claims allowed will be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. We provide the computer programming code for our software to selected customers in connection with their product development efforts, thereby increasing the risk that customers will misappropriate our proprietary software. Competitors in both the United States and foreign countries, many of which have substantially greater resources, may apply for and obtain patents that will prevent, limit or interfere with our ability to make and sell our products, or develop similar technology independently or design around our patents. Effective copyright, trademark and trade secret protection may be unavailable or limited in foreign countries.

Any acquisition or equity investment we make could disrupt our business and severely harm our financial condition.

We intend to continue to consider investments in or acquisitions of complementary businesses, products or technologies. To-date, we acquired Panstera in January 2001, nDSP in January 2002 and Jaldi in September 2002. The acquisitions of Panstera, nDSP and Jaldi contain a very high level of risk primarily because the investments were made based on in-process technological development that may not be completed, or if completed, may not be commercially viable. If this were the case, our financial results would likely be very negatively affected.

These and any future acquisitions and investments could result in:

- issuance of stock that dilutes current stockholders' percentage ownership;
- incurrence of debt;
- assumption of liabilities;
- amortization expenses related to other intangible assets;
- impairment of goodwill; or
- large and immediate write-offs.

Our operation of any acquired business will also involve numerous risks, including:

- problems combining the purchased operations, technologies or products;
- unanticipated costs;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with customers;

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- risks associated with entering markets in which we have no or limited prior experience; and
 - potential loss of key employees, particularly those of the acquired organizations.

We may not be able to successfully integrate businesses, products, technologies or personnel that we might acquire in the future and any failure to do so could disrupt our business and seriously harm our financial condition.

Goodwill represents a significant portion of the Company's total assets.

As of June 30, 2002, goodwill amounted to \$83.5 million, or approximately 38%, of the Company's total assets. Effective January 1, 2002 with the adoption of new accounting standards the Company is required to review goodwill for possible impairment on an annual basis or when events and circumstances arise which indicate a possible impairment. The review of goodwill for impairment may result in large write-offs of goodwill, which could have a material adverse effect on results of operations.

Failure to manage our expansion effectively could adversely affect our ability to increase our business and results of operations.

Our ability to successfully market and sell our products in a rapidly evolving market requires effective planning and management processes. We continue to increase the scope of our operations domestically and internationally and have increased our headcount substantially. Through internal growth as well as acquisition, our headcount grew from 109 to 176 employees in 2001, a 61 percent increase. During the first six months of 2002, our headcount increased 37 to 213 employees on June 30, 2002, a 21 percent increase. With our acquisition of nDSP we added 41 employees in the first quarter of 2002 with 25 of the employees located in China. In addition to 28 people added as a result of the acquisition of Jaldi in the third quarter of 2002, we are currently planning to hire additional employees throughout the remainder of 2002. Our past growth, and our expected future growth, places a significant strain on our management systems and resources including our financial and managerial controls, reporting systems and procedures. To manage our growth effectively, we must implement and improve operational and financial systems, train and manage our employee base, attract and retain qualified personnel with relevant experience. We must also manage multiple relationships with customers, business partners, contract manufacturers, suppliers and other third parties. Moreover, we will spend substantial amounts of time and money in connection with our rapid growth and may have unexpected costs. Our systems, procedures or controls may not be adequate to support our operations and we may not be able to expand quickly enough to exploit potential market opportunities. While we have not, to date, suffered any significant adverse consequences due to our growth, if we do not continue to manage growth effectively our business would be seriously harmed.

RISKS RELATED TO OUR INDUSTRY.

Failure of consumer demand for flat panel displays and other display technologies to increase could impede our growth.

Our product development strategies anticipate that consumer demand for flat panel displays and other emerging display products will increase in the future. The success of our products is dependent on increased demand for these products, which are at early stages of development. The potential size of the flat panel display market and the timing of its development are uncertain and will depend upon a number of factors, all of which are beyond our control. In order for the market for many of our products to grow, advanced flat panel displays must be widely available and affordable to consumers. In the past, the supply of advanced flat panel displays has been cyclical. We expect this pattern to continue. Under-capacity in the advanced flat panel display market may limit our ability to increase our revenues because our customers may limit their purchases of our products if they cannot obtain sufficient supplies of advanced flat panel displays. In addition, advance flat panel display prices may

remain high because of limited supply, and consumer demand may not grow if the supply of advanced flat panel displays does not increase.

If products incorporating our semiconductors are not compatible with computer display protocols, video standards and other devices, the market for our products will be reduced and our business prospects could be significantly limited.

Our products are incorporated into our customers' products, which have different parts and specifications and utilize multiple protocols that allow them to be compatible with specific computers, video standards and other devices. If our customers' products are not compatible with these protocols and standards, consumers will return these products, or consumers will not purchase these products, and the markets for our customers' products could be significantly reduced. As a result, a portion of our market would be eliminated, and our business would be harmed.

Intense competition in our markets may reduce sales of our products, reduce our market share, decrease our gross profit and result in large losses.

Rapid technological change, evolving industry standards, compressed product life cycles and declining average selling prices are characteristics of our market and could have a material adverse effect on our business, financial condition and results of operations. As the overall price of advanced flat panel display screens continues to fall, we may be required to offer our products to manufacturers at discounted prices due to increased price competition. At the same time, new, alternative display processing technologies and industry standards may emerge that directly compete with technologies that we offer. We may be required to increase our investment in research and development at the same time that product prices are falling. In addition, even after making this investment, we cannot assure you that our technologies will be superior to those of our competitors or that our products will achieve market acceptance, whether for performance or price reasons. Failure to effectively respond to these trends could reduce the demand for our products.

We compete with a range of specialized and diversified electronic and semiconductor companies that offer display processors. In particular, we compete against Genesis Microchip, Inc., Macronix International Co., Ltd., Media Reality Technologies, Inc. (MRT, Inc.), Philips, Silicon Image, Inc., SmartASIC, Inc., STMicroelectronics NV, Topro, Trumpon, and other companies. Potential competitors may include diversified semiconductor manufacturers including Broadcom Corporation, Intel Corporation, National Semiconductor Corp., Texas Instruments, Inc. and other diversified semiconductor companies. We also compete in some instances against in-house processing solutions designed by our customers. Many of our competitors have longer operating histories and greater resources to support development and marketing efforts. Some of our

competitors may operate their own fabrication facilities. These competitors may be able to react faster and devote more resources to efforts that compete directly with our own. In the future, our current or potential customers may also develop their own proprietary display processors and become our competitors. In addition, start-up companies may seek to compete in our markets. Our competitors may develop advanced technologies enabling them to offer more cost-effective and higher quality semiconductors to our customers than those offered by us. Increased competition could harm our business, financial condition and results of operations by, for example, increasing pressure on our profit margin or causing us to lose sales opportunities. We cannot assure you that we can compete successfully against current or potential competitors.

The market for Internet enabled display products may not evolve rapidly enough to support expanded market acceptance of our products and industry standards in this market continue to evolve.

If the emerging market for Internet enabled display products does not develop or does not evolve fast enough to support rapid market acceptance of our products, our business, financial condition and results of operations will be materially and adversely affected. The Internet enabled display products

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market includes advanced television products, screenphones, e-mail terminals, Web terminals and tablets. Our success will depend on our ability to achieve design wins with customers developing new products and enhanced products for the Internet enabled display products market and their ability to successfully introduce and promote these products. There can be no assurance that the Internet enabled display products market will develop to the extent or in the timeframes necessary to support expansion of our business. We anticipate that Internet enabled display products will be generally based on industry standards, which are continually evolving. The emergence of new industry standards could render our products or our customers' products unmarketable or obsolete and we may incur substantial unanticipated costs to comply with any new standards. Moreover, our past sales have resulted, to a significant extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products addressing changes within our industry. Our continued ability to adapt to industry changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and our prospects for growth. There can be no assurance that we will be able to anticipate the evolving standards in the semiconductor industry and, in particular, the applications in the Internet enabled display products market, or that we will be able to successfully develop and introduce new products into this market.

The cyclical nature of the semiconductor industry may lead to significant variances in the demand for our products and could harm our operations.

In the past, the semiconductor industry has been characterized by significant downturns and wide fluctuations in supply and demand. Also, during this time, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia and North America. The cyclical nature of the semiconductor industry has led to significant variances in product demand and production capacity. It has also accelerated erosion of average selling prices per unit. We may experience periodic fluctuations in our future financial results because of changes in industry-wide conditions.

OTHER RISKS.

The anti-takeover provisions of Oregon law and in our articles of incorporation could adversely affect the rights of the holders of our common stock by preventing a sale or takeover of us at a price or prices favorable to the holders of our common stock.

The anti-takeover provisions of Oregon law and our articles of incorporation may make a change in control of our business more difficult, even if a change in control would be beneficial to the shareholders. These provisions may allow the board of directors to prevent changes in the management and control of our business. Under Oregon law, our board of directors may adopt additional anti-takeover measures in the future. One anti-takeover provision that we have is the ability of our board of directors to determine the terms of preferred stock and issue preferred stock without the approval of the holders of the common stock. At this time, there is only one share of preferred stock outstanding, the Special Voting Share issued pursuant to the acquisition of Jaldi. However, because the rights and preferences of any additional series of preferred stock may be set by the board of directors in its sole discretion without approval of the holders of the common stock, the rights and preferences of this preferred stock may be superior to those of the common stock. Accordingly, the rights of the holders of common stock may be adversely affected.

Our principal shareholders have significant voting power and may take actions that may make it more difficult to sell our shares at a premium to take over candidates.

Our executive officers, directors and other principal shareholders, in the aggregate, beneficially owned 9,686,121 shares or approximately 22.6% of our outstanding common stock as of June 30, 2002. These shareholders currently have, and will continue to have, significant influence with respect to the

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election of our directors and approval or disapproval of our significant corporate actions. This influence over our affairs might be adverse to the interest of our other shareholders. In addition, the voting power of these shareholders could have the effect of delaying or preventing a change in control of our business or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could prevent our other shareholders from realizing a premium over the market price for their common stock.

The price of our common stock has and may continue to fluctuate substantially.

Investors may not be able to sell shares of our common stock at or above the price they paid due to a number of factors, including:

- actual or anticipated fluctuations in our operating results;

- changes in expectations as to our future financial performance;
- changes in financial estimates of securities analysts;
- announcements by us or our competitors of technological innovations, design wins, contracts, standards or acquisitions;
- the operating and stock price performance of other comparable companies;
- changes in market valuations of other technology companies; and
- inconsistent trading volume levels of our common stock.

In particular, the stock prices of technology companies like us have been highly volatile. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. Market fluctuations as well as general economic, political and market conditions including recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. Therefore, the price of our common stock may decline, and the value of your investment may be reduced regardless of our performance.

We may be unable to meet our future capital requirements, which would limit our ability to grow.

We believe our current cash balances will be sufficient to meet our capital requirements for the next 12 months; however, we may need, or could elect, to seek additional funding prior to that time. To the extent that currently available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us, or our shareholders. Further, if we issue equity securities, our shareholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of our common stock. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our primary market risk exposure is the impact of interest rate fluctuations on interest income earned on our investment portfolio. The risks associated with market, liquidity and principal are mitigated by investing in high-credit quality securities and limiting concentrations of issuers and maturity dates. Derivative financial instruments are not part of our investment portfolio.

All of our sales are denominated in U.S. dollars and as a result, we have relatively little exposure to foreign currency exchange risk with respect to any of our sales. We do not currently hedge against foreign currency rate fluctuations. The effect of an immediate 10% change in exchange rates would not have a material impact on our future operating results or cash flows.

USE OF PROCEEDS

Because the shares of common stock offered by this Prospectus will be issued upon exchange or redemption of the Exchangeable Shares, the Company will receive no net cash proceeds upon such issuance.

DESCRIPTION OF CAPITAL STOCK

SPECIAL VOTING SHARE.

The Special Voting Share (the "Voting Share") was authorized for issuance in accordance with the Voting and Share Trust Agreement (the "Voting and Share Trust Agreement"), entered into between Pixelworks, Pixelworks Nova Scotia, a wholly-owned subsidiary of Pixelworks organized in Nova Scotia, Jaldi and CIBC Mellon Trust Company, a trust company incorporated under the laws of Canada (the "Trustee"). Except as otherwise required by law or by Pixelworks' Articles of Incorporation, the Voting Share will be issued by Pixelworks to and deposited with the Trustee, to be held in trust for the benefit of the registered holders of Exchangeable Shares.

The Voting Share will entitle the holder of record to vote, in person or by proxy on any matters, questions, proposals, propositions whatsoever that may come before the Pixelworks common stock holders or at a meeting of Pixelworks' stockholders at which stockholders are entitled to vote (the "Voting Right"). The Trustee will exercise the Voting Right only on the basis of instructions received from holders of Exchangeable Shares. To the extent that no instructions are received from a holder of Exchangeable Shares with respect to the voting rights to which such holder is entitled, the Trustee will not exercise or permit the exercise of such voting rights. Except as required by law or by the Pixelworks' Articles of Incorporation, the holder of the Voting Share and the holders of common stock will vote together as a single class in the election of directors and in all matters submitted to a vote of the stockholders of the Pixelworks.

The holder of the Voting Share will not be entitled to receive dividends. In the event of any dissolution, liquidation or winding up of the affairs of Pixelworks, whether voluntary or involuntary, the holder of the Voting Share will be entitled to be paid out of the net assets of the Company available for distribution an amount equal to \$0.001, before any payment is made to the holders of common stock or any other class or series of stock ranking on liquidation junior to the Voting Share.

The Voting Share will not be subject to redemption except that at such time as no Exchangeable Shares are outstanding and no shares of stock, debt, options or other agreements which could give rise to the issuance of any Exchangeable Shares to any person (other than Pixelworks and its affiliates) exists, the Voting Share will be automatically redeemed for an amount equal to \$0.001 due and payable upon redemption.

PLAN OF DISTRIBUTION

Holders of Exchangeable Shares should consult their own tax advisors with respect to the United States, Canadian and other tax consequences of exchanging their Exchangeable Shares for shares of common stock as described below. See "Risk Factors—Taxability of the Exchange." No broker, dealer or underwriter has been engaged in connection with the offering of the common stock covered by this Prospectus. The Company has filed with the SEC a Registration Statement on Form S-3, of which this Prospectus forms a part, with respect to the common stock being offered hereunder. The Company has agreed to use its reasonable best efforts to keep such Registration Statement effective until no Exchangeable Shares remain outstanding.

We will distribute the shares of common stock covered by this prospectus only upon exchange or redemption of the Exchangeable Shares of Jaldi, and no broker, dealer or underwriter has been engaged in connection with the exchange or redemption. Each exchangeable share of Jaldi may be

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exchanged or redeemed for one share of our common stock. We will pay all expenses incurred in connection with the distribution described in this prospectus.

EXCHANGEABLE SHARES.

Pursuant to the terms of a reorganization agreement (the "Reorganization Agreement") among Pixelworks, Pixelworks Nova Scotia, Jaldi and certain shareholders of Jaldi, Jaldi underwent a reorganization of capital (the "Reorganization") whereby, among other things, Jaldi issued Exchangeable Shares in exchange for outstanding Jaldi Common Shares at the effective time (the "Effective Time") of the Reorganization. Each holder of Jaldi Common Shares received 0.531727153 Exchangeable Shares for each Jaldi Common Share, such exchange ratio being subject to adjustment as provided for in the Reorganization Agreement.

Common stock of Pixelworks may be issued to holders of Exchangeable Shares as follows: (i) holders of Exchangeable Shares may require at any time that such shares be exchanged or redeemed for an equivalent number of shares of common stock (see "—Election by Holders to Exchange or Redeem"); (ii) such Exchangeable Shares will be automatically redeemed upon the occurrence of certain events (see "—Automatic Redemption"); and (iii) upon liquidation of Pixelworks or Jaldi, holders of Exchangeable Shares may be required to, or may elect to, exchange such Exchangeable Shares for shares of common stock of Pixelworks (see "—Exchanges Upon Liquidation of Pixelworks or Jaldi").

ELECTION BY HOLDERS TO REDEEM EXCHANGEABLE SHARES.

Holders of the Exchangeable Shares will be entitled at any time following the Effective Time to require Jaldi to retract (i.e., require Jaldi to redeem) any or all such Exchangeable Shares owned by such holders and to deliver in exchange for such Exchangeable Shares an equivalent number of shares of common stock of Pixelworks plus the full amount of all dividends, if any, declared and unpaid on each Exchangeable Share (the "Dividend Amount"), if any (the "Retraction Price"), subject to Pixelworks Nova Scotia's Retraction Call Right as described below. Holders of the Exchangeable Shares may effect such retraction at any time by presenting the appropriate share certificates to Jaldi or the transfer agent by notice in writing. Such notice must specify the number of Exchangeable Shares the holder desires Jaldi to redeem and be accompanied by: (i) the certificates representing such Exchangeable Shares; (ii) a duly executed retraction request (the "Retraction Request") in the form contained in Schedule A to the rights, privileges, restrictions and conditions attaching to the Exchangeable Shares set forth in Appendix A to the Reorganization Agreement (the "Exchangeable Share Provisions") or in such other form as may be acceptable to Jaldi and (iii) such other documents that may be required to effect a transfer of Exchangeable Shares by the Ontario Business Corporations Act, Jaldi's by-laws, the transfer agent and Pixelworks. The required materials must be sent to Jaldi or to such transfer agent as Jaldi shall designate from time to time. The Retraction Request must also include the retraction date upon which the holder wishes to receive the Retraction Price (the "Retraction Date"). The Retraction Date will be a business day not less than ten nor more than fifteen business days after the date on which Jaldi receives the Retraction Request from the holder.

Upon receipt of the Exchangeable Shares, the Retraction Request and other required documentation from the holder thereof, Jaldi must immediately notify Pixelworks Nova Scotia of such Retraction Request. Pixelworks Nova Scotia will thereafter have five business days in which to exercise its Retraction Call Right as discussed below under "Call Rights" (the "Retraction Call Right"). In the event Pixelworks Nova Scotia determines not to exercise its Retraction Call Right and provided that the Retraction Request is not revoked by the holder in accordance with the Exchangeable Share Provisions, Jaldi is obligated to deliver to the holder not later than the Retraction Date the number of shares of common stock equal to the number of Exchangeable Shares submitted by the holder for

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retraction, plus the Dividend Amount, if any. Pixelworks and Pixelworks Nova Scotia will be obligated to provide such shares of common stock to Jaldi to enable Jaldi to comply with the Retraction Request.

A holder of Exchangeable Shares may withdraw a Retraction Request by providing Jaldi written notice of such withdrawal before the close of business on the business day immediately preceding the Retraction Date.

Notwithstanding the provisions of the Reorganization Agreement, Jaldi will not be obligated to redeem Exchangeable Shares specified in a Retraction Request to the extent that such redemption would be contrary to solvency requirements or other provisions of applicable law. The holder of Exchangeable Shares not redeemed by Jaldi as a result of solvency requirements or other provisions of applicable law, will be deemed, by giving the Retraction Request, to have instructed the Trustee to require Pixelworks to purchase the Exchangeable Shares from such holder on the Retraction Date or as soon as practicable thereafter, for the Retraction Price.

AUTOMATIC REDEMPTION.

Subject to applicable law and the Redemption Call Right of Pixelworks Nova Scotia described below under "Call Rights" (the "Redemption Call Right"), on an Automatic Redemption Date (defined below), Jaldi will redeem all but not less than all of the then outstanding Exchangeable Shares in exchange for an equal number of shares of Pixelworks Common Stock, plus the Dividend Amount, if any. An "Automatic Redemption Date" is the first to occur of (a) January 31, 2008, (b) the date selected by the Jaldi board of directors at a time when less than 10% of the Exchangeable Shares issuable on the Effective Date (other than shares held by Pixelworks and its affiliates and as such number of shares may be adjusted as deemed appropriate by the Jaldi board of directors to give effect to any subdivision or consolidation of or stock dividend on the Exchangeable Shares, any issuance or distribution of rights to acquire Exchangeable Shares or securities exchangeable for or convertible into or carrying rights to acquire Exchangeable Shares, any issuance or distribution of other securities or rights or evidences of indebtedness or assets, or any other capital reorganization or other transaction involving or affecting the Exchangeable Shares) are outstanding, (c) the business day prior to the record date for any meeting or vote of the shareholders of Jaldi to consider any matter on which the holders of Exchangeable Shares would be entitled to vote as shareholders of Jaldi, but excluding any meeting or vote as described in clause (d) below (an "Exchangeable Share Voting Event"), (d) the business day following the day on which the holders of Exchangeable Shares fail to take the necessary action at a meeting or other vote of the holders of Exchangeable Shares, if and to the extent such action is required, to approve or disapprove, as applicable, any change to, or in the rights of the holders of, Exchangeable Shares, if the approval or disapproval, as applicable, of such change would be required to maintain the economic and legal equivalence of the Exchangeable Shares and common stock (an "Exempt Exchangeable Share Voting Event"), or (e) a merger, amalgamation, tender offer, material sale or capital distribution of shares or assets or rights or interests therein or any similar transaction involving Pixelworks, or any proposal to do so (a "Pixelworks Control Transaction") occurs, in which case, provided the board of directors of Jaldi determines, in good faith and in its sole discretion, that it is not reasonably practicable in the circumstances of such Pixelworks Control Transaction to substantially replicate the terms and conditions of the Exchangeable Shares in connection with such Pixelworks Control Transaction in accordance with its terms, the board of directors of Jaldi may accelerate such redemption date to such date prior to January 31, 2008, as they may determine, upon such number of days' prior written notice to the registered holders of the Exchangeable Shares as the board of directors of Jaldi may determine to be reasonably practicable in the circumstances. At least 60 days before the relevant Automatic Redemption Date, or such number of days as the board of directors of Jaldi may determine to be reasonably practicable under the circumstances in respect of a possible Automatic Redemption Date arising in connection with a Pixelworks Control Transaction, an Exchangeable Share Voting Event or an Exempt Exchangeable

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Share Voting Event, Jaldi shall provide the registered holders of Exchangeable Shares with written notice of the proposed redemption of the Exchangeable Shares. In the case of any notice given in connection with a possible Automatic Redemption Date, such notice will be given contingently and will be withdrawn if the contingency does not occur.

EXCHANGES UPON LIQUIDATION OF JALDI.

Subject to Pixelworks Nova Scotia's Liquidation Call Right described below under "Call Rights" (the "Liquidation Call Right"), in the event of the liquidation, dissolution or winding up of Jaldi or any other distribution of its assets among its shareholders for the purposes of winding up its affairs (a "Jaldi Liquidation Event"), a holder of the Exchangeable Shares will have, subject to applicable law, preferential rights to receive from Jaldi, for each Exchangeable Share, one share of common stock, plus the Dividend Amount, if any. As soon as practicable following the occurrence of a Jaldi Liquidation Event, Jaldi, subject to Pixelworks Nova Scotia's Liquidation Call Right, shall deliver to the holders of Exchangeable Shares, one share of common stock for each Exchangeable Share together with the Dividend Amount, if any.

CALL RIGHTS.

In the circumstances described below, Pixelworks Nova Scotia will have certain overriding rights (the "Call Rights") to acquire Exchangeable Shares from holders thereof by delivering one share of common stock, plus the Dividend Amount, if any, for each Exchangeable Share acquired.

RETRACTION CALL RIGHT.

Pursuant to the Exchangeable Share Provisions, a holder requesting Jaldi to redeem the Exchangeable Shares will be deemed to offer such shares to Pixelworks Nova Scotia, and Pixelworks Nova Scotia will have an overriding Retraction Call Right to acquire all but not less than all of the Exchangeable Shares that the holder has requested Jaldi to redeem in exchange for one share of common stock, plus the Dividend Amount, if any, for each Exchangeable Share, and, upon the exercise by Pixelworks Nova Scotia of the Retraction Call Right, the holders of the Exchangeable Shares will be obligated to transfer such shares to Pixelworks Nova Scotia

LIQUIDATION CALL RIGHT.

Pursuant to the Reorganization Agreement, Pixelworks Nova Scotia will have an overriding Liquidation Call Right (the "Liquidation Call Right"), in the event of and notwithstanding a proposed liquidation, dissolution or winding-up of Jaldi or any other distribution of the assets of Jaldi among its shareholders for the purpose of winding-up its affairs, to acquire all but not less than all of the Exchangeable Shares then outstanding in exchange for one share of common stock, plus the Dividend Amount, if any, for each Exchangeable Share. Upon the exercise by Pixelworks Nova Scotia of the Liquidation Call Right, the holders of Exchangeable Shares will be obligated to transfer such shares to Pixelworks Nova Scotia. The acquisition by Pixelworks Nova Scotia of all of the outstanding Exchangeable Shares upon the exercise of the Liquidation Call Right will occur on the effective date of the voluntary or involuntary liquidation, dissolution or winding-up of Jaldi.

REDEMPTION CALL RIGHT.

Pursuant to the Reorganization Agreement, Pixelworks Nova Scotia will have an overriding Redemption Call Right, notwithstanding the proposed automatic redemption of the Exchangeable Shares by Jaldi pursuant to the Exchangeable Share Provisions, to acquire on an Automatic Redemption Date all but not less than all of the Exchangeable Shares then outstanding in exchange for one share of common stock, plus the Dividend Amount, if any, for each Exchangeable Share, and,

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upon the exercise by Pixelworks Nova Scotia of the Redemption Call Right, the holders of the Exchangeable Shares will be obligated to transfer such shares to Pixelworks Nova Scotia.

EFFECT OF CALL RIGHT EXERCISE.

If Pixelworks Nova Scotia exercises one or more of its Call Rights, it will directly deliver common stock to holders of Exchangeable Shares and will become the holder of such Exchangeable Shares. Pixelworks Nova Scotia will not be entitled to exercise any voting rights attached to the Exchangeable Shares it acquires upon exercise of one or more of its Call Rights. If Pixelworks Nova Scotia declines to exercise its Call Rights when applicable, Pixelworks and Pixelworks Nova Scotia will be required, pursuant to the Support Agreement entered into between Pixelworks, Pixelworks Nova Scotia and Jaldi, to issue or deliver, as the case may be, common stock as Jaldi directs, including to Jaldi, which will, in turn, transfer and/or deliver such stock to the holders of Exchangeable Shares in consideration for the return and cancellation of such Exchangeable Shares. Pixelworks anticipates that Pixelworks Nova Scotia will exercise its Call Rights, when available, and currently foresees no circumstances under which Pixelworks Nova Scotia would not exercise its Call Rights. In addition, Pixelworks does not anticipate any restriction or limitation on the number of Exchangeable Shares Pixelworks Nova Scotia would acquire upon exercise of its Call Rights.

INCOME TAX CONSIDERATIONS

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.

In the opinion of Torys LLP, our Canadian counsel, the following is an accurate summary of the principal Canadian federal income tax considerations under the Canadian Income Tax Act generally applicable to you if you hold Exchangeable Shares or acquire common stock on the redemption, retraction or exchange of Exchangeable Shares and if, for purposes of the Canadian Income Tax Act, you are or are deemed to be resident in Canada at all relevant times, you deal with us at arm's length, you are not affiliated with us and you hold your Exchangeable Shares and will hold common stock as capital property. This discussion does not apply to you if you are a "financial institution", as defined in the Canadian Income Tax Act, and are therefore subject to the mark-to-market rules of the Canadian Income Tax Act. This summary also does not apply to you if Pixelworks is or will be a "foreign affiliate" of you for purposes of the Canadian Income Tax Act.

The Exchangeable Shares and common stock will generally be considered to be capital property to you unless the shares are held by you in the course of carrying on a business or the shares are acquired in a transaction considered to be an adventure in the nature of trade. If the Exchangeable Shares might not otherwise qualify as capital property, you may be entitled to obtain this qualification by making the irrevocable election provided under subsection 39(4) of the Canadian Income Tax Act. If you do not hold your Exchangeable Shares or will not hold common stock as capital property, you should consult your own tax advisors for information and advice having regard to your particular circumstances.

This summary is based on the current provisions of the Canadian Income Tax Act and regulations and our Canadian counsel's understanding of the current published administrative practices of the Canada Customs and Revenue Agency (the "CCRA"). This summary takes into account all specific proposals to amend the Canadian Income Tax Act and regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and assumes that all of these proposed amendments will be enacted in their present form. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the foregoing, does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial decision or action, nor does it take into account provincial, territorial or non-Canadian income tax legislation or considerations, which may differ from the Canadian federal income tax considerations described below. No advance income tax ruling has been sought or obtained from the CCRA to confirm the tax

consequences of any of the transactions relating to the Exchangeable Shares or the acquisition of the common stock on the redemption, retraction or exchange of Exchangeable Shares.

For purposes of the Canadian Income Tax Act, all amounts relating to the acquisition, holding or disposition of Exchangeable Shares and common stock, including dividends, adjusted cost base amounts and proceeds of disposition, must be converted into Canadian dollars based on the prevailing United States dollar exchange rate generally at the time these amounts arise.

THIS SUMMARY IS OF A GENERAL NATURE ONLY AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED TO BE, LEGAL, BUSINESS OR TAX ADVICE TO YOU. THEREFORE, YOU SHOULD CONSULT YOUR OWN TAX ADVISORS WITH RESPECT TO YOUR PARTICULAR CIRCUMSTANCES.

Redemption or Exchange of Exchangeable Shares.

On a redemption (including a retraction) of your Exchangeable Shares by Jaldi you will be deemed to have received a dividend equal to the amount, if any, by which the redemption proceeds exceed the paid-up capital (for purposes of the Canadian Income Tax Act) of the Exchangeable Shares so redeemed. For these purposes, the redemption proceeds will be the fair market value of the common stock received from Jaldi on the redemption plus the amount, if any, of all payable and unpaid dividends on the Exchangeable Shares paid on the redemption. The amount of any such deemed dividend will be subject to the tax treatment described below under "—Dividends on Exchangeable Shares."

On a redemption (including a retraction) of your Exchangeable Shares, you will also be considered to have disposed of your Exchangeable Shares, but the amount of the deemed dividend will be excluded in computing your proceeds of disposition for purposes of computing any capital gain or capital loss arising on the disposition. If you are a corporation, in some circumstances some or all of any such deemed dividend may be treated as proceeds of disposition and not as a dividend. The taxation of capital gains and capital losses is described below.

On an exchange of your Exchangeable Shares with our indirect wholly-owned subsidiary, Pixelworks Nova Scotia, or with us for the common stock, you will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of your Exchangeable Shares, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to you of the Exchangeable Shares immediately before the exchange. For these purposes, the proceeds of disposition will be the fair market value at the time of the exchange of the common stock which you receive plus any other amounts received as part of the exchange, but less any amount paid in satisfaction of declared and unpaid dividends. The taxation of capital gains and capital losses is described below.

On October 18, 2000, the Minister of Finance announced that the Department of Finance will consider future amendments to the Canadian Income Tax Act to allow holders of shares of a Canadian corporation to exchange such shares for shares of a non-Canadian corporation on a tax-deferred basis. It is possible that the tax proposals described in this announcement, if enacted into law, could, from the time any such change takes effect, allow you to exchange Exchangeable Shares for common stock on a tax-deferred basis. However, no specifics have been announced regarding what the requirements for such treatment may be.

BECAUSE OF THE EXISTENCE OF CERTAIN CALL RIGHTS HELD BY PIXELWORKS NOVA SCOTIA WHICH GIVE PIXELWORKS NOVA SCOTIA THE OVERRIDING RIGHT TO PURCHASE YOUR EXCHANGEABLE SHARES UPON REDEMPTION (INCLUDING A RETRACTION) BY EXCHANGING A SHARE OF COMMON STOCK FOR EACH EXCHANGEABLE SHARE AS WELL AS CERTAIN RIGHTS OF HOLDERS OF EXCHANGEABLE SHARES TO FORCE THE EXCHANGE OF EXCHANGEABLE SHARES

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WITH PIXELWORKS NOVA SCOTIA FOR COMMON STOCK UPON THE OCCURRENCE OF THE LIQUIDATION, DISSOLUTION OR WINDING-UP OF JALDI, YOU CANNOT CONTROL WHETHER YOU WILL RECEIVE COMMON STOCK BY WAY OF A REDEMPTION (INCLUDING A RETRACTION) OF YOUR EXCHANGEABLE SHARES BY JALDI OR PIXELWORKS NOVA SCOTIA OR BY WAY OF PURCHASE OF THE EXCHANGEABLE SHARES BY PIXELWORKS NOVA SCOTIA. AS DESCRIBED ABOVE, THE CANADIAN FEDERAL INCOME TAX CONSEQUENCES OF A REDEMPTION (INCLUDING A RETRACTION) DIFFER FROM THOSE OF A PURCHASE.

Disposition of Exchangeable Shares Other Than on Redemption or Exchange.

A disposition or deemed disposition of your Exchangeable Shares, other than on the redemption or exchange of your Exchangeable Shares, will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to you immediately before the disposition. The taxation of capital gains and capital losses is described below.

Acquisition and Disposition of Common Stock.

The cost of common stock received on a retraction, redemption or exchange of Exchangeable Shares will be equal to the fair market value of common stock at the time of that event, and will be averaged with the adjusted cost base of any other shares of common stock held by you at that time as capital property for the purpose of determining the adjusted cost base of your common stock.

A disposition or deemed disposition of common stock by you will generally result in a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to you of such shares immediately before the disposition. The taxation of capital gains and capital losses is described below.

Dividends on Exchangeable Shares.

If you are an individual, dividends received or deemed to be received on the Exchangeable Shares will be included in computing your income, and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from a corporation resident in Canada. Subject to the discussion below, if you are a corporation, other than a "specified financial institution" as defined in the Canadian Income Tax Act, dividends received or deemed to be received on the Exchangeable Shares normally will be included in your income and deductible in computing your taxable income.

If you are a corporation and if we or any other person with whom we do not deal at arm's length are a "specified financial institution" (for purposes of the Canadian Income Tax Act) at the time that dividends are paid on the Exchangeable Shares dividends received or deemed to be received by you will be included in your income but generally will not be deductible by you in computing your taxable income. We have advised Canadian counsel that we will not be a specified financial institution for purposes of the Canadian Income Tax Act immediately after our acquisition of Jaldi, however, no assurances can be given that we or any person with whom we do not deal at arm's length will not be a specified financial institution at any subsequent time.

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The Exchangeable Shares will be taxable "preferred shares" and "short-term preferred shares," for purposes of the Canadian Income Tax Act. Dividends received or deemed to be received thereon will not be subject to the 10% tax under Part IV.I of the Canadian Tax Act.

If you are a "private corporation," as defined in the Canadian Income Tax Act, or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals, you may be liable under Part IV of the Canadian Income Tax Act to pay a refundable tax of $33\frac{1}{3}\%$ of any dividends received or deemed to be received on your Exchangeable Shares to the extent that these dividends are deductible in computing your taxable income.

If you are throughout the relevant taxation year a "Canadian-controlled private corporation," as defined in the Canadian Income Tax Act, you may be liable to pay an additional refundable tax of $6\frac{2}{3}\%$ on dividends received or deemed to be received on your Exchangeable Shares that are not deductible in computing taxable income.

Dividends on Common Stock.

Dividends on common stock will be included in your income for the purposes of the Canadian Income Tax Act. If you are an individual, you will not be subject to the gross-up and dividend tax credit rules in the Canadian Income Tax Act applicable to dividends received from corporations resident in Canada. If you are a corporation, you will be required to include these dividends in computing your income and will not be entitled to deduct the amount of these dividends in computing your taxable income. If you are a "Canadian-controlled private corporation," as defined in the

Canadian Income Tax Act, you may be liable to pay an additional refundable tax of 6²/3% on such dividends. If there is United States non-resident withholding tax on any dividends you receive on common stock, you will generally be eligible for foreign tax credit or deduction treatment where applicable under the Canadian Income Tax Act.

Taxation of Capital Gains and Capital Losses.

One-half of any capital gain (a "taxable capital gain") realized by you on a disposition or deemed disposition of Exchangeable Shares or the common stock must be included in your income for the year of the disposition. One-half of any capital loss (an "allowable capital loss") realized by you may be deducted by you against taxable capital gains realized in the year of the disposition. Any allowable capital losses in excess of taxable capital gains in the year of disposition may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains in those other years to the extent and in the circumstances prescribed in the Canadian Income Tax Act.

Capital gains realized by an individual or trust, other than certain trusts, may give rise to alternative minimum tax under the Canadian Income Tax Act.

If you are a "Canadian-controlled private corporation," as defined in the Canadian Income Tax Act, you may be liable to pay an additional refundable tax of 6²/3% on taxable capital gains.

If you are a corporation, the amount of any capital losses arising from a disposition or deemed disposition of Exchangeable Shares may be reduced by the amount of any dividends received or deemed to have been received by you on the Exchangeable Shares to the extent and under circumstances prescribed by the Canadian Income Tax Act. Similar rules may apply where you are a corporation that is a member of a partnership or a beneficiary of a trust that owns Exchangeable Shares or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns any of these shares. You should consult your own tax advisors if these rules may be relevant to you.

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Foreign Property Information Reporting.

If you are a "specified Canadian entity" (as defined in the Canadian Income Tax Act), you may be required to file an information return relating to any "specified foreign property" (as defined in the Canadian Income Tax Act) owned by you, which would include common stock, the Exchangeable Shares and certain exchange and voting rights relating thereto. You should consult your own advisors about whether you must comply with these rules with respect to the ownership of Exchangeable Shares or common stock.

Foreign Investment Entity Draft Legislation.

Draft legislation regarding the taxation of investments in "foreign investment entities" was released on August 2, 2001. In general, if the draft legislation applies, a holder of an interest in a foreign investment entity generally will be required to take into account in computing income changes in the value of that interest. A corporation is not a foreign investment entity if the "carrying value" of all of its "investment property" is not greater than one-half of the "carrying value" of all of its property or if its principal business is not an "investment business" within the meaning of those terms in the draft legislation. We believe that we are not currently a "foreign investment entity" within the meaning of the draft legislation, however, no assurances can be given in this regard or as to our status in the future. In any event, in general, these proposed rules will not apply to the common stock or the Exchangeable Shares so long as the common stock is widely held and actively traded and listed on a prescribed stock exchange, unless it is reasonable to conclude that you had a tax avoidance motive for the acquisition of the shares in the terms contemplated by the draft legislation.

It was originally announced that the draft legislation would be applicable for taxation years commencing after 2001. However, on December 17, 2001, the Department of Finance (Canada) issued a press release announcing that the effective date for the proposed rules will be delayed one year, generally to take effect for taxation years commencing after 2002, in order to allow for a full consideration of submissions on the draft legislation. It is possible that the draft legislation may be amended before it is enacted in final form.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Ater Wynne LLP, our United States counsel, the following discussion of certain United States federal income tax considerations (under the United States Internal Revenue Code of 1986, as amended (the "Code")) applicable to holders of Exchangeable Shares is correct in all material respects. This discussion does not address all United States federal income tax considerations that may be relevant to you in light of your particular circumstances or if you are subject to special treatment under the Code. This discussion is applicable to you only if you hold Exchangeable Shares as capital assets and does not consider your tax treatment if you hold Exchangeable Shares through a foreign partnership or other foreign pass-through entity. This discussion does not address the tax consequences of the transactions in which the Exchangeable Shares were acquired. Furthermore, this discussion does not address any aspects of foreign, state or local taxation. This discussion is based on current provisions of the Code, existing, temporary and proposed regulations promulgated under the Code and administrative and judicial interpretations of the Code, all of which are subject to change. Any change, which may be retroactive, could alter the tax consequences as described herein. This discussion does not address the effect of any applicable income tax treaties. This discussion assumes that neither Pixelworks nor Jaldi will be treated as a United States real property holding corporation at the time of the recapitalization or thereafter. This discussion does not address the application of the branch profits tax rules, controlled foreign corporation rules, foreign personal holding company rules, or passive foreign investment company rules. This discussion assumes that for United States federal income tax purposes the form of the transactions relating to the Exchangeable Shares will be respected and the Exchangeable Shares will be treated as capital stock of Jaldi. No advance income tax ruling has been or

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will be sought or obtained from the Internal Revenue Service (the "IRS") regarding the tax consequences of the transactions described herein.

YOU ARE URGED TO CONSULT YOUR TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE TRANSACTIONS DESCRIBED HEREIN, INCLUDING THE EFFECT OF UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.

Certain U.S. Federal Income Tax Considerations Applicable to Non-United States Persons.

The following discussion is a summary of certain United States federal income tax considerations under the Code generally applicable to you if you are a holder of Exchangeable Shares and you are **not**:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or of any political subdivision thereof;
- a partnership or other entity taxable as a partnership created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

Sale or Exchange of Exchangeable Shares

You generally will not be subject to United States federal income tax on any gain realized on the sale or exchange of Exchangeable Shares, including the exchange of Exchangeable Shares for common stock, unless the gain is effectively connected with your conduct of a United States trade or business or, if you are an individual, you are present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are satisfied.

Dividends on the Exchangeable Shares

Although such treatment is not free from doubt, Pixelworks and Jaldi intend to treat dividends, if any, with respect to the Exchangeable Shares as dividends from Jaldi. Assuming such treatment is proper, dividends paid to you as a holder of Exchangeable Shares should not be subject to withholding of United States federal income tax; however, a dividend paid to you as a holder of Exchangeable Shares will be taxed at ordinary United States federal income tax rates if the dividend is effectively connected with your conduct of a trade or business within the United States.

Dividends on the Common Stock

Dividends paid to you as a holder of common stock generally will be subject to withholding of United States federal income tax at a rate of 30% unless the dividend is effectively connected with the your conduct of a trade or business within the United States, in which case the dividend will be taxed at ordinary United States federal income tax rates.

Sale or Exchange of Common Stock

You generally will not be subject to United States federal income tax on any gain realized on the sale or exchange of shares of common stock unless the gain is effectively connected with your conduct

of a United States trade or business or, if you are an individual, you are present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are satisfied.

Backup Withholding and Information Reporting

You are generally subject to information reporting requirements with respect to dividends paid by us to you and any tax withheld with respect to such dividends. You are also generally subject to backup withholding with respect to dividends paid by us to you unless applicable certification requirements are met. Payment of the proceeds of a sale of shares of the common stock through certain United States brokers is subject to both backup withholding and information reporting unless you as beneficial owner certify under penalties of perjury that you are not a United States person for purposes of the Code (and the payor does not have actual knowledge or reason to know that you are a United States person) or otherwise establish an exemption.

Backup withholding tax is not a separate tax. Any amounts withheld under the backup withholding rules are generally allowable as a credit against your United States federal income tax liability, if any, which may entitle you to a refund, provided that the required information is furnished to the IRS.

Certain U.S. Federal Income Tax Considerations Applicable to United States Persons.

The following discussion is a summary of certain United States federal income tax considerations under the Code generally applicable to you if you are a holder of Exchangeable Shares and you are:

- a citizen or resident of the United States;

- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or of any political subdivision thereof;
- a partnership or other entity taxable as a partnership created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

Sale or Exchange of Exchangeable Shares

Except in certain limited circumstances (described below), you will generally recognize a gain or loss when you exchange your Exchangeable Shares for shares of common stock. Your gain or loss will be equal to the difference between the fair market value of the shares of common stock you receive in the exchange and your tax basis in the Exchangeable Shares exchanged therefor. The gain or loss will generally be a capital gain or loss, and will be a long-term capital gain or loss if your holding period for the Exchangeable Shares is more than one year at the time of the exchange.

Under certain limited circumstances, the exchange of Exchangeable Shares for shares of common stock may be characterized as a tax-free "reorganization" within the meaning of Section 368(a) of the Code. In particular, if you exchange your Exchangeable Shares for shares of common stock pursuant to the Redemption Call Right or Liquidation Call Right, or at a time when Pixelworks' wholly owned subsidiary, Pixelworks Nova Scotia, owns at least 80 percent of the issued and outstanding Exchangeable Shares, and certain other requirements are satisfied, the exchange may qualify as a tax-free reorganization. If the exchange does qualify as a tax-free reorganization, generally, you would not recognize gain or loss on the exchange of the Exchangeable Shares for common stock, your aggregate tax basis in the common stock would be equal to your aggregate tax basis in the

Exchangeable Shares exchanged therefor, and your holding period for the common stock would include your holding period for the Exchangeable Shares exchanged therefor.

Dividends on the Exchangeable Shares

Although such treatment is not free from doubt, Pixelworks and Jaldi intend to treat dividends, if any, with respect to the Exchangeable Shares as dividends from Jaldi. Assuming such treatment is proper, dividends paid to you as a holder of Exchangeable Shares will be included in your gross income as ordinary income to the extent such dividends are paid out of the earnings and profits of Jaldi, as determined under United States federal income tax rules. Subject to applicable United States federal income tax limitations, if dividends on your Exchangeable Shares are subject to Canadian income taxation, you should be entitled to either a tax credit or a tax deduction for United States federal income tax purposes equal to the amount of Canadian income taxes paid or accrued.

Dividends on the Common Stock

Dividends paid to you as a holder of common stock will be included in your gross income as ordinary income to the extent such dividends are paid out of the earnings and profits of Pixelworks, as determined under United States federal income tax rules.

Sale or Exchange of Common Stock

You will generally recognize a gain or loss when you sell or exchange your shares of common stock. Your gain or loss will be equal to the difference between the amount realized on the sale or exchange and your tax basis in the shares of common stock sold or exchanged. The gain or loss will generally be a capital gain or loss, and will be a long-term capital gain or loss if your holding period for the shares of common stock is more than one year at the time of the sale or exchange.

Backup Withholding and Information Reporting

You are generally subject to information reporting requirements with respect to dividends paid by us to you. You are also generally subject to backup withholding with respect to dividends paid by us to you unless applicable certification requirements are met. Payment of the proceeds of a sale of shares of the common stock through United States brokers is subject to information reporting and is also subject to backup withholding unless applicable certification requirements are met.

Backup withholding tax is not a separate tax. Any amounts withheld under the backup withholding rules are generally allowable as a credit against your United States federal income tax liability, if any, which may entitle you to a refund, provided that the required information is furnished to the IRS.

THE DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE IS FOR GENERAL INFORMATION ONLY AND DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR LISTING OF ALL POTENTIAL TAX EFFECTS THAT MAY APPLY TO YOU. YOU ARE URGED TO CONSULT YOUR TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE TRANSACTIONS DESCRIBED HEREIN, INCLUDING THE APPLICATION AND EFFECT OF UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.

LEGAL MATTERS

The validity of the shares of common stock offered by this Prospectus will be passed upon by Ater Wynne LLP, Portland, Oregon, counsel to Pixelworks.

EXPERTS

The financial statements of Pixelworks, Inc. as of December 31, 2001 and for each of the years in the three-year period ended December 31, 2001, have been incorporated by reference herein and in the registration statement in reliance upon the report of KPMG LLP, independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

The financial statements of nDSP Delaware, Inc. as of December 31, 2001, and for the year then ended, have been incorporated by reference herein and in the registration statement in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You can read and copy the reports, proxy statements and other information we have filed with the SEC at the public reference room maintained by the SEC at 450 Fifth Street, NW, Washington, D.C. 20549, and at the following Regional Offices of the SEC: Woolworth Building, 233 Broadway, New York, New York 10048, and Northwest Atrium Center, 500 West Madison Street, Chicago, Illinois 60661. You can also obtain copies of these materials from the public reference room of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549 upon payment of certain fees. You can call the SEC at 1-800-732-0330 for further information about the public reference room. Our SEC filings are also available at the SEC's World Wide Web site at <http://www.sec.gov>.

INFORMATION INCORPORATED BY REFERENCE

The SEC permits us to "incorporate by reference" the information and reports that we file with it. This means we can disclose important information to you by referring to another document. The information that we incorporate by reference is considered part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934:

1. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2001;
2. Our definitive Proxy Statement dated April 5, 2002;
3. Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002 and June 30, 2002;
4. Our Current Report on Form 8-K dated January 29, 2002 as amended by a Current Report on Form 8-K/A filed March 9, 2002, and our Current Report on Form 8-K dated March 7, 2002; and
5. The description of our common stock contained in our registration statement on Form S-1/A filed on May 17, 2000.

We have also filed a registration statement on Form S-3 with the SEC, of which this prospectus forms a part. This prospectus does not contain all of the information set forth in the registration statement. You should read the registration statement for further information about us and about our common stock.

We will furnish without charge to you, on written or oral request, a copy of any or all of these filings. You should direct any requests for documents to Investor Relations, Pixelworks, Inc., 8100 SW Nyberg Street, Suite 300, Tualatin, Oregon 97062, telephone 503-454-1750.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents that are and will be incorporated into this prospectus contain forward-looking statements that involve risks and uncertainties. The outcome of the events described in these forward-looking statements is subject to risks and actual results could differ materially. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "believes," "expects," "intends," "may," "will," "should," "seeks," "pro forma" or "anticipates," and similar expressions. Our actual results could differ materially from those discussed in these statements. Factors that could contribute to these differences include those discussed under "Risk Factors," beginning on page 1 and elsewhere in this prospectus and documents incorporated herein by reference.

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The estimated expenses of issuance and distribution to be borne by Pixelworks are as follows:

| | | |
|------------------------------|-----------|------------------|
| SEC Filing Fees and Expenses | \$ | 775.56 |
| Printing Costs | | 2,000.00 |
| Legal Fees and Expenses | | 10,000.00 |
| Accounting Fees | | 5,000.00 |
| Miscellaneous | | 1,000.00 |
| TOTAL | \$ | 18,775.56 |

Item 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

As an Oregon corporation the Company is subject to the Oregon Business Corporation Act ("OBCA") and the exculpation from liability and indemnification provisions contained therein. Pursuant to Section 60.047(2)(d) of the OBCA, Article IX of the Company's Second Restated Articles of Incorporation (the "Articles") eliminates the personal liability of the Company's directors to the Company or its shareholders, except for any liability related to breach of the duty of loyalty, actions not in good faith and certain other liabilities. The Articles require the Company to indemnify its directors and officers to the fullest extent not prohibited by law.

Section 60.387, et seq., of the OBCA allows corporations to indemnify their directors and officers against liability where the director or officer has acted in good faith and with a reasonable belief that actions taken were in the best interests of the corporation or at least not adverse to the corporation's best interests and, if in a criminal proceeding, the individual had no reasonable cause to believe the conduct in question was unlawful. Under the OBCA, corporations may not indemnify against liability in connection with a claim by or in the right of the corporation in which the director or officer was adjudged liable to the corporation, but may indemnify against the reasonable expenses associated with such claims. Corporations may not indemnify against breaches of the duty of loyalty. The OBCA mandates indemnification against all reasonable expenses incurred in the successful defense of any claim made or threatened whether or not such claim was by or in the right of the corporation. Finally, a court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances whether or not the director or officer met the good faith and reasonable belief standards of conduct set out in the statute.

The OBCA also provides that the statutory indemnification provisions are not deemed exclusive of any other rights to which directors or officers may be entitled under a corporation's articles of incorporation or bylaws, any agreement, general or specific action of the board of directors, vote of shareholders or otherwise.

The Company has entered into indemnity agreements with each of its executive officers and members of its Board of Directors. Each agreement provides for indemnification of the indemnitee to the fullest extent allowed by law.

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Item 16. EXHIBITS.

Index to Exhibits

| Exhibit No. | Exhibits |
|-------------|---|
| *5 | Opinion of Ater Wynne LLP |
| *8(a) | Opinion of Ater Wynne LLP, regarding tax matters |
| *8(b) | Opinion of Torys LLP, regarding tax matters |
| *23(a) | Consent of Ater Wynne LLP (contained in 5 and 8(a)) |
| *23(b) | Consent of Torys LLP (contained in 8(b)). |
| *23(c) | Consent of KPMG LLP. |
| *24 | Power of Attorney (see page II-3) |
| *99.1 | Reorganization Agreement among Pixelworks, Inc., Pixelworks Nova Scotia Company, Certain Shareholders of Jaldi Semiconductor Corp. and Jaldi Semiconductor Corp. dated August 2, 2002 |
| *99.2 | Jaldi Semiconductor, Inc. Exchangeable Share Provisions |
| *99.3 | Exchangeable Share Support Agreement among Pixelworks, Inc., Pixelworks Nova Scotia Company and Jaldi Semiconductor Corp. dated September 6, 2002 |
| *99.4 | Voting and Exchange Trust Agreement among Jaldi Semiconductor Corp., Pixelworks, Inc., Pixelworks Nova Scotia Company and CIBC Mellon Trust Company, dated September 6, 2002 |
| *99.5 | Articles of Amendment to Sixth Amended and Restated Articles of Incorporation of Pixelworks, Inc., as filed with the Secretary of State of the State of Oregon on September 6, 2002 |

Item 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of this offering.

(4) That, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

[SIGNATURE PAGE TO FOLLOW]

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Pixelworks, Inc. certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Portland, State of Oregon on October 14, 2002.

PIXELWORKS, INC.

By: /s/ ALLEN H. ALLEY

Allen H. Alley
*Chairman of the Board, President
and Chief Executive Officer*

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Allen H. Alley and Jeffrey Bouchard, jointly and severally, his or her true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities indicated on October 14, 2002.

/s/ ALLEN H. ALLEY

Chairman, President and Chief Executive Officer

Allen H. Alley

Vice President, Finance and Chief Financial Officer

/s/ JEFFREY B. BOUCHARD

Jeffrey B. Bouchard

Director

/s/ OLIVER D. CURME

Oliver D. Curme

Director

/s/ FRANK GILL

Frank Gill

Director

/s/ MARK A. STEVENS

Mark A. Stevens

Director

/s/ G. SCOTT GIBSON

G. Scott Gibson

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[POWER OF ATTORNEY](#)

ATER WYNNE LLP

ATTORNEYS AT LAW

Suite 1800
225 S.W. Columbia
Portland, OR 97201-6618
503-226-1191
Fax 503-226-0079

October 15, 2002

Pixelworks, Inc.
8100 Nyberg
Suite 300
Tualatin, OR 97062

Dear Gentlemen and Ladies:

We are acting as counsel to Pixelworks, Inc. ("Pixelworks") in connection with the filing of the Registration Statement on Form S-3, dated October 15, 2002 (the "Registration Statement"), relating to the proposed issuance of up to 1,731,009 shares of Pixelworks Common Stock (the "Shares").

In connection with this opinion, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates, including certificates of public officials and officers of the Company, and other instruments as we have deemed necessary or advisable for purposes of rendering this opinion, including those related to authorization, execution and delivery of the Reorganization Agreement dated as of April 30, 2002 among Pixelworks, Pixelworks Nova Scotia Company ("Pixelworks Nova Scotia"), Jaldi Semiconductor Corp. ("Jaldi") and certain shareholders of Jaldi (the "Reorganization Agreement"). As to issues of fact, we have relied, without independent investigation, upon the above documents, certificates and statements.

We have assumed the genuineness of all signatures and the capacity of the persons so signing (other than signatures by or on behalf of the Company), the authenticity of all documents submitted to us as originals, the conformity to the original documents of all copies submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents. We have in addition assumed the due and valid execution and delivery of the Reorganization Agreement and the exhibits thereto by all parties thereto other than the Company. Nothing contained herein shall be construed to cause us to be considered "experts" within the meaning of Section 11 of the Securities Act.

Based upon and subject to the foregoing, and subject to the qualifications contained herein, we are of the opinion that upon (a) the Registration Statement becoming effective under the 1933 Act; (b) compliance with any applicable securities or blue sky laws; (c) the issuance of the Shares in accordance with resolutions adopted by the Board of Directors of Pixelworks, and (d) the receipt by the Corporation of the consideration described in the Registration Statement, the Shares will be duly authorized, validly issued, fully paid and nonassessable.

P O R T L A N D

S E A T T L E

ATER WYNNE LLP

October 15, 2002

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This opinion is being delivered solely in connection with the filing of the Registration Statement; it may not be relied upon or used for any other purpose or by any other person or entity, and may not be made available to any other person or entity, without our prior written consent. We do however, consent to (i) the filing of this opinion as Exhibit 5 to the Registration Statement and (ii) in connection with the delivery of this opinion, the use of our name and the reference made to us under the caption "Legal Matters" in the Registration Statement. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act of 1933 Act, as amended or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

/s/ ATER WYNNE LLP

Ater Wynne LLP

October 15, 2002

Pixelworks, Inc.
8100 SW Nyberg
Suite 300
Tualatin, OR 97062

Dear Gentlemen and Ladies:

We are acting as counsel to Pixelworks, Inc. ("Pixelworks"), in connection with the filing of the Registration Statement (defined below) and in connection with the reorganization among Pixelworks, Pixelworks Nova Scotia Company ("Pixelworks Nova Scotia"), certain shareholders of Jaldi Semiconductor Corp., and Jaldi Semiconductor Corp. ("Jaldi"). The reorganization is structured as an exchangeable share transaction, as provided in the Reorganization Agreement Among Pixelworks, Pixelworks Nova Scotia, Certain Shareholders of Jaldi and Jaldi, dated as of April 30, 2002, (the "Reorganization Agreement") and the Articles of Amendment of Jaldi, filed with the Ministry of Consumer and Commercial Relations, Ontario, Canada on August 29, 2002 (the "Articles of Amendment").

For purposes of rendering this opinion, we have examined and are relying upon (without any independent investigation or review thereof) the truth and accuracy, at all relevant times, of the statements, representations and warranties contained in the following documents:

1. Framework Agreement between Jaldi, Pixelworks and the Selling Shareholders Identified on Schedule A attached thereto, dated January 26, 2001;
2. Reorganization Agreement;
3. Articles of Amendment;
4. Exchangeable Share Support Agreement between Pixelworks, Pixelworks Nova Scotia and Jaldi, dated September 6, 2002;
5. Voting and Share Trust Agreement between Jaldi, Pixelworks, Pixelworks Nova Scotia and CIBC Mellon Trust Company, dated September 6, 2002;
6. Registration Statement on Form S-3, dated October 15, 2002, registering the Pixelworks common stock issuable upon exchange of exchangeable shares (the "Registration Statement"); and
7. Such other instruments and documents related to the formation, organization and operation of Pixelworks, Pixelworks Nova Scotia, and Jaldi, the consummation of the reorganization and the transactions contemplated by the foregoing documents as we have deemed necessary or appropriate.

Except as otherwise indicated herein, capitalized terms used in this opinion are defined in the Reorganization Agreement.

In rendering this opinion, we have assumed or obtained representations and are relying thereon (without any independent investigation or review thereof) that:

1. Original documents (including signatures) are authentic, documents submitted to us as copies conform to the original documents, and there has been due execution and delivery of all documents where due execution and delivery are prerequisites to effectiveness thereof;
2. Any representation or statement referred to herein made "to the best of knowledge" or otherwise similarly qualified is correct without such qualification;

P O R T L A N D

S E A T T L E

ATER WYNNE LLP

ATTORNEYS AT LAW

October 15, 2002
Page 2

3. The reorganization will be effective under applicable laws of Canada, the United States and political subdivisions of Canada and the United States;
4. Pixelworks Nova Scotia is an unlimited liability company existing under the laws of the Province of Nova Scotia, and Pixelworks is the sole beneficial owner of all of Pixelworks Nova Scotia's outstanding capital stock and all outstanding rights to acquire such capital stock;

5. For United States federal income tax purposes Pixelworks, Pixelworks Nova Scotia and Jaldi intend to treat the exchangeable shares as stock of Jaldi, a foreign corporation; and
6. All representations, warranties and statements made or agreed to by Pixelworks, Pixelworks Nova Scotia, and Jaldi, their managements, employees, officers, directors and stockholders in connection with the reorganization, including, but not limited to, those set forth in the Reorganization Agreement (including exhibits thereto) are true and accurate at all relevant times.

Based on the foregoing documents, materials, assumptions and information, and subject to the qualifications and assumptions set forth herein and in the Registration Statement, it is our opinion that the statements regarding United States federal income tax consequences set forth in the Registration Statement under the heading "Income Tax Considerations—U.S. Federal Income Tax Considerations," insofar as they constitute statements of law or legal conclusions, are correct in all material respects.

This opinion is based on the existing provisions of the Code, Treasury Regulations (including Temporary and Proposed Treasury Regulations) promulgated under the Code, published Revenue Rulings, Revenue Procedures and other announcements of the Internal Revenue Service (the "IRS") and existing court decisions, any of which could be changed at any time. Any such changes might be retroactive with respect to transactions entered into prior to the date of such changes and could significantly modify this opinion. We undertake no responsibility to advise you of any subsequent developments in the application, operation or interpretation of the United States federal income tax laws.

No opinion is expressed as to any transaction other than the reorganization, including any transaction undertaken in connection with the reorganization. No opinion is expressed as to any federal, state or local, foreign or other tax consequences, other than as set forth in the Registration Statement under the heading "Income Tax Considerations—U.S. Federal Income Tax Considerations."

In reviewing this opinion, you should be aware that this opinion represents our conclusions regarding the application of existing United States federal income tax law to the holders of exchangeable shares. If the facts vary from those relied upon (including if any representations, covenants, warranties or assumptions upon which we have relied are inaccurate, incomplete, breached or ineffective), this opinion could be inapplicable. You should be aware that an opinion of counsel represents only the best legal judgment of counsel, and has no binding official status of any kind, and that no assurance can be given that contrary positions may not be taken by the IRS or that a court considering the issues would not hold otherwise.

This opinion is being delivered solely in connection with the filing of the Registration Statement; it may not be relied upon or utilized for any other purpose or by any other person or entity, and may not be made available to any other person or entity, without our prior written consent. We do however, consent to (i) the filing of this opinion as an exhibit to the Registration Statement and (ii) in connection with the delivery of this opinion, the use of our name in the Registration Statement wherever it appears with respect to the discussion of the federal income tax consequences of the reorganization. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended.

Very truly yours,

/s/ ATER WYNNE LLP

Ater Wynne LLP

TORYS LLP
NEW YORK TORONTO

Suite 3000
79 Wellington St. W.
Box 270, TD Centre
Toronto, Ontario
M5K 1N2 Canada

TEL 426.865.0040
FAX 416.865.7380

www.torys.com

October 15, 2002

DELIVERED BY MESSENGER

Pixelworks, Inc.
8100 SW Nyberg
Suite 300
Tualatin, OR 97062
U.S.A.

Dear Sirs/Mesdames:

Re: Pixelworks, Inc.—Registration Statement

We have acted as Canadian counsel to Pixelworks, Inc. ("Pixelworks"), in connection with the filing of the Registration Statement (defined below) and in connection with the reorganization (the "Reorganization") among Pixelworks, Pixelworks' wholly-owned subsidiary, Pixelworks Nova Scotia Company ("Pixelworks Nova Scotia"), Jaldi Semiconductor Corp. ("Jaldi") and certain shareholders of Jaldi Semiconductor Corp. (the "Jaldi Shareholders").

For purposes of rendering this opinion, we have examined and are relying upon (without any independent investigation or review thereof) the truth and accuracy, at all relevant times, of the statements, representations and warranties contained in the registration statement dated October 15, 2002, registering the Pixelworks common stock issuable upon exchange of exchangeable shares (the "Registration Statement") with the Securities and Exchange Commission.

Based on the foregoing and subject to the qualifications set forth in the Registration Statement, it is our opinion that the statements regarding Canadian federal income tax consequences set forth in the Registration Statement under the heading "Income Tax Considerations—Canadian Federal Income Tax Considerations," insofar as they constitute statements of law or legal conclusions, are correct in all material respects as they apply to the persons to whom the summary is stated to be applicable.

This opinion is being delivered solely in connection with the filing of the Registration Statement and is intended solely for the use of the address in connection with the matters herein and may not be relied upon by any other person or for any other purpose without our prior written consent. We do however, consent to (i) the filing of this opinion as an exhibit to the Registration Statement and (ii) in connection with the delivery of this opinion, the use of our name in the Registration Statement wherever it appears with respect to the discussion contained therein of the Canadian federal income tax

consequences. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended.

Yours very truly



LLP

NEW YORK TORONTO BEIJING

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Exhibit 23(c)

Consent of Independent Auditors

Board of Directors and Shareholders
Pixelworks, Inc.:

We consent to incorporation by reference in the Registration Statement on Form S-3 of Pixelworks, Inc. of our report dated January 16, 2002, relating to the consolidated balance sheets of Pixelworks, Inc. as of December 31, 2001 and 2000, and the related statements of operations, redeemable convertible preferred stock and shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2001, which report appears in the December 31, 2001 annual report on Form 10-K of Pixelworks, Inc. and our report dated March 7, 2002, relating to the consolidated balance sheet of nDSP Delaware, Inc. as of December 31, 2001, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the year then ended, which report appears in the Form 8-K/A of Pixelworks, Inc. dated March 9, 2002 and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG LLP

Portland, Oregon
October 9, 2002

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[Consent of Independent Auditors](#)

**REORGANIZATION AGREEMENT
AMONG
PIXELWORKS, INC.
PIXELWORKS NOVA SCOTIA COMPANY
CERTAIN SHAREHOLDERS OF JALDI SEMICONDUCTOR CORP.
AND
JALDI SEMICONDUCTOR CORP.**

Made Effective as of April 30, 2002

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| Exhibit F: | Special Voting Share Series Preferred Stock |

REORGANIZATION AGREEMENT

THIS REORGANIZATION AGREEMENT (this "*Agreement*") is entered into as of *April 30, 2002*, among Pixelworks, Inc., an Oregon corporation ("*Parent*"); Pixelworks Nova Scotia Company, an unlimited company existing under the laws of the Province of Nova Scotia, and a direct, wholly-owned subsidiary of Parent ("*Pixelworks Nova Scotia*"); Jaldi Semiconductor Corp., an Ontario corporation (the "*Company*"); and (1) Eastern Technology Seed Investment Fund Limited Partnership ("*ETSIF*"), a limited partnership organized under the Laws of Ontario; (2) Lance Greggain; (3) Elena Greggain; (4) Lance Greggain, Trustee of the Greggain Family Trust; and (5) Shyam Nagrani (each a "*Signing Company Shareholder*" and together, the "*Signing Company Shareholders*").

RECITALS:

WHEREAS, Parent, the Company, and the Signing Company Shareholders executed a Framework Agreement dated January 26, 2001 (the "*Framework Agreement*"), providing that, upon the satisfaction of certain events, Parent would have an option to acquire, or may be required to acquire, the Company (the "*Acquisition*");

WHEREAS, the Framework Agreement provides that the Acquisition may be effected by way of amalgamation on the basis set out in the Agreement and Plan of Merger (Exhibit 3.2 to the Framework Agreement) or by way of reorganization of capital on the basis set out in this Agreement.

WHEREAS, the parties have agreed that the amalgamation contemplated by the Agreement and Plan of Merger cannot be effected on a tax deferred basis under Canadian tax laws. Accordingly, Pixelworks has determined to effect the Acquisition on the basis set out in this Agreement, which will involve, among other things, the Company amending its articles to create a new class of non-voting exchangeable shares ("*Exchangeable Shares*") exchangeable into shares of voting common stock, par value US \$0.001 per share, of Parent ("*Parent Common Stock*") and to convert all outstanding common shares of the Company ("*Company Common Stock*") into Exchangeable Shares.

WHEREAS, this Agreement is executed and delivered toward satisfaction of the respective obligations of Parent and the Company under the Framework Agreement;

WHEREAS, the Boards of Directors of Parent, Pixelworks Nova Scotia and the Company have, in light of and subject to the terms and conditions set forth herein, approved this Agreement and the transactions contemplated hereby, including the Reorganization (as defined in Section 1.1);

WHEREAS, as an inducement to Parent and Pixelworks Nova Scotia to enter into this Agreement, the Signing Company Shareholders have agreed to vote their shares as provided for in the Framework Agreement pursuant to which, among other things, such shareholders have agreed to vote all shares of Company Common Stock owned by them in favor of the Reorganization;

WHEREAS, for United States and Canadian income tax purposes, it is intended that the Reorganization shall qualify as a reorganization within the meaning of Section 368(a) of the US Tax Code, and a reorganization of share capital of the Company under Section 86 of the Income Tax Act (Canada); and

WHEREAS, Parent, Pixelworks Nova Scotia and the Company desire to make certain representations, warranties, covenants, and agreements in connection with the Reorganization as set forth in this Agreement.

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NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants, and agreements contained herein, and intending to be legally bound hereby, Parent, Pixelworks Nova Scotia and the Company hereby agree as follows:

ARTICLE I
The Reorganization

1.1 *Company Shareholder Meeting.* The Company shall take all lawful action (i) to cause a special meeting of its shareholders (the "*Company Shareholder Meeting*") to be duly called and held as soon as practicable after the date of this Agreement for the purpose of approving an amendment to its articles of incorporation to provide for (x) the creation of a new class of Exchangeable Shares, having the rights, privileges, restrictions and conditions as set out in the Articles and Amendment substantially in the form attached hereto as **Exhibit A**, (y) the conversion of all outstanding Company Common Stock into Exchangeable Shares on the basis set out in this Agreement and the Articles of Amendment (as defined in Section 1.2) (the "*Reorganization*") and (ii) to solicit proxies from its shareholders to obtain, by special resolution in accordance with the Corporations Act (the "*Special Resolution*"), the affirmative approval of the shareholders of the Company approving the Articles of Amendment (the "*Company Requisite Vote*") or, alternatively, to obtain the unanimous written consent of the shareholders of the Company in accordance with the Corporations Act approving the Articles of Amendment (the "*Shareholder Consent*"). Regardless of whether the Board of Directors of the Company has withdrawn, amended, or modified its recommendation that the Company's shareholders approve and adopt the Special Resolution, unless this Agreement has been terminated pursuant to the provisions of Article VIII or has previously obtained the Shareholder Consent, the Company shall be required to hold the Company Shareholder Meeting.

1.2 *Effective Time.* Subject to the provisions of this Agreement, Parent, Pixelworks Nova Scotia and the Company shall cause the Reorganization to be consummated by filing Articles of Amendment or other appropriate documents (the "*Articles of Amendment*") with the Director under the Corporations Act prepared in accordance with **Exhibit A** attached hereto, with such changes as Parent may require, and executed in accordance with the applicable provisions of the Corporations Act, as soon as practicable on the Closing Date. The Reorganization shall become effective upon such filing or at such time thereafter as is provided in the Articles of Amendment (the "*Effective Time*").

1.3 *Closing of the Reorganization.* The closing of the Reorganization (the "*Closing*") will take place at a time and on a date to be specified by the parties (the "*Closing Date*"), which shall be no later than the second business day after satisfaction or waiver of the conditions set forth in *Article VII* (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions), at the offices of Ater Wynne LLP, 222 S.W. Columbia Street, Suite 1800, Portland, Oregon 97201, or at such time, date, or place as agreed to in writing by the parties hereto.

1.4 *Effects of the Reorganization.*

(a) At the Effective Time, immediately prior to the Reorganization becoming effective:

(1) all outstanding preference shares of the Company (except for Class B, Series II Preference Shares held by Parent) will be converted into Company Common Stock in accordance with the terms of such shares (and the Signing Company Shareholders holding such preference shares, by this Agreement, hereby consent and direct that this conversion occur); and

(2) all outstanding warrants to purchase Company Common Stock or preference shares of the Company will expire.

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(b) The Reorganization shall have the effects set forth in this Agreement, the Articles of Amendment and the applicable provisions of the Corporations Act. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, the Company Common Stock will be converted into Exchangeable Shares on the basis of the "Common Stock Exchange Ratio". The "*Common Stock Exchange Ratio*" shall be the number determined by dividing 1,850,000 by the number of outstanding shares of Company Common Stock as of the Effective Time on a fully diluted basis, which for the purpose of this Agreement, means the sum of (1) the number of issued and outstanding shares of Company Common Stock as of the Effective Time and (2) the number of all issued and outstanding options to purchase shares of Company Common Stock as of the Effective Time.

1.5 *Change to Common Stock Exchange Ratio.* If, between the date of this Agreement and the Effective Time, the outstanding shares of Parent Common Stock have been changed into a different number of shares or a different class by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares (but not for any other reason, including without limitation, issues of shares pursuant to the exercise of stock options, arms-length sales of shares, or conversion of any convertible securities), the Common Stock Exchange Ratio shall be correspondingly adjusted to the extent necessary to reflect such event.

ARTICLE II *Effect of Reorganization on the Capital Stock of the Constituent Corporations*

2.1 *Stock Options.* As soon as practicable following the date of this Agreement, Parent and the Company (or, if appropriate, any committee of the Company's Board of Directors administering the Company's stock option plans or arrangements (collectively, the "*Company Option Plan*") shall take such action, and the Company shall obtain such agreements and consents, if any, as may be required to effect the provisions of this *Section 2.1*, modified to take into account Canadian legal and tax requirements. As of the Effective Time, each outstanding option to purchase shares of Company Common Stock pursuant to the Company Option Plan (a "*Company Stock Option*") shall, at the election of Parent in respect of each such Company Stock Option, either (i) be assumed by Parent and converted into an option to purchase shares of Parent Common Stock or (ii) be replaced by a new substitute option to purchase shares of Parent Common Stock granted under the terms of Parent's stock option plan (in each case, an "*Assumed Stock Option*") as follows:

(a) In respect of any Company Stock Option to which Section 421 of the US Tax Code applies by reason of its qualification under Section 422 of the US Tax Code (or as to which these US Tax Code provisions would have applied had the Company or the Company Option Plan been subject to the US Tax Code), the number of shares of Parent Common Stock subject to the Assumed Stock Option shall be the product (rounded down to the nearest whole share) of the number of shares of Company Common Stock subject to the Company Stock Option multiplied by the Common Stock Exchange Ratio. The "*Common Stock Exchange Ratio*" shall be determined in accordance with the Articles of Amendment.

(b) In respect of any other Company Stock Option, the number of shares of Parent Common Stock subject to the Assumed Stock Option shall be the product (rounded up to the nearest whole share) of the number of shares of Company Common Stock subject to the Company Stock Option multiplied by the Common Stock Exchange Ratio.

(c) Except as otherwise provided in this *Section 2.1*, each Assumed Stock Option shall be subject to the same terms and conditions (including expiration date and vesting and exercise provisions) as were applicable to the applicable Company Stock Option immediately prior to the Effective Time. As soon as reasonably practicable after the Effective Time but in any event no later than 15 days, Parent shall use its commercially reasonable efforts to prepare and file with the

Securities and Exchange Commission ("*SEC*") a registration statement on Form S-8 or other appropriate form in respect of shares of Parent Common Stock subject to the Assumed Stock Options and to maintain the effectiveness of such registration statement or registration statements covering such Assumed Stock Options (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Assumed Stock Options remain outstanding. Parent shall take all corporate action necessary to reserve for issuance under an appropriate stock option plan of Parent a sufficient number of shares of Parent Common Stock for delivery upon exercise of all Assumed Stock Options.

(d) The parties intend that each Assumed Stock Option qualify after the Effective Time as an incentive stock option (as defined in Section 422 of the US Tax Code) to the extent allowed by applicable Law, and to the extent such Assumed Stock Option qualified (or would have qualified) as an incentive stock option before the Effective Time. Provided that the Parent shareholders approve the Assumed Stock Option Plan in accordance with applicable Law, the provisions of this *Section 2.1* shall be applied consistent with such intent. The number of shares subject to the exercise price of or the terms and conditions of exercise of such Assumed Stock Option shall be adjusted, if necessary, to comply with Section 424(a) of the US Tax Code.

2.2 *Payment Procedures.* As of the Effective Time, the Company shall act as Paying Agent (in such capacity, the "*Paying Agent*"). Upon surrender of a certificate or certificates that immediately prior to the Effective Time represented outstanding shares of Company Common Stock ("*Certificates*") to the Paying Agent and a letter of transmittal in customary form and with such provisions as Parent may reasonably specify (the "*Letter of Transmittal*"), the holder of such Certificate shall be entitled to receive in exchange therefor (A) Exchangeable Shares representing, in the aggregate, the whole number of shares that such holder has the right to receive pursuant to the Articles of Amendment (after taking into account all shares of Company Common Stock then held by such holder) and (B) a cheque in the amount equal to the cash in lieu of any dividends and other distributions pursuant to the Articles of Amendment and cash in lieu of fractional shares pursuant to the Articles of Amendment. With respect to those shares of Company Common Stock for which Certificates and a Letter of Transmittal are delivered to Parent at the Closing, the consideration that such holder is entitled to receive shall be delivered to such holder as soon as practicable after the Closing (but in no event later than five business days). No interest will be paid or will accrue on any cash payable as consideration pursuant to the Articles of Amendment. If the consideration (or any portion thereof) is to be delivered to any person other than the person in whose name the Certificate representing the shares of Company Common Stock surrendered in exchange therefor is registered, it shall be a condition to such delivery that the Certificate so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the person requesting such delivery shall pay to the Paying Agent any transfer or other Taxes required by reason of the payment of such consideration to a person other than the registered holder of the Certificate surrendered, or shall establish to the satisfaction of the Paying Agent that such Tax has been paid or is not applicable.

2.3 *Distributions in Respect of Unsurrendered Certificates.* No dividends or other distributions declared or made in respect of Exchangeable Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate in respect of the Exchangeable Shares that such holder would be entitled to receive upon surrender of such Certificate and no cash payment in lieu of fractional Exchangeable Shares shall be paid to any such holder pursuant to the Articles of Amendment until such holder shall surrender such Certificate in accordance with this Agreement or the Articles of Amendment. Subject to the effect of applicable Laws, following surrender of any such Certificate, there shall be paid to such holder of Exchangeable Shares issuable on conversion therefor, without interest, (i) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional Exchangeable Shares to which such holder is entitled pursuant to the Articles of Amendment and the amount of dividends or other distributions with a record date after the Effective

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Time theretofore paid in respect of such whole Exchangeable Shares, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time, but prior to such surrender, and with a payment date subsequent to such surrender, payable in respect of such Exchangeable Shares.

2.4 *No Further Ownership Rights in Company Common Stock.* All Exchangeable Shares issued and cash paid upon conversion of the shares of Company Common Stock in accordance with the Articles of Amendment shall be deemed to have been issued or paid in full satisfaction of all rights pertaining to the shares of Company Common Stock.

2.5 *No Fractional Exchangeable Shares.*

(a) No certificates or scrip representing fractional Exchangeable Shares or book-entry credit of the same shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a stockholder of the Company or a holder of shares.

(l) Notwithstanding any other provision of this Agreement to the contrary, each holder of shares of Company Common Stock converted in connection with the Reorganization who would otherwise have been entitled to receive a fraction of an Exchangeable Share (after taking into account all Certificates delivered by such holder) pursuant to the Articles of Amendment shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of an Exchangeable Share multiplied by (ii) the Parent Stock Price. "Parent Stock Price" means the average of the closing prices of Parent Common Stock as reported in the *Wall Street Journal* for the trading days beginning on the seventh day before the date of this Agreement, to and including the date of this Agreement. As promptly as practicable after the determination of the aggregate amount of cash to be paid to holders of fractional interests, the Paying Agent shall forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

2.6 *Termination of Payment Funds; No Liability.* Any portion of the consideration remaining unclaimed by holders of shares of Company Common Stock five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity) shall, to the extent permitted by applicable Law, become the property of the Company free and clear of any claims or interest of any person previously entitled thereto. None of Parent, Pixelworks Nova Scotia, the Company or the Paying Agent shall be liable to any person in respect of any consideration delivered, in good faith, to a public official pursuant to any applicable abandoned property, escheat, or similar Law.

2.7 *Lost, Stolen, or Destroyed Certificates.* If any Certificate shall have been lost, stolen, or destroyed, subject to any requirements of applicable Law and upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen, or destroyed and, if required by the Company, the posting by such person of a bond in such reasonable amount as the Company may direct as indemnity by such person against any claim that may be made against the Company in respect of such Certificate, the Paying Agent will deliver in exchange for such lost, stolen, or destroyed Certificate the consideration in respect of the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional Exchangeable Shares to which such holder is entitled pursuant to the Articles of Amendment, and any dividends and distributions to which such holder is entitled pursuant to the Articles of Amendment.

2.8 *Withholding Rights.* The Company shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock such amounts as it is required to deduct and withhold in respect of the making of such payment under any provision of a Tax Law. To the extent that amounts are so withheld by the Company, such withheld amounts shall be treated for all purposes as having been paid to the holder of

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Company Common Stock in respect of which such deduction and withholding was made by the Company.

2.9 *Tax Consequences.* It is intended by the parties hereto that the Reorganization shall constitute a reorganization within the meaning of Section 368(a) of the US Tax Code and a reorganization of share capital under section 86 of the Income Tax Act (Canada) and will provide a tax rollover to Canadian resident shareholders of the Company under Canadian Tax Law. Each party hereto shall use its best efforts to cause the Reorganization to be so qualified, shall report the transactions contemplated by this Agreement in a manner consistent with such reorganization treatment and will not take any position inconsistent therewith in any Tax Return, refund claim, litigation, or otherwise unless required to do so by applicable Law. "Tax" or "Taxes" means all federal, state, provincial, local, municipal, or foreign taxes, charges, fees, levies, imposts, duties, gaming, and other similar assessment or liability, including, without limitation, gross or net income, gross receipts, alternative income or add-on taxes, capital, ad valorem, premium, excise, real property, personal property, sales, use, transfer, transfer gains, environmental, profits, inventory, capital stock, license, excise, severance, occupation, withholding, employment, payroll, Medicare, franchise, social security, unemployment, stamp, value-added, estimated water, rent and sewer service charges, customs duties, fees, or other taxes, including any interest, fines, penalties, assessments, reassessments, or additions to taxes imposed by any taxing authority (domestic or foreign) resulting from, attributable to, or incurred in connection with any tax or any contest, dispute, or refund thereof whether imposed by reason of contract, tax sharing agreement, tax reimbursement agreement, or any similar agreement (whether written or oral), assumption, transferee liability, operation of law, US Treasury

Regulation Section 1.1502-6(a) (or any other predecessor or successor thereof or any analogous or similar provision under state, local or foreign law) or otherwise. "Tax Return" means any report, return, document, declaration, or any other information or filing required to be supplied to any taxing authority or jurisdiction (domestic or foreign) in respect of Taxes, including, information returns, any document in respect of or accompanying payments or estimated Taxes, or in respect of or accompanying requests for the extension of time in which to file any such report, return document, declaration, or other information, including any schedule or attachment thereto including any amendment thereof. "US Tax Code" means the United States Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder.

2.10 *Share Transfer Books.* The share transfer books of the Company shall be closed immediately upon the Effective Time and there shall be no further registration of transfers of shares of Company Common Stock thereafter on the records of the Company. On or after the Effective Time, any Certificates presented to the Paying Agent for any reason shall be exchanged into Exchangeable Shares in respect of the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional Exchangeable Shares to which the holders thereof are entitled pursuant to the Articles of Amendment, and any dividends or other distributions to which the holders thereof are entitled pursuant to the Articles of Amendment.

2.11 *Affiliates.* Notwithstanding any other provision of this Agreement to the contrary, no Exchangeable Shares or cash shall be delivered to a person who may be deemed an "affiliate" of the Company for purposes of Rule 145 under the Securities Act of 1933 of the United States of America, as amended (the "*Securities Act*"), until such person has executed and delivered to Parent the written agreement contemplated by Section 6.16.

2.12 *Dissenting Shares.* Notwithstanding any other provision of this Agreement to the contrary, shares of Company Common Stock that are issued and outstanding immediately prior to the Effective Time and that are held by shareholders who did not vote in favor of the Reorganization (the "*Dissenting Shares*"), and the holders of which comply with all of the applicable provisions of the Corporations Act relating to the right to dissent in these circumstances and receiving payment for their shares (the "*Dissenting Shareholders*"), shall not be converted into or be exchangeable for the right to

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receive Exchangeable Shares, unless and until such holders shall have failed to perfect or shall have effectively withdrawn or lost their dissenters' rights under the Corporations Act. If any Dissenting Shareholder shall have failed to perfect or shall have effectively withdrawn or lost the right to dissent, such holder's shares of Company Common Stock shall thereupon be treated as though such shares of Company Common Stock had been converted, as of the Effective Time, into the right to receive Exchangeable Shares pursuant to this *Article II* and the Articles of Amendment. The Company shall give Parent (i) prompt notice of any written demands for appraisal of any shares of Company Common Stock, attempted withdrawals of such demands, and any other instruments served pursuant to the Corporations Act and received by the Company relating to shareholders' rights of dissent, payment of the fair value of their shares, or appraisal, and (ii) the opportunity to direct all negotiations and proceedings in respect of demands for appraisal under the Corporations Act. The Company shall not, except with the prior written consent of Parent, voluntarily make any payment in respect of, or settle or offer to settle, any such demand for payment. Each Signing Company Shareholder hereby irrevocably waives any right to dissent in relation to the Reorganization and approval of the Articles of Amendment.

ARTICLE III

Representations and Warranties of Parent and Pixelworks Nova Scotia

Parent and Pixelworks Nova Scotia each represent and warrant to the Company and its shareholders as follows (with the understanding that the Company is relying materially on such representations and warranties in entering into and performing this Agreement):

3.1 *Due Organization.* Each of Parent and Pixelworks Nova Scotia is a corporation, validly existing and in good standing under the Laws of the jurisdiction of its incorporation, and has all requisite corporate power and authority to own, lease, or otherwise hold its assets and properties and to carry on its business as presently conducted.

3.2 *Authorization and Effect of Agreement.* Each of Parent and Pixelworks Nova Scotia has the requisite corporate power to execute and deliver this Agreement, the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement (each as defined in the Articles of Amendment) and to perform the transactions contemplated hereby and thereby to be performed by it. The execution and delivery of this Agreement, the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement by each of Parent and Pixelworks Nova Scotia and the performance by Parent and Pixelworks Nova Scotia of their respective obligations hereunder and thereunder have been duly authorized by all necessary corporate action of the part of Parent and Pixelworks Nova Scotia. Each of this Agreement, the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement has been duly executed and delivered by each of Parent and Pixelworks Nova Scotia and, assuming the due execution and delivery of this Agreement by the Company and the Signing Company Shareholders, as applicable, constitutes a valid and binding obligation of each of Parent and Pixelworks Nova Scotia enforceable against each of Parent and Pixelworks Nova Scotia in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar Laws affecting the enforcement of creditors' rights in general and subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

3.3 *No Violations; Consents and Approvals.* The execution and delivery of this Agreement, the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement by each of Parent and Pixelworks Nova Scotia does not, and the performance by each of Parent and Pixelworks Nova Scotia of the transactions contemplated hereby and thereby to be performed by it will not (i) conflict with the certificate or articles of incorporation or bylaws of Parent and Pixelworks Nova Scotia, (ii) conflict with, or result in any violation of, or constitute a default (with or without notice, lapse of time, or both) under, or give rise to a right of termination, cancellation, or acceleration of any

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obligation or to loss of a benefit under, any material contract or permit to which Parent or Pixelworks Nova Scotia is a party or by which it is bound, or (iii) constitute a violation of any federal (of Canada or the United States of America), state, local, or foreign law, rule, or regulation ("*Law*") applicable to Parent or any order, judgment, decree, writ, or injunction ("*Order*") of any Governmental Entity applicable to Parent. Except for any

filings, permits, authorizations, consents, and approvals required under the Securities Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), applicable Canadian securities legislation, state securities or blue sky laws, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), the Competition Act (if applicable), the Investment Canada Act (if applicable), and the filing of the Articles of Amendment with the Director under the Corporations Act, no consent, approval, order, or authorization of, or registration, declaration, or filing with any domestic or foreign court, government, governmental or regulatory agency, authority, entity, or instrumentality or subdivision thereof (each, a "Governmental Entity") is required to be obtained or made by or in respect of Parent or Pixelworks Nova Scotia in connection with the execution and delivery of this Agreement, the Exchangeable Share Support Agreement or the Voting and Exchange Trust Agreement by each of Parent and Pixelworks Nova Scotia or the performance by it of the transactions contemplated hereby or thereby to be performed by it.

3.4 *Capitalization.* The authorized capital stock of Parent consists of 250,000,000 shares of Common Stock, par value US\$0.001 per share, of which 43,183,262 shares were issued and outstanding as of the last day of the calendar month immediately preceding the date hereof, and 50,000,000 shares of Preferred Stock, par value US\$0.001 per share, of which *no* shares were issued and outstanding as of the last day of the calendar month immediately preceding the date hereof. All of such issued and outstanding shares of capital stock of Parent are duly authorized, validly issued, fully paid, and nonassessable.

3.5 *Litigation.* There are no claims, actions, suits, proceedings, including, without limitation, arbitration proceedings or alternative dispute resolution proceedings, or investigations pending or, to the knowledge of Parent or Pixelworks Nova Scotia, threatened against Parent or Pixelworks Nova Scotia before any Governmental Entity that, either individually or in the aggregate, would be reasonably likely to have a material adverse effect on the business, financial condition, or results of operations of Parent or Pixelworks Nova Scotia as a whole.

3.6 *No Prior Activities.* Pixelworks Nova Scotia has been incorporated for the sole purpose of consummating the transactions contemplated by this Agreement, the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement. Except for obligations incurred in connection with its incorporation or organization or the negotiation and consummation of this Agreement, the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement and the transactions contemplated hereby and thereby, Pixelworks Nova Scotia has neither incurred any obligation or liability nor engaged in any business or activity of any type or kind whatsoever or entered into any agreement or arrangement with any person.

3.7 *Parent SEC Filings and Financial Statements.* Parent has filed all required forms, reports, and documents with the SEC (the "Parent SEC Filings"), each of which complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder, each as in effect on the dates such forms, reports, and documents were filed. None of such Parent SEC Filings, including any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of the date of the Framework Agreement, Parent has not made any confidential filings with the SEC. The consolidated financial statements of Parent included in the Parent SEC filings complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC in respect thereof and fairly present, in all material respects, in

accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Parent and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of any unaudited interim financial statements, to normal year-end adjustments).

3.8 *Tax Matters.* Parent has not taken or agreed to take, and will not take, any action that would prevent the Reorganization from having the tax consequences contemplated by *Section 2.9*.

ARTICLE IV

Representations and Warranties of the Company and Signing Company Shareholders

4.1 *Representations and Warranties of the Company and non-ETSIF Signing Company Shareholders.* Subject to any disclosure schedules attached hereto, the Company and the Signing Company Shareholders, except ETSIF, hereby represent and warrant to Parent and Pixelworks Nova Scotia as follows (with the understanding that Parent and Pixelworks Nova Scotia are relying materially on each such representation and warranty in entering into and performing this Agreement):

(a) *Continuing Accuracy and Validity of All Prior Representations.* All of the representations and warranties made by the Company to Parent in connection with, and as set forth in, the "Jaldi Semiconductor Corp. Series B Preferred Stock Purchase Agreement" dated as of the date of the Framework Agreement (the "Class B Series II Agreement"), and the Framework Agreement are true and correct in all material respects as of the date of this Agreement, with the same force and effect as if they had been made as of the date of this Agreement. After the date of the Class B Series II Agreement and the Framework Agreement, the facts and circumstances contemplated in section 3.9.3 of the Framework Agreement shall constitute exceptions to the representation and warranty set forth in the preceding sentence.

(b) *Information Furnished.* Neither the representations or warranties of the Company contained in this Agreement nor the statements made by the Company in any schedules attached hereto contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein or therein, as the case may be, in light of the circumstances under which they were made, not misleading.

4.2 *Representations and Warranties of ETSIF.* Subject to any disclosure schedules attached hereto, ETSIF hereby represents and warrants to Parent and Pixelworks Nova Scotia as follows (with the understanding that Parent and Pixelworks Nova Scotia are relying materially on each such representation and warranty in entering into and performing this Agreement) that ETSIF has good and marketable title to:

- (1) 500,000 Class A preference shares of the Company,
- (2) a Share Purchase Warrant dated May 18, 1999, as amended as of the date of the Framework Agreement, convertible into 100,000

Class A preference shares of the Company, and

(3) Share Purchase Warrant dated as of the date of the Framework Agreement, to purchase 35,183 shares of Company Common Stock

free and clear of all security interests, liens, encumbrances, or other restrictions or claims, subject only to:

- (a) restrictions as to marketability imposed by securities laws;
- (b) the terms, conditions, and restrictions set forth in the Share Purchase Warrant dated May 18, 1999, as amended;

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(c) the terms, conditions, and restrictions set forth in the Amended and Restated Share Purchase Warrant dated as of the date of the Framework Agreement; and

(d) the terms, conditions, and restrictions set forth in the Shareholders' Agreement among Lance Greggain, ETSIF, and the Company dated May 18, 1999.

ARTICLE V *Covenants Related to Conduct of the Business*

5.1 *Inspection.* From and after the date hereof and until the Closing, the Company shall, and shall cause its Subsidiaries to: (i) give to each of Parent and Pixelworks Nova Scotia and its officers, directors, employees, agents, financial, advisors, attorneys, accountants, environmental professionals and other representatives (collectively, "*Representatives*") free, full, and complete access on reasonable notice during normal business hours to all books, records, Tax Returns, files, correspondence, executive employees, facilities, and properties of the Company and its Subsidiaries; (ii) provide each of Parent and Pixelworks Nova Scotia and its Representatives all information and material pertaining to the business and affairs of the Company and its Subsidiaries as Parent and Pixelworks Nova Scotia may deem reasonably necessary or appropriate; (iii) without limiting the generality of the foregoing, permit Parent's and Pixelworks Nova Scotia's accountants to examine the Company's and its Subsidiaries' financial statements for any fiscal period; and (iv) use its reasonable efforts to afford each of Parent and Pixelworks Nova Scotia and its Representatives the opportunity to meet with the customers, executive employees, and vendors of the Company and its Subsidiaries to discuss the business, condition (financial or otherwise), operations, and prospects of the Company and its Subsidiaries. Notwithstanding the preceding sentence, Parent and Pixelworks Nova Scotia shall coordinate all meetings or other communications with the Company's customers, suppliers, and employees with management of the Company. "*Subsidiary*" means, when used with reference to any entity, any corporation or other organization, whether incorporated or unincorporated, (i) of which such party or any other subsidiary of such party is a general or managing partner or (ii) the outstanding voting securities or interests of which having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions in respect of such corporation or other organization are directly or indirectly owned or controlled by such party or by any one or more of its subsidiaries.

5.2 *Financial Statements.* From and after the date hereof and continuing until the Closing, as soon as available, and in any event within 20 days after the end of each calendar month, the Company shall, and shall cause its Subsidiaries to, furnish to Parent and Pixelworks Nova Scotia an unaudited balance sheet as of the last day of the month during such period and the related statements of income and cash flows of the Company and its Subsidiaries for such month. Such monthly financial statements shall fairly present the financial position, results of operations, and changes in financial position of the Company and its Subsidiaries as of the indicated dates and for the indicated periods and shall be prepared in accordance with GAAP, consistently applied, except as otherwise stated therein, and the omission of footnote disclosure and any year-end adjustment consistent with past practice.

5.3 *Interim Operations of the Company and its Subsidiaries.*

(a) From the date hereof to the Closing, the Company shall, and shall cause its Subsidiaries to, conduct their respective businesses only in the ordinary course consistent with past practices, and the Company shall not, and shall cause its Subsidiaries not to, unless included in the Operations Milestone plan (attached as **Exhibit D**) or unless Parent and Pixelworks Nova Scotia gives its prior written approval:

- (i) amend or otherwise change their articles of incorporation or bylaws, as each such document is in effect on the date hereof;

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(ii) issue or sell, or authorize for issuance or sale, additional shares of any class of capital stock or issue, grant, or enter into any subscription, option, warrant, right, convertible or exchangeable security, or other agreement or commitment of any character obligating the Company or its Subsidiaries to issue securities, other than shares issued pursuant to the exercise of Company Stock Options outstanding as of the date hereof;

(iii) declare, set aside, make, or pay any dividend or other distribution in respect of their capital stock;

(iv) redeem, purchase, or otherwise acquire, directly or indirectly, any of their capital stock;

(v) authorize any capital expenditures or sell (including sale by sale-leaseback), pledge, dispose of, or encumber, or agree to sell, pledge, dispose of, or encumber, any assets of the Company or its Subsidiaries except for sales of manufactured products or obsolete equipment in the ordinary course of business consistent with past practices;

(vi) acquire (by merger, share exchange, consolidation, combination, or acquisition of stock or assets) any corporation,

partnership, or other business organization or division thereof or enter into any contract, agreement, commitment, or arrangement in respect of any of the foregoing;

(vii) incur any indebtedness for borrowed money, issue any debt securities, or enter into or modify any contract, agreement, lease, commitment, or arrangement in respect thereof, other than in the ordinary course of business consistent with past practice;

(viii) enter into any new material contract, agreement, lease, or commitment, or amend or terminate any existing material contract, agreement, lease, or commitment, other than in the ordinary course of business and with the consent of Parent, which consent will not be unreasonably withheld;

(ix) enter into, amend, or terminate any employment or consulting agreement with any director, officer, consultant, or employee of the Company or its Subsidiaries, enter into, amend, or terminate any employment or consulting agreement or arrangement with any other person other than in the ordinary course of business consistent with past practice, or take any action in respect of the grant or payment of any severance or termination pay other than pursuant to policies or agreements of the Company or its Subsidiaries in effect on the date hereof;

(x) enter into, extend, or renew any lease for equipment, office space, or other space, other than in accordance with the ordinary course of business;

(xi) fail to pay any accounts payable of the Company or its Subsidiaries in the ordinary course of business consistent with past practice and in accordance with their terms consistent with past practices;

(xii) accelerate the collection of, or sell or otherwise transfer, any accounts receivable of the Company or its Subsidiaries;

(xiii) except as required by applicable Law, adopt, amend, or terminate any bonus, profit sharing, compensation, stock option, pension, retirement, deferred compensation, employment or other employee benefit plan, agreement, trust, fund, or arrangement for the benefit or welfare of any officer or employee of the Company or its Subsidiaries, or withdraw from any multi-employer plan so as to create any liability under Article IV of ERISA or applicable Canadian Law to any entity;

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(xiv) pay (except for salary under existing employment arrangements, advances to salespersons in the ordinary course of business, and directors' fees under standard terms in effect prior to the date hereof), loan, or advance any amount to, or sell, transfer, or lease any assets or properties to, or enter into any agreement or arrangement with, any of their officers or directors or any affiliate, associate, or near relative of any of their officers or directors;

(xv) except in the ordinary course of business consistent with past practice, write down (or write up) the value of any inventory or write off as uncollectible any accounts receivable;

(xvi) cancel any debts or waive any claims or rights of substantial value, other than in the ordinary course of business consistent with past practice, or cancel or terminate any material contract;

(xvii) dispose of or permit to lapse any rights to the use of any patent, trademark, trade name, copyright, or other intangible asset, or dispose of or disclose to any person any trade secret, formula, process, or know-how not theretofore a matter of public knowledge;

(xviii) change any of the banks in which the Company and its Subsidiaries maintain a bank account or safe deposit box, except in the ordinary course of business;

(xix) grant or extend any power of attorney or act as guarantor, surety, co-signer, endorser, co-maker, indemnitor, or otherwise, in respect of the obligation of any person;

(xx) make any change in financial or Tax accounting methods, principles, or practices or make or cause to be made any elections on Tax Returns of the Company and its Subsidiaries, unless required by GAAP or applicable law;

(xxi) take any action that could reasonably be expected to prevent or impede the Reorganization from qualifying as a reorganization under Section 368(a) of the US Tax Code or a reorganization of share capital under Section 86 of the Income Tax Act (Canada) or that could reasonably be expected to prevent or impede a tax rollover on the Reorganization to Canadian resident shareholders of the Company under Canadian Tax Law;

(xxii) extend credit in the sale of products, collection of receivables, or otherwise, other than in the ordinary course of business consistent with past practice;

(xxiii) fail to maintain its books, accounts, and records in the usual, regular, and ordinary manner on a basis consistent with prior years;

(xxiv) adopt or amend in any material respect, other than as required by applicable Law, any (1) collective bargaining agreement, (2) any "employee benefit plans," as defined in Section 3(3) of ERISA, pursuant to which the Company or its Subsidiaries has or would have any obligation or liability, contingent or otherwise; or (3) any employment or consulting agreements, bonus or other incentive compensation, deferred compensation, salary continuation during any absence from active employment for disability or other reasons, severance, supplemental retirement, cafeteria benefits (Section 125 of the US Tax Code) or dependent care (Section 129 of the US Tax Code), sick days, stock award, stock option, stock purchase, tuition assistance, club membership, employee discount, employee loan, or vacation pay agreements, policies, or arrangements that the Company or any of its Subsidiaries maintains, has, or would have any obligation or liability (contingent or otherwise) in respect of any current or former

officer, director, or employee of the Company or its Subsidiaries.

(xxv) grant any increase in compensation, or grant or make any bonus or other compensatory payments, to any director, officer, or consultant of the Company or its Subsidiaries except in the ordinary course business consistent with past practice and not exceeding 3% of salary for any year or part thereof;

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(xxvi) make or revoke any Tax election that could reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, or compromise or settle any material Tax liability;

(xxvii) grant any increase in compensation to any other employee of the Company or its Subsidiaries except in the ordinary course of business consistent with past practice; or

(xxviii) agree, whether in writing or otherwise, to do any of the foregoing.

(a) From the date hereof to the Closing, the Company shall, and shall cause its Subsidiaries to, use their respective commercially reasonable efforts to preserve intact the business organization of the Company and its Subsidiaries, to keep available in all material respects the services of their present officers and employees, to preserve intact their banking relationships and credit facilities, to preserve intact their relationships with their customers and vendors, to preserve the goodwill of those having business relationships with them, and to comply with all applicable Laws in all material respects.

ARTICLE VI Additional Agreements

6.1 *Compliance by the Company, Parent and Pixelworks Nova Scotia.* From the date hereof to the Closing, none of the Company, Parent or Pixelworks Nova Scotia shall take or fail to take any action, which action or failure to take such action could reasonably be expected to cause the representations and warranties made by it to be untrue or incorrect as of the Closing.

6.2 *Satisfaction of All Conditions Precedent.* From the date hereof to the Closing, each of the Company, Parent and Pixelworks Nova Scotia shall use its commercially reasonable efforts to cause all conditions precedent to the obligations of Parent and Pixelworks Nova Scotia, in the case of the Company, and the Company, in the case of Parent and Pixelworks Nova Scotia, hereunder to be satisfied by the Closing.

6.3 *Acquisition Proposals.*

(a) The Company will not, nor will it authorize or permit any Representative of the Company to, directly or indirectly, (i) solicit, initiate, or encourage the submission of any Acquisition Proposal or (ii) participate in any discussions or negotiations regarding, or furnish to any person any information in respect of, or take any other action to facilitate, any Acquisition Proposal or any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal. The Company shall notify Parent of any Acquisition Proposal (including the material terms and conditions thereof (subject to confidentiality agreements existing as of the date hereof between the Company and any third party), any subsequent modifications thereto, and the identity of the person making it) as promptly as practicable after its receipt thereof, and shall provide Parent with a copy of any written Acquisition Proposal or amendments or supplements thereto (subject to confidentiality agreements existing as of the date hereof between the Company and any third party). Immediately after the execution and delivery of this Agreement, the Company will, and will use its commercially reasonable efforts to cause its affiliates, and their respective Representatives to, cease and terminate any existing activities, discussions, or negotiations with any parties conducted heretofore in respect of any possible Acquisition Proposal and shall notify each party that it, or any Representative retained by it, has had discussions with during the 30 days prior to the date of this Agreement that the Board of Directors of the Company no longer seeks the making of any Acquisition Proposal. The Company shall take all necessary steps to promptly inform the persons referred to in the first sentence of this *Section 6.3* of the obligations undertaken in this *Section 6.3*. "Acquisition Proposal" means an inquiry, offer, or proposal regarding any of the following (other than the transactions contemplated by this Agreement) involving the Company: (w) any merger, consolidation, share exchange,

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recapitalization, business combination, or other similar transaction; (x) any sale, lease, exchange, mortgage, pledge, transfer, or other disposition of all or substantially all the assets of the Company in a single transaction or series of related transactions; (y) any tender offer, takeover bid, or exchange offer for 20% or more of the outstanding shares of Company Common Stock or the filing of a registration statement or prospectus under the Securities Act or applicable Canadian securities Law in connection therewith; or (z) any public announcement of a proposal, plan, or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

(b) Nothing contained in this *Section 6.3(b)* shall prohibit the Company from making any disclosure to the Company's shareholders that, in the good faith reasonable judgment of the Board of Directors of the Company, after consultation with independent legal counsel, is required under applicable law; *provided, however*, that except as otherwise permitted in this *Section 6.3(b)*, the Company may not withdraw or modify, or propose to withdraw or modify, its position in respect of the Reorganization or approve or recommend, or propose to approve or recommend, an Acquisition Proposal. Nothing in this *Section 6.3(b)* shall (i) permit the Company to terminate this Agreement (except as provided in *Article VIII*) or (ii) affect any other obligation of the Company under this Agreement.

6.4 *Notice of Developments.* From the date hereof to the Closing, the Company shall notify Parent and Pixelworks Nova Scotia of any changes or developments in respect of the business, operations, or prospects of the Company that has had, or could reasonably be expected to result in, a Material Adverse Effect.

6.5 *Public Announcements.* No announcement, discussion, press release, or other publication of this Agreement or any of the transactions contemplated by this Agreement may be made by any party without the written authorization of the other parties, except in the course

of seeking the advice of legal counsel, accountants, and other advisors. Notwithstanding the above, no party shall be prohibited from making any disclosure that is required in order to fulfill disclosure obligations imposed on it by Law. If any party proposes to make such disclosure, it will first notify the other parties, and the parties shall use their best efforts to reach agreement on the form, necessity, and substance of the disclosure to be made. The obligations of this *Section 6.5* shall remain in effect for a period of six months following the termination of this Agreement.

6.6 *Notice of Breach.* From the date hereof to the Closing, each party hereto shall, immediately upon becoming aware thereof, give detailed written notice to the other parties hereto of the occurrence of, or the impending or threatened occurrence of, any event that would cause or constitute a breach, or would have caused or constituted a breach had such event occurred or been known to such party prior to the date of this Agreement, of any of such party's covenants, agreements, representations, or warranties contained or referred to herein or in any document delivered in accordance with the terms hereof.

6.7 *Continuation of Insurance Coverage.* From the date hereof to the Closing, the Company shall keep in full force and effect insurance coverage for the Company and its assets and operations comparable in amount and scope to the coverage now maintained covering the Company and its assets and operations.

6.8 *Maintenance of Credit Terms.* From the date hereof to the Closing, the Company shall continue to effect sales of its products and services only on the terms that have historically been offered by the Company or on such other terms as market conditions may dictate consistent with commercially reasonable practices.

6.9 *Updating Disclosure Schedules.*

(a) Within ten days of the date of this Agreement, the Company shall disclose to Parent and Pixelworks Nova Scotia a fully revised set of schedules, updating the disclosures provided in

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connection with the Class B Series II Agreement and the Framework Agreement, notwithstanding any prior disclosure of this information as contemplated by *Section 4.1*. This updated disclosure shall include a specific reference to any material variances from **Exhibit D**, and shall include a copy of Parent's written acceptance of any such material variance. Any disclosure made under this paragraph that reflects a material variance from **Exhibit D** not accepted by Parent before the date of this Agreement will be treated as a disclosure made under *Section 6.9(b)*.

(b) From the date of this Agreement until the Closing, the Company shall disclose to Parent and Pixelworks Nova Scotia any material variances from the representations and warranties contained herein promptly upon discovery thereof. The Company shall promptly provide Parent and Pixelworks Nova Scotia with any supplemental information regarding such disclosure that is reasonably requested. Any applicable schedules shall be deemed supplemented by any such disclosures that relate to occurrences subsequent to the date of this Agreement; the schedules shall not be otherwise amended or supplemented by any such disclosures.

(c) The schedules delivered under (a) and the supplements delivered under (b) shall not be given effect in determining whether the Closing condition contained in *Section 7.2* has been satisfied. The satisfaction of such condition to Closing shall be based solely on achievement of the milestones set out in the Framework Agreement.

(d) In the event such Closing condition is satisfied or waived by Parent and Pixelworks Nova Scotia, the right of Parent or Pixelworks Nova Scotia to recover under the indemnity provisions of *Article IX* shall be determined based upon the accuracy and validity at Closing of the representation and warranty (taking into account any exceptions) set forth in *Section 4.2*.

6.10 *Third Party Consents.* The Company shall use its commercially reasonable efforts to obtain at the earliest practicable date all consents, waivers and approvals of third persons necessary to the consummation of the transactions contemplated hereby, including under the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement (the "*Company Consents*"), and will provide to Parent and Pixelworks Nova Scotia copies of each such Company Consent promptly after it is obtained. Parent and Pixelworks Nova Scotia shall cooperate fully with the Company in connection with the obtaining of the Company Consents; provided, however, that Parent and Pixelworks Nova Scotia shall not be required to pay any additional sums to secure such Company Consents.

6.11 *Commercially Reasonable Efforts and Certain Filings.* Subject to the terms and conditions of this Agreement, each of the Company, Parent and Pixelworks Nova Scotia will use its respective commercially reasonable efforts to maintain the accuracy of its representations and warranties hereunder and to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable to consummate the transactions contemplated by this Agreement, including, without limitation, cooperating in respect of any necessary filings, or applications for exemptive relief or other consents or orders under the HSR Act, the Competition Act (Canada), the Investment Canada Act (Canada), and applicable United States and Canadian securities Laws. None of the Company or its Subsidiaries, Parent and Pixelworks Nova Scotia will take, agree to take, or knowingly permit to be taken any action or do or knowingly permit to be done anything in the conduct of its business, or otherwise, that would be contrary to or in breach of any of the terms or provisions of this Agreement.

6.12 *Confidentiality.* The Company agrees that, from and after the date hereof, and Parent and Pixelworks Nova Scotia, agree that, from the date hereof and until the Closing or, in the event of a termination pursuant to *Article VIII*, from and after the date of such termination, neither the Company, Parent, Pixelworks Nova Scotia, nor any of their affiliates will, directly or indirectly, disclose, reveal, divulge, or communicate to any Person, other than authorized Representatives of the Company, Parent or Pixelworks Nova Scotia, or use or otherwise exploit for its own benefit or for the benefit of anyone any Confidential Information other than the use by the Company, Parent or Pixelworks Nova Scotia of any Confidential Information in connection with its analysis or evaluation of the proposed

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Reorganization. The parties hereto shall not have any obligation to keep confidential any Confidential Information if and to the extent disclosure thereof is specifically required by applicable Law; *provided, however*, that in the event disclosure is required by applicable law, the disclosing party

shall, to the extent reasonably practicable, provide the non-disclosing party with prompt written notice of such requirement prior to making any disclosure so that the non-disclosing party may seek an appropriate protective order. Upon the termination of this Agreement pursuant to *Section 8* herein, each party hereto shall promptly return or, at the request of the other party, destroy all documents, and copies of, and all work papers containing, confidential information received from the other parties hereto. For purposes of this *Section 6.14*, "Confidential Information" means (i) in the case of the Company, any confidential information in respect of the conduct or details of the business of Parent or Pixelworks Nova Scotia, and (ii) in respect of Parent or Pixelworks Nova Scotia, any confidential information in respect of the conduct or details of the business of the Company, in each case including, without limitation, methods of operation, customers, and customer lists, products, proposed products, former products, proposed, pending or completed acquisitions of any company, division, product line, or other business unit, prices, fees, costs, plans, designs, technology, inventions, trade secrets, know-how, software, marketing methods, policies, plans, personnel, suppliers, competitors, markets, or other specialized information or proprietary matters. The term "Confidential Information" does not include, and there shall be no obligation hereunder in respect of, information that (i) at the time of disclosure, is in the public domain through no act or failure to act by either party, (ii) a party had in such party's possession prior to the time of disclosure and received without any obligation of confidentiality, (iii) is rightfully and lawfully disclosed to a party with no obligation of confidentiality by a third party who did not acquire such information from either party, and (iv) is or was independently developed by a party having no knowledge of the information disclosed pursuant to this Agreement.

6.13 Tax-Free Reorganization Treatment. The Company, Parent and Pixelworks Nova Scotia shall execute and deliver to counsel acceptable to Company acting reasonably, and Ater Wynne LLP, legal counsel to Parent, certificates relating to the tax-free reorganization treatment under the US Tax Code and under the Income Tax Act (Canada) substantially in the forms to be agreed to by the parties as promptly as practicable following the date hereof, at such time or times as reasonably requested by such firms in connection with their respective deliveries of opinions in respect of the transactions contemplated hereby. Prior to the Effective Time, none of the Company, Parent or Pixelworks Nova Scotia shall take or cause to be taken any action that would cause to be untrue (or fail to take or cause not to be taken any action that would cause to be untrue) any of the representations in such certificates.

6.14 Affiliate Letters. *Schedule 6.14* sets forth a complete and correct list of all persons who are, and all persons who to the knowledge of the Company will be at the Closing, "affiliates" of the Company for purposes of Rule 145 under the Securities Act. The Company will cause such list to be updated promptly through the Closing Date. As soon as practicable after the date hereof, but prior to the Closing Date, the Company shall use its commercially reasonable efforts to cause its "affiliates" to deliver to Parent and Pixelworks Nova Scotia a written agreement substantially in the form attached as **Exhibit E**.

6.15 Governmental Fees. Any fees incurred in connection with possible filings required under the HSR Act, the Competition Act (Canada), or the Investment Canada Act shall be borne by Parent.

6.16 Indemnification. From and after the Effective Time, the Company shall, to the fullest extent permitted by applicable Law, indemnify, defend, and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, a director or officer of the Company or any of its Subsidiaries (each an "Indemnified Party") against all losses, expenses (including, reasonable attorneys' fees and expenses), claims, damages, or liabilities or, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time and whether asserted or claimed prior to, at, or after the Effective Time that are in whole or in

part based on, or arising out of the fact that such person is or was a director or officer of the Company or any of its Subsidiaries. To the fullest extent permitted by Law, from and after the Effective Time, all rights to indemnification now existing in favor of directors or officers of the Company and its Subsidiaries in respect of their activities as such prior to the Effective Time, as provided in the Company's articles of incorporation or bylaws, in effect on the date thereof or otherwise in effect on the date hereof, shall survive the Reorganization and shall continue in full force and effect for a period of not less than six years from the Effective Time.

6.17 FIRPTA. Company shall, prior to the Closing Date provide Parent with a properly executed Foreign Investment and Real Property Tax Act of 1980 ("FIRPTA") FIRPTA Notification Letter which states that shares of capital stock of Company do not constitute "United States real property interests" under Section 897(c) of the Internal Revenue US Tax Code, for purposes of satisfying Parent's obligations under Treasury Regulation Section 1.1445-2(c)(4). In addition, simultaneously with delivery of such FIRPTA Notification Letter, Company shall provide to Parent a form of notice to the Internal Revenue Service in accordance with the requirements of Treasury Regulation Section 1.897-2(h)(2), along with written authorization for Parent to deliver such notice form to the Internal Revenue Service on behalf of Company upon the Closing of the Reorganization.

ARTICLE VII

Conditions to Consummation of the Reorganization

7.1 Conditions to Each Party's Obligation to Effect the Reorganization. The respective obligations of each party to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or in part by the party being benefited thereby, to the extent permitted by applicable law:

- (a) The Reorganization and Articles of Amendment shall have been approved and adopted by the Company Requisite Vote or the Shareholder Consent.
- (b) The Company, Parent and Pixelworks Nova Scotia shall have timely obtained from each Governmental Entity all approvals, waivers, and consents, if any, necessary for consummation of or in connection with the transactions contemplated hereby, including (i) approval under the HSR Act, (ii) approval of the Minister under the *Investment Canada Act*, if applicable, to the consummation of the Reorganization, (iii) the Director of Investigation and Research appointed under the *Competition Act* (Canada) shall not have opposed or indicated an intention to oppose the Reorganization and shall not have made or indicated an intention to make an application under Part VIII of that Act in respect of the Reorganization, and such other approvals, waivers, and consents as may be required under the Securities Act and applicable Canadian securities Laws and under other securities laws of any state, province, or foreign nation.
- (c) There shall not be in effect any Law or Order of any Governmental Entity of competent jurisdiction restraining, enjoining, or otherwise preventing consummation of the transactions contemplated by this Agreement.

(d) Parent shall have filed articles of amendment with the Oregon Secretary of State designating one share of Parent's Preferred Stock as "Special Voting Share Series Preferred Stock," with preferences, limitations, and relative rights as set forth in the form attached hereto as **Exhibit F**.

(e) The Voting and Exchange Trust Agreement shall have been executed and delivered by the trustee appointed under that agreement.

7.2 Conditions to the Obligations of Parent and Pixelworks Nova Scotia. The respective obligations of Parent and Pixelworks Nova Scotia to consummate the transactions contemplated by this Agreement

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are subject to the fulfillment at or prior to the Effective Time of each of the following additional conditions, any or all of which may be waived in whole or part by Parent and Pixelworks Nova Scotia, as the case may be, to the extent permitted by applicable law:

(a) (1) The representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date. (2) In its sole and absolute discretion, Parent shall be satisfied with any matter reflected, listed, or disclosed in the updated schedules that was not reflected, listed or disclosed in the original schedules. (3) The Company shall have performed and complied in all material respects with all agreements required by this Agreement to be performed or complied with by the Company at or prior to the Closing Date. (4) Parent and Pixelworks Nova Scotia shall have received a certificate, dated as of the Closing Date, signed by a duly elected officer of the Company to the foregoing effects. (5) Parent and Pixelworks Nova Scotia shall have obtained exemption orders from all of the Canadian Securities Commissions from the registration and prospectus requirements of Canadian securities Laws with respect to the transactions contemplated by this Agreement.

(b) Holders of shares of Company Common Stock representing no more than 10% of the outstanding Company Common Stock, shall have exercised and not withdrawn, forfeited, or otherwise permitted to lapse dissenter's rights under the Corporations Act in respect of their shares of Company Common Stock in connection with the Reorganization.

(c) The Company shall have delivered to Parent the minute books and stock transfer records of the Company.

(d) All reviews, consents, waivers, and approvals of any Governmental Entity or third person required in connection with the execution, delivery, and performance of this Agreement shall have been obtained. In light of the Company's recent annual net sales and the recent value of the Company's assets (both of which are less than CDN\$10 million), the parties expect that no such consent from any Governmental Entity will be required for the acquisition of the Company under the HSR Act (which, for one of its thresholds, would require that the Company have sales or assets of US\$10 million), the premerger notification provisions set forth in Part IX of the *Competition Act* (Canada) (which would require that the Company have assets or revenues valued at least CDN\$35 million), or the Investment Canada Act (which would require that the Company have assets with a book value of at least CDN\$208 million). The parties understand and agree that Company expects to so manage itself that it is unlikely to require governmental approvals under any of the foregoing acts. If such approval becomes necessary, the parties agree to use their commercially reasonable best efforts to secure it.

(e) Parent shall have received from the Company's "affiliates" a written agreement substantially in the form attached as **Exhibit E**.

(f) The Company shall have delivered to Parent and Pixelworks Nova Scotia such good standing certificates and officers' certificates and similar documents as counsel for Parent and Pixelworks Nova Scotia shall have reasonably requested prior to the Closing Date.

(g) All shares of the Company's preferred stock shall have been converted into shares of Company Common Stock pursuant to the terms of the Company's Articles of Incorporation. Except as provided in *Section 2.1*, all outstanding rights, warrants, and options to acquire any of the Company's capital stock, and all other convertible securities of Company shall have been terminated, canceled or otherwise eliminated to the satisfaction of Parent.

(h) The directors and officers of the Company have resigned and signed releases in favour of the Company.

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The decision of Parent and Pixelworks Nova Scotia to consummate the transactions contemplated by this Agreement without the satisfaction of one or more of the preceding conditions shall not constitute a waiver of any of the Company's representations, warranties, covenants, or indemnities herein, except as otherwise provided in *Section 6.9*.

7.3 Conditions to Obligations of the Company. The obligations of the Company to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following additional conditions, any or all of which may be waived in whole or part by the Company, to the extent permitted by applicable law:

(a) The representations and warranties of Parent and Pixelworks Nova Scotia contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date; all agreements to be performed hereunder or under the Exchangeable Share Support Agreement and the Voting and Exchange Trust Agreement by Parent and Pixelworks Nova Scotia at or prior to the Closing Date shall have been performed in all material respects; and the Company shall have received a certificate, dated as of the Closing Date, signed by an officer of Parent to the foregoing effects.

(b) The Company and the Signing Company Shareholders shall have received an opinion of counsel acceptable to them acting reasonably dated the Effective Time, based on the representations referred to in *Section 6.13* of Parent, Pixelworks Nova Scotia and the

Company substantially to the effect that (i) the Reorganization will or should be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the US Tax Code and a reorganization of the share capital of the Company under Section 86 of the Income Tax Act (Canada); (ii) each of Parent, Pixelworks Nova Scotia and the Company will or should be a party to the reorganization within the meaning of Section 368(b) of the US Tax Code; and (iii) no gain or loss will be recognized by a shareholder of the Company who hold shares of the Company as capital property as a result of the Reorganization (except in respect of cash received in lieu of fractional Exchangeable Shares and cash paid in respect of dissenter's rights).

(c) The delivery by Pixelworks of a fully executed Exchangeable Share Support Agreement and Voting and Exchange Trust Agreement.

Article VIII *Termination*

8.1 *Termination by Mutual Agreement.* This Agreement may be terminated and the Reorganization may be abandoned at any time prior to the Effective Time, whether before or after the approval of the Reorganization by the Company Requisite Vote, by mutual written consent of the Company and Parent by action of their respective Boards of Directors.

8.2 *Termination by Either Parent or the Company.* This Agreement may be terminated and the Reorganization may be abandoned at any time prior to the Effective Time by action of the Board of Directors of either Parent or the Company upon the occurrence of a Termination Event; *provided, however*, that the right to terminate this Agreement pursuant to this *Section 8.2* shall not be available to any party that has breached in any material respect its obligations under this Agreement in any manner that shall have proximately contributed to the occurrence of the failure of the Reorganization to be consummated. For the purposes of this Agreement, a "*Termination Event*" is deemed to occur if any Law or Order permanently restraining, enjoining, or otherwise prohibiting consummation of the Reorganization shall become final and non-appealable (whether before or after the approval of the Reorganization by the Company Requisite Vote or Shareholder Consent).

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8.3 *Termination by the Company.* This Agreement may be terminated and the Reorganization may be abandoned at any time prior to the Effective Time, whether before or after the approval of the Reorganization by the Company Requisite Vote, by action of the Board of Directors of the Company if there is a breach by Parent or Pixelworks Nova Scotia of any representation, warranty, covenant, or agreement contained in this Agreement that cannot be cured and would cause a condition set forth in *Section 7.3(a)* to be incapable of being satisfied, or if the conditions set forth in *Section 7.3(a)* have not been satisfied within 90 days of the date of this Agreement.

8.4 *Termination by Parent.* This Agreement may be terminated and the Reorganization may be abandoned at any time prior to the Effective Time, whether before or after the approval of the Reorganization by the Company Requisite Vote, by action of the Board of Directors of Parent if any condition set forth in *Section 7.2(a)* becomes incapable of being satisfied.

8.5 *Effect of Termination and Abandonment.* In the event of termination of this Agreement and the abandonment of the Reorganization pursuant to this *Article VIII*, this Agreement (other than this *Section 8.5*, *Section 6.12*, and *Article X*) shall become void and of no effect with no liability on the part of any party hereto (or of any of its Representatives); *provided, however*, that except as otherwise provided herein, no such termination shall relieve any party hereto of any liability or damages resulting from any willful breach of this Agreement.

8.6 *Amendment.* This Agreement may be amended by action taken by the Company, Parent and Pixelworks Nova Scotia and a majority in interest of the shareholders of the Company (which majority shall include ETSIF) at any time before or after approval of the Reorganization by the Company Requisite Vote or Shareholder Consent but, after any such approval, no amendment shall be made that changes the amount or form of the consideration. This Agreement may not be amended except by an instrument in writing signed on behalf of the parties hereto and a majority in interest of the shareholders of the Company (which majority shall include ETSIF).

8.7 *Extension; Waiver.* At any time prior to the Effective Time, each party hereto (for these purposes, Parent and Pixelworks Nova Scotia shall together be deemed one party and the Company shall be deemed the other party) may (i) extend the time for the performance of any of the obligations or other acts of the other party, (ii) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document, certificate, or writing delivered pursuant hereto, or (iii) waive compliance by the other party with any of the agreements or conditions contained herein. Any agreement on the part of either party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party hereto to assert any of its rights hereunder shall not constitute a waiver of such rights.

ARTICLE IX

Survival of Representations, Warranties, Covenants, and Agreements

9.1 *Survival of Representations, Warranties, Covenants and Agreements.* Notwithstanding any right of Parent, Pixelworks Nova Scotia or the Company (whether or not exercised) to investigate the affairs of Parent or Pixelworks Nova Scotia, or the Company, each party shall have the right to rely fully upon the representations, warranties, covenants, and agreements of the other party contained in this Agreement or in any instrument required to be delivered pursuant to *Article VII*. The covenants and agreements of the Company, Parent and Pixelworks Nova Scotia contained in this Agreement or in any instrument delivered pursuant to this Agreement that by their terms apply or are to be performed in whole or in part after the Effective Time shall survive the Effective Time. The representations and warranties of the Company, the Signing Company Shareholders, Parent and Pixelworks Nova Scotia contained in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Reorganization and continue until the first anniversary of the Closing Date (the "*Expiration Date*"). Except for the representations and warranties contained in this Agreement, none of Parent, Pixelworks

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Nova Scotia, the Signing Company Shareholders or the Company has made any representations or warranties and, except for the representations and warranties contained in this Agreement, each of Parent, Pixelworks Nova Scotia, the Signing Company Shareholders and the Company

acknowledges that no representations or warranties have been made by, and it has not relied upon any representations or warranties made by, any of the parties hereto or any of their respective Representatives in respect of this Agreement and the transactions contemplated hereby, and the documents and instruments referred to herein, notwithstanding the delivery or disclosure to such party or its Representatives of any documentation or other information in respect of any one or more of the foregoing. The inclusion of any entry on the Schedules attached hereto shall not constitute an admission by, or agreement of, the Company that such matter is material to the Company.

9.2 *Indemnification.* Each Signing Company Shareholder (severally, and not jointly) agrees to indemnify, hold harmless, and defend Parent and the Company for any and all losses, including all expenses, attorney fees, damages, liabilities, fines, penalties, judgments, actions, claims, and costs (whether or not involving a third party claim) (excluding consequential damages) incurred or sustained by Parent or the Company directly, or indirectly, as result of any inaccuracy or breach of any representation, warranty, covenant, or agreement of the Signing Company Shareholder (and in the case of ETSIF, including the representations and warranties in *Section 4.1*) or the Company contained herein that survives the Effective Time in accordance with this Agreement. The liability of a Signing Company Shareholder under this provision shall be in proportion to the Signing Company Shareholder's share ownership in the Company immediately prior to the Effective Time. Parent or the Company, as applicable, shall reasonably promptly notify the Signing Company Shareholders regarding any such claim received by Parent or the Company from a third party. No Signing Company Shareholder shall settle any such third-party claim without consent of Parent or the Company, as applicable, which consent will not be unreasonably conditioned, delayed, or withheld.

9.3 *Limits on Indemnification.* Parent and the Company may not make any claims under this provision until the aggregate losses incurred, sustained, or claimed exceed US\$500,000 (at which time such claims may be made for all such losses incurred, sustained, or claimed in excess of such amount). This obligation shall be several among the Signing Company Shareholders, but not joint. No Signing Company Shareholder's liability or obligations under this *Article IX* (except relating to fraud claims) shall exceed the value of the Exchangeable Shares, valued (on the basis of Parent Company Stock) as of the date the liability is paid, received by that Signing Company Shareholder by virtue of the transactions contemplated herein. A Signing Company Shareholder may satisfy its indemnification obligations by transferring a number of its Exchangeable Shares to Parent in an amount adequate to satisfy the indemnification obligation, valuing the shares as of the date the liability was paid.

ARTICLE X *Miscellaneous*

10.1 *Collateral Agreements.* This Agreement (together with the documents delivered pursuant hereto, including the Exchangeable Share Support Agreement and the Voting and Share Exchange Agreement) supersedes all prior documents, understandings, and agreements, oral or written, relating to this transaction and constitutes the entire understanding among the parties hereto in respect of the subject matter hereof (except the Framework Agreement).

10.2 *Successors and Assigns.* Neither the rights nor obligations of the Company, Parent or Pixelworks Nova Scotia under this Agreement may be assigned without the written consent of the other parties hereto. Any assignment in violation of the preceding sentence shall be null and void. Subject to the preceding sentences of this *Section 10.2*, the provisions of this Agreement (and, unless otherwise expressly provided therein, of any document delivered pursuant to this Agreement) shall be binding upon and inure solely to the benefit of the parties hereto and their respective legal representatives, successors, and permitted assigns. Except as otherwise expressly provided herein, nothing in this

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Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits, or remedies of any nature whatsoever under or by reason of this Agreement.

10.3 *Expenses.* The Signing Company Shareholders (other than ETSIF) shall be responsible for paying Company Transaction Costs that exceed US\$75,000. "Company Transaction Costs" include any fees paid to a broker or finder, legal, accounting, and other fees and expenses incurred in connection with the execution of this Agreement and the consummation of the transaction contemplated hereby. Company Transaction Costs in excess of US\$75,000 shall be deemed a loss sustained by Parent, recoverable pursuant to the indemnification provisions of *Sections 9.2* and *9.3* without regard to the limit in *Section 9.3*.

10.4 *Severability.* If any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future Laws, such provision shall be fully severable, this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by such illegal, invalid, or unenforceable provision or by its severance from this Agreement.

10.5 *Notices.* Any notices required or permitted to be given under this Agreement (and, unless otherwise expressly provided therein, under any document delivered pursuant to this Agreement) shall be given in writing and shall be deemed received (i) when personally delivered to the relevant party at such party's address as set forth below, (ii) if sent by mail (which must be certified or registered mail, postage prepaid) or overnight courier, when received or rejected by the relevant party at such party's address indicated below, or (iii) if sent by facsimile, when confirmation of delivery is received by the sending party:

Parent: Pixelworks, Inc.
8100 Nyberg Road, Third Floor
Tualatin, OR 97062 USA
Facsimile No.: (503) 612-6713
Attention: Allen H. Alley

with a copy to: Ater Wynne LLP
222 SW Columbia, Suite 1800
Portland, OR 97201 USA
Facsimile No: (503) 226-0079
Attention: William C. Campbell

The Company: Jaldi Semiconductor Corp
38 Leek Crescent, Suite 200
Richmond Hill, Ontario
Canada L4B 4N8
Facsimile No.: (905) 831-6939
Attention: Lance Greggain

with a copy to: McCarthy Tétrault LLP
Suite 4700
Toronto Dominion Bank Tower
Toronto-Dominion Centre
Toronto, Ontario
Canada M5K 1E6
Facsimile No.: (416) 868-0673
Attention: Christopher Hoffmann

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Signing Company Shareholders:

Eastern Technology Seed Investment Fund Limited Partnership
c/o Eastern Technology Seed Fund Management Ltd.
1002-181 University Ave.
Toronto, Ontario
Canada M5H 3M7
Facsimile No.: (416) 861-0866
Attention: Edward G. Anderson

with a copy to: Davies, Ward & Beck
PO Box 63
44th Floor
1 First Canadian Place
Toronto, Ontario
Canada M5X 1B1
Facsimile No.: (416) 863-0871
Attention: Paul A. Beauregard

Lance Greggain
c/o Jaldi Semiconductor Corp.
38 Leek Crescent, Suite 200
Richmond Hill, Ontario
Canada L4B 4N8
Facsimile No.: (905) 831-6939

Elena Greggain
c/o Jaldi Semiconductor Corp.
38 Leek Crescent, Suite 200
Richmond Hill, Ontario
Canada L4B 4N8
Facsimile No.: (905) 831-6939
Attention: Lance Greggain

Greggain Family Trust
c/o Jaldi Semiconductor Corp.
38 Leek Crescent, Suite 200
Richmond Hill, Ontario
Canada L4B 4N8
Facsimile No.: (905) 831-6939
Attention: Lance Greggain, Trustee

Shyam Nagrani
c/o Jaldi Semiconductor Corp.
38 Leek Crescent, Suite 200
Richmond Hill, Ontario
Canada L4B 4N8 Facsimile No.: (905) 831-6939
Attention: Shyam Nagrani

Notices to Pixelworks Nova Scotia shall be delivered in care of Parent.

Each party hereto may change its address or facsimile number for purposes of this *Section 10.5* by providing notice to the other parties in accordance with this *Section 10.5*.

10.6 *Further Assurances.* Each party to this Agreement shall (i) furnish upon request to the other parties such further information, (ii) execute and deliver to the other parties such other documents, and (iii) do such other acts and things as the other parties reasonably request for the purpose of carrying out the intent of this Agreement and the documents and instruments referred to herein.

10.7 *Specific Performance.* Each party recognizes that if the other party refuses to perform under the provisions of this Agreement, monetary damages alone will not be adequate compensation for the injured party. Each party shall therefore be entitled, in addition to any other remedies that may be available, to obtain specific performance of the terms of this Agreement. If any action is brought by either party to enforce this Agreement, the parties shall waive the defense that there is an adequate remedy at law. In the event of litigation pertaining to any controversy, claim, or dispute between the parties hereto arising out of or relating to this Agreement or the breach of any provision thereof, the prevailing party shall be entitled to recover from the non-prevailing party reasonable expenses, attorneys' fees, and costs.

10.8 *Governing Law.* This Agreement shall be governed by and construed in accordance with the Laws of the State of New York without regard to the principles of conflicts of law of New York or any other jurisdiction, provided that matters relating to the corporate competence of the Company and Pixelworks Nova Scotia will be determined under Ontario law or Nova Scotia law, as appropriate.

10.9 *Remedies Not Exclusive.* Except to the extent otherwise expressly provided herein, the rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law or equity.

10.10 *Counterparts.* This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same agreement.

10.11 *Titles and Headings.* Titles and headings to articles and sections herein are inserted for convenience of reference only, and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

10.12 *Date of Agreement.* The date of this Agreement is the date it becomes effective under the Framework Agreement.

10.13 *Certain Interpretive Matters and Definitions.*

(a) Unless the context otherwise requires, (i) all references to Articles, Sections, Exhibits, or Schedules are to Articles, Sections, Exhibits, or Schedules of or to this Agreement, (ii) each term defined in this Agreement has the meaning assigned to it, (iii) "or" is disjunctive but not necessarily exclusive, (iv) words in the singular include the plural and *vice versa*, and (v) the term "*affiliate*" has the meaning given to it in Rule 12b-2 of Regulation 12B under the Exchange Act. All references to "*US\$*" will be to lawful currency of the United States of America. All references to "*CDN\$*" will be to lawful currency of Canada.

(b) No provision of this Agreement will be interpreted in favor of, or against, any of the parties hereto by reason of the extent to which any such party or its counsel participated in the drafting thereof or by reason of the extent to which any such provision is inconsistent with any prior draft hereof or thereof.

(c) "*Material Adverse Effect*" means any event, circumstance, condition, fact, effect, or other matter that has had or would reasonably be expected to have a material adverse effect (i) on the business, assets, financial condition, or results of operations of the Company or (ii) on the ability of the Company to perform on a timely basis any material obligation under this Agreement or to consummate the transactions contemplated hereby.

(d) The phrase "*to the knowledge of the Company*" means the knowledge of the Company's officers after due inquiry.

(e) "*persons*" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act).

(f) The Exhibits and any schedules attached hereto are incorporated herein by reference as though fully set forth herein.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY BLANK.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

PIXELWORKS, INC.

By: /s/ ALLEN H. ALLEY

Name: Allen H. Alley

Title: *President and CEO*

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

PIXELWORKS NOVA SCOTIA COMPANY

By: /s/ JEFFREY B. BOUCHARD

Name: Jeffrey B. Bouchard
Title: *President*

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

JALDI SEMICONDUCTOR CORP.

By: /s/ LANCE GREGGAIN

Name: Lance Greggain
Title: *President*

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

EASTERN TECHNOLOGY SEED INVESTMENT FUND
LIMITED PARTNERSHIP

By: The General Partner,
Eastern Technology Seed Fund
Management Ltd.

Name: per Howard Riback, CFO
Robin Louie, President

Title: *General Partner*

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

/s/ LANCE GREGGAIN

Lance Greggain, *individually*

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

/s/ LANCE GREGGAIN

Elena Greggain, *individually*

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

GREGGAIN FAMILY TRUST

By: /s/ LANCE GREGGAIN

Name: Lance Greggain, *Trustee*

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

Shyam Nagrani, *individually*

QuickLinks

[REORGANIZATION AGREEMENT AMONG PIXELWORKS, INC. PIXELWORKS NOVA SCOTIA COMPANY CERTAIN SHAREHOLDERS OF JALDI SEMICONDUCTOR CORP. AND JALDI SEMICONDUCTOR CORP.](#)

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JALDI SEMICONDUCTOR CORP.
EXCHANGEABLE SHARE PROVISIONS

The Exchangeable Shares of the Corporation will have the following rights, privileges, restrictions and conditions:

ARTICLE 1.
INTERPRETATION

1.1. For the purpose of these share provisions:

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by, or under common control of, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control of"), as applied to any Person, means the possession by another Person, directly or indirectly, of the power to direct or cause the direction of the management and policies of that first-mentioned Person, whether through the ownership of voting securities, by contract or otherwise.

"Board of Directors" means the board of directors of the Corporation.

"Business Day" means any day on which commercial banks are generally open for business in Toronto, Ontario, and Tualatin, Oregon, other than a Saturday, a Sunday or a day observed as a holiday in Toronto, Ontario, under the laws of the Province of Ontario or the federal laws of Canada or in Tualatin, Oregon, under the laws of the State of Oregon or the federal laws of the United States of America.

"Call Rights" means the Liquidation Call Right, the Redemption Call Right and the Retraction Call Right, collectively.

"Canadian Dollar Equivalent" means, in respect of an amount expressed in a currency other than Canadian dollars (the "Foreign Currency Amount") at any date, the product obtained by multiplying (i) the Foreign Currency Amount, and (ii) the noon spot exchange rate on such date for the relevant foreign currency expressed in Canadian dollars as reported by the Bank of Canada or, if such noon spot exchange rate is not available, such spot exchange rate on such date for such foreign currency expressed in Canadian dollars as may be deemed by the Board of Directors to be appropriate for such purpose.

"Corporation Liquidation Amount" has the meaning ascribed to it in section 5.1.

"Corporation Liquidation Date" has the meaning ascribed to it in section 5.1.

"Current Market Price" means, in respect of a share of Pixelworks Common Stock on any date, the Canadian Dollar Equivalent of the average of the closing prices of the Pixelworks Common Stock during a period of 20 consecutive trading days ending not more than three trading days before such date on Nasdaq, or, if the shares of Pixelworks Common Stock are not then quoted on Nasdaq, on such other stock exchange or automated quotation system on which shares of Pixelworks Common Stock are listed or quoted, as the case may be, as may be selected by the Board of Directors for such purpose; provided, however, that if in the opinion of the Board of Directors the public distribution or trading activity of Pixelworks Common Stock during such period does not create a market that reflects the fair market value of Pixelworks Common Stock, then the Current Market Price of a share of Pixelworks Common Stock will be determined by the Board of Directors, in good faith and in its sole discretion; and provided further that any such selection, opinion or determination by the Board of Directors will be conclusive and binding.

"Dividend Amount" means, at any date with respect to any Exchangeable Share, the full amount of all dividends, if any, declared and unpaid on each such Exchangeable Share held by a holder on any dividend record date which occurred prior to such date.

"Exchangeable Share Support Agreement" means the Exchangeable Share Support Agreement dated as of (closing of Reorganization) between Pixelworks, Pixelworks Nova Scotia and the Corporation.

"Exchangeable Share Voting Event" means any matter in respect of which holders of Exchangeable Shares are entitled to vote as shareholders of the Corporation, other than an Exempt Exchangeable Share Voting Event, and, for greater certainty, excludes any matter in respect of which holders of Exchangeable Shares are entitled to vote (or instruct the Trustee to vote) in their capacity as Beneficiaries under (and as that term is defined in) the Voting and Exchange Trust Agreement.

"Exchangeable Shares" means the non-voting exchangeable shares in the capital of the Corporation having the rights, privileges, restrictions and conditions set forth in these share provisions.

"Exempt Exchangeable Share Voting Event" means any matter in respect of which holders of Exchangeable Shares are entitled to vote as shareholders of the Corporation in order to approve or disapprove, as applicable, any change to, or in the rights of the holders of, the Exchangeable Shares, where the approval or disapproval, as applicable, of such change would be required to maintain the equivalence of the Exchangeable Shares and the shares of Pixelworks Common Stock.

"Liquidation Call Purchase Price" has the meaning ascribed to it in section 5.4.

"Liquidation Call Right" has the meaning ascribed to it in section 5.4.

"Nasdaq" means the Nasdaq National Market.

"OBICA" means the *Business Corporations Act* (Ontario) as now in effect and as it may be amended from time to time.

"Person" includes any individual, firm, partnership, joint venture, limited liability company, unlimited liability company, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate, corporation, unincorporated association or organization, government or government body or agency, syndicate or other entity, whether or not having legal status.

"Pixelworks" means Pixelworks, Inc., a corporation existing under the laws of the State of Oregon, and any successor corporation thereto.

"Pixelworks Common Stock" means the shares of common stock, par value US\$0.001, in the capital of Pixelworks, and any other securities into which such shares may be changed, including shares into which Pixelworks Common Stock may be changed consequent upon an amalgamation, merger, reorganization or other transaction affecting the Pixelworks Common Stock.

"Pixelworks Control Transaction" means any (i) merger, amalgamation, reorganization or similar event involving Pixelworks, (ii) any tender offer or take-over bid for Pixelworks, (iii) any material sale of shares or assets or rights or interests therein or thereto by Pixelworks, (iv) any similar transaction involving Pixelworks or (v) any proposal to take any such action.

"Pixelworks Dividend Declaration Date" means the date on which the board of directors of Pixelworks declares any dividend on the Pixelworks Common Stock.

"Pixelworks Nova Scotia" means Pixelworks Nova Scotia Company, an unlimited company existing under the laws of the Province of Nova Scotia and a wholly-owned subsidiary of Pixelworks.

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"Pixelworks Nova Scotia Call Notice" has the meaning ascribed to it in section 6.3.

"Purchase Price" has the meaning ascribed to it in section 6.3.

"Redemption Call Right" has the meaning ascribed to it in section 7.4.

"Redemption Date" means the date, if any, established by the Board of Directors for the redemption by the Corporation of all but not less than all of the outstanding Exchangeable Shares pursuant to Article 7, which date may not be earlier than January 31, 2008 unless:

- (i) there are fewer than [10% of the] (Pixelworks to fill in) Exchangeable Shares outstanding (other than Exchangeable Shares held by Pixelworks and its Affiliates), as such number of shares may be adjusted by the Board of Directors to give effect to any subdivision or consolidation of or stock dividend on the Exchangeable Shares, any issue or distribution of rights to acquire Exchangeable Shares or securities exercisable or exchangeable for or convertible into Exchangeable Shares, any issue or distribution of other securities or rights or evidences of indebtedness or assets, or any other capital reorganization or other transaction affecting the Exchangeable Shares, in which case the Board of Directors may accelerate such redemption date to such date prior to January 31, 2008 as it may determine upon at least 60 days' prior written notice to the registered holders of the Exchangeable Shares and the Trustee;
- (ii) a Pixelworks Control Transaction occurs, in which case, provided that the Board of Directors determines, in good faith and in its sole discretion, that it is not reasonably practicable to substantially replicate or modify the terms and conditions of the Exchangeable Shares in connection with such Pixelworks Control Transaction or that the redemption of all but not less than all of the outstanding Exchangeable Shares is necessary to enable the completion of such Pixelworks Control Transaction in accordance with its terms, the Board of Directors may accelerate such redemption date to such date prior to January 31, 2008 as it may determine upon such number of days' prior written notice to the registered holders of the Exchangeable Shares and the Trustee as the Board of Directors may determine to be reasonably practicable in such circumstances;
- (iii) an Exchangeable Share Voting Event is proposed, in which case, provided that the Board of Directors has determined, in good faith and in its sole discretion, that it is not reasonably practicable to accomplish the business purpose intended by the Exchangeable Share Voting Event, which business purpose must be *bona fide* and not for the primary purpose of causing the occurrence of a Redemption Date, in any other commercially reasonable manner that does not result in an Exchangeable Share Voting Event, the Redemption Date will be the Business Day prior to the record date for any meeting or vote of the holders of the Exchangeable Shares to consider the Exchangeable Share Voting Event, and the Board of Directors will give such number of days' prior written notice of such redemption to the registered holders of Exchangeable Shares and the Trustee as it may determine to be reasonably practicable in such circumstances; or
- (iv) an Exempt Exchangeable Share Voting Event is proposed and the holders of the Exchangeable Shares fail to take the necessary action at a meeting or other vote of holders of Exchangeable Shares to approve or disapprove, as applicable, the Exempt Exchangeable Share Voting Event, in which case the Redemption Date will be the Business Day following the day on which the holders of the Exchangeable Shares failed to take such action, and the Board of Directors will give such number of days' prior written notice of such redemption to the registered holders of the Exchangeable Shares and the Trustee as it may determine to be reasonably practicable in such circumstances;

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provided, however, that the accidental failure or omission to give any notice of redemption under clause (i), (ii), (iii) or (iv) to less than 10% of such holders of Exchangeable Shares will not affect the validity of any such redemption.

"Redemption Price" has the meaning ascribed to it in section 7.1.

"Retracted Shares" has the meaning ascribed to it in section 6.1(a).

"Retraction Call Right" has the meaning ascribed to it in section 6.1(c).

"Retraction Date" means, subject to section 6.1(b), the Business Day on which a holder of Exchangeable Shares desires to have the Corporation redeem the Retracted Shares as set out in these share provisions, which date may not be less than 10 Business Days (unless such time period is waived by the Corporation and Pixelworks Nova Scotia) nor more than 15 Business Days after the date on which the Retraction Request is received by the Corporation.

"Retraction Price" has the meaning ascribed to it in section 6.1.

"Retraction Request" has the meaning ascribed to it in section 6.1.

"Subdivision" has the meaning ascribed to it in section 3.2.

"Transfer Agent" means such Person as may from time to time be appointed by the Corporation as the registrar and transfer agent for the Exchangeable Shares and, in the absence of any such appointment, means the Corporation.

"Trustee" means CIBC Mellon Trust Company or such other Person as from time to time may be appointed as the trustee under the Voting and Exchange Trust Agreement, being a corporation organized and existing under the laws of Canada and authorized to carry on the business of a trust company in all the provinces of Canada, and any successor trustee appointed under the Voting and Exchange Trust Agreement.

"Voting and Exchange Trust Agreement" means the Voting and Exchange Trust Agreement dated as of (closing of Reorganization) between Pixelworks, Pixelworks Nova Scotia, the Corporation and the Trustee.

ARTICLE 2. RANKING OF EXCHANGEABLE SHARES

2.1. The Exchangeable Shares will be entitled to a preference over the common shares of the Corporation and any other shares ranking junior to the Exchangeable Shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs.

ARTICLE 3. DIVIDENDS

3.1. Subject to section 3.2, holders of Exchangeable Shares will be entitled to receive and, subject to applicable law, the Board of Directors will declare, on each Pixelworks Dividend Declaration Date, a dividend on each Exchangeable Share:

- (a) in the case of a cash dividend declared on the Pixelworks Common Stock, in an amount in cash for each Exchangeable Share in U.S. dollars, or, at the option of the Corporation, the Canadian Dollar Equivalent thereof on the Pixelworks Dividend Declaration Date, in each case, corresponding to the cash dividend declared on each share of Pixelworks Common Stock;

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- (b) in the case of a stock dividend declared on the Pixelworks Common Stock to be paid in Pixelworks Common Stock, in such number of Exchangeable Shares for each Exchangeable Share as is equal to the number of shares of Pixelworks Common Stock to be paid on each share of Pixelworks Common Stock; or
 - (c) in the case of a dividend declared on the Pixelworks Common Stock in property other than cash or Pixelworks Common Stock, in such type and amount of property for each Exchangeable Share as is the same as or economically equivalent to (to be determined by the Board of Directors as contemplated by section 3.6) the type and amount of property declared as a dividend on each share of Pixelworks Common Stock.

Such dividends will be paid out of money or property of the Corporation properly applicable to the payment of dividends or out of authorized but unissued shares of the Corporation, as applicable.

3.2. In the case of a stock dividend declared on the Pixelworks Common Stock to be paid in Pixelworks Common Stock, in lieu of declaring a corresponding stock dividend on the Exchangeable Shares (as contemplated by section 3.1(b)), the Board of Directors, in its discretion and subject to applicable law, may subdivide, redivide or change (each, a "Subdivision") each issued and unissued Exchangeable Share on the basis that each Exchangeable Share before the Subdivision becomes that number of Exchangeable Shares as is equal to the sum of (i) one and (ii) the number of shares of Pixelworks Common Stock to be paid as a stock dividend on each share of Pixelworks Common Stock. In such instance, and notwithstanding any other provision hereof, such Subdivision will become effective on the effective date specified in section 3.4 without any further act or formality on the part of the Board of Directors or of the holders of Exchangeable Shares. For greater certainty, no approval of the holders of Exchangeable Shares to an amendment to the articles of the Corporation will be required to give effect to such Subdivision.

3.3. Cheques of the Corporation payable at par at any branch of the bankers of the Corporation will be issued in respect of any cash dividends contemplated by section 3.1(a) and the sending of such a cheque to each holder of an Exchangeable Share will satisfy the cash dividend represented thereby unless the cheque is not paid on presentation. Subject to applicable law, certificates registered in the name of the registered holder of Exchangeable Shares will be issued or transferred in respect of any stock dividends contemplated by section 3.1(b) or any Subdivision contemplated by section 3.2 and the sending of such a certificate to each holder of an Exchangeable Share will satisfy the stock dividend or Subdivision represented thereby. Such other type and amount of property in respect of any dividends contemplated by section 3.1(c) will be issued, distributed or transferred by the Corporation in such manner as it may determine and the issuance, distribution or transfer thereof by the Corporation to each holder of an Exchangeable Share will satisfy the dividend represented thereby. No holder of an Exchangeable Share will be entitled to recover by action or other legal process against the Corporation any dividend that is represented by a cheque that has not been duly

presented to the Corporation's bankers for payment or that otherwise remains unclaimed for a period of six years from the date on which such dividend was payable.

3.4. The record date for the determination of the holders of Exchangeable Shares entitled to receive payment of, and the payment date for, any dividend declared on the Exchangeable Shares under section 3.1 will be the same dates as the record date and payment date, respectively, for the corresponding dividend declared on the Pixelworks Common Stock. The record date for the determination of the holders of Exchangeable Shares entitled to receive Exchangeable Shares in connection with any Subdivision of Exchangeable Shares under section 3.2 and the effective date of such Subdivision will be the same dates as the record date and payment date, respectively, for the corresponding stock dividend declared on the Pixelworks Common Stock.

3.5. If, on any payment date for any dividends declared on the Exchangeable Shares under section 3.1, the dividends are not paid in full on all of the Exchangeable Shares then outstanding, any such

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dividends that remain unpaid will be paid on a subsequent date or dates determined by the Board of Directors on which the Corporation has sufficient money, assets or property properly applicable to the payment of such dividends.

3.6. The Board of Directors will determine, in good faith and in its sole discretion, economic equivalence for the purposes of section 3.2, and each such determination will be conclusive and binding on the Corporation and its shareholders. In making each such determination, the Board of Directors will consider, without excluding other factors determined by the Board of Directors to be relevant, the following factors:

- (a) in the case of the issuance or distribution of any rights, options or warrants to subscribe for or purchase shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock), the relationship between the exercise price of each such right, option or warrant and the Current Market Price of a share of Pixelworks Common Stock;
- (b) in the case of the issuance or distribution of any other form of property (including, without limitation, any shares or securities of Pixelworks of any class other than shares of Pixelworks Common Stock, any rights, options or warrants other than those referred to in section 3.6(b), any evidences of indebtedness of Pixelworks or any assets of Pixelworks), the relationship between the fair market value (as determined by the Board of Directors) of such property to be issued or distributed with respect to each outstanding share of Pixelworks Common Stock and the Current Market Price of a share of Pixelworks Common Stock;
- (c) in all such cases, the general taxation consequences of the relevant event to holders of Exchangeable Shares to the extent that such consequences may differ from the taxation consequences to holders of shares of Pixelworks Common Stock as a result of differences between taxation laws of Canada and the United States (except for any differing consequences arising as a result of differing marginal taxation rates and without regard to the individual circumstances of holders of Exchangeable Shares).

For the purpose of the foregoing determinations, the current market value of any security listed and traded or quoted on a securities exchange will be the weighted average of the daily trading prices of that security during a period of not less than 20 consecutive trading days ending not more than three trading days before the date of the termination on the principal securities exchange on which such securities are listed and traded or quoted, provided, however, that if in the opinion of the board of directors, distribution or trading activity of such securities during such period does not create a market which reflects the fair market value of such securities, then the current market value of such securities will be determined by the Board of Directors, in good faith and in its sole discretion.

ARTICLE 4. CERTAIN RESTRICTIONS

4.1. So long as any of the Exchangeable Shares are outstanding, the Corporation will not at any time without, but may at any time with, the approval of the holders of the Exchangeable Shares given as specified in section 10.2:

- (a) pay any dividends on the common shares of the Corporation or on any other shares ranking junior to the Exchangeable Shares, other than stock dividends payable in common shares of the Corporation or any such other shares ranking junior to the Exchangeable Shares, as the case may be;
- (b) redeem, purchase or make any capital distribution in respect of the common shares of the Corporation or any other shares ranking junior to the Exchangeable Shares;

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- (c) redeem or purchase any other shares of the Corporation ranking equally with the Exchangeable Shares with respect to the payment of dividends or on any liquidation distribution;
 - (d) issue any Exchangeable Shares, provided that the Corporation may at any time, with or without such approval, issue Exchangeable Shares (i) pursuant to any equity incentive plan adopted by the Corporation, (ii) by way of stock dividend to the holders of Exchangeable Shares contemplated by section 3.1, or (iii) by way of any Subdivision of Exchangeable Shares contemplated by section 3.2; or
 - (e) issue any shares of the Corporation ranking equally with, or superior to, the Exchangeable Shares other than by way of stock dividend to the holders of such Exchangeable Shares.

The restrictions in clauses (a), (b), (c), (d) and (e) will not apply at any time when the dividends on the outstanding Exchangeable Shares corresponding to dividends declared and paid on the Pixelworks Common Stock have been declared and paid in full.

ARTICLE 5.
DISTRIBUTION ON LIQUIDATION OF THE CORPORATION

5.1. In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, subject to the exercise by Pixelworks Nova Scotia of the Liquidation Call Right, a holder of Exchangeable Shares will be entitled, subject to applicable law, to receive from the assets of the Corporation in respect of each Exchangeable Share held by such holder on the effective date (the "Corporation Liquidation Date") of such liquidation, dissolution or winding-up, before any distribution of any part of the assets of the Corporation among the holders of the common shares of the Corporation or any other shares ranking junior to the Exchangeable Shares, an amount per share equal to the Current Market Price of a share of Pixelworks Common Stock on the last Business Day prior to the Corporation Liquidation Date (the "Corporation Liquidation Amount"), which will be satisfied in full by the Corporation causing to be delivered to such holder one share of Pixelworks Common Stock, together with the Dividend Amount.

5.2. On or promptly after the Corporation Liquidation Date, subject to the exercise by Pixelworks Nova Scotia of the Liquidation Call Right, the Corporation will cause to be delivered to the holders of the Exchangeable Shares the Corporation Liquidation Amount for each such Exchangeable Share upon presentation and surrender of the certificates representing such Exchangeable Shares, together with such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the OBCA and the articles and by-laws of the Corporation and such additional documents and instruments as the Transfer Agent, Pixelworks or the Corporation may reasonably require, at the registered office of the Corporation or at any office of the Transfer Agent as may be specified by the Corporation by notice to the holders of the Exchangeable Shares. Payment of the total Corporation Liquidation Amount for such Exchangeable Shares will be made by delivery to each holder, at the address of the holder recorded in the securities register of the Corporation for the Exchangeable Shares or by holding for pick-up by the holder at the registered office of the Corporation or at any office of the Transfer Agent as may be specified by the Corporation by notice to the holders of Exchangeable Shares, on behalf of the Corporation, certificates representing shares of Pixelworks Common Stock and a cheque of the Corporation payable at par at any branch of the bankers of the Corporation in respect of the remaining portion, if any, of the total Corporation Liquidation Amount (without interest), in each case, less any amounts withheld pursuant to section 12.3. On and after the Corporation Liquidation Date, the holders of the Exchangeable Shares will cease to be holders of such Exchangeable Shares and will not be entitled to exercise any of the rights of holders in respect thereof, other than the right to receive their proportionate part of the total Corporation Liquidation Amount,

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unless payment of the total Corporation Liquidation Amount for such Exchangeable Shares is not made upon presentation and surrender of share certificates in accordance with the foregoing provisions, in which case the rights of the holders will remain unaffected until the total Corporation Liquidation Amount has been paid in the manner provided in this section. The Corporation will have the right at any time after the Corporation Liquidation Date to deposit or cause to be deposited in a custodial account with any chartered bank or trust company in Canada the total Corporation Liquidation Amount in respect of the Exchangeable Shares represented by certificates that have not at the Corporation Liquidation Date been surrendered by the holders thereof. Upon such deposit being made, the rights of the holders of Exchangeable Shares after such deposit will be limited to receiving their proportionate part of the total Corporation Liquidation Amount (without interest), in each case, less any amounts withheld pursuant to section 12.3 for such Exchangeable Shares so deposited, against presentation and surrender of the certificates held by them, respectively, in accordance with the foregoing provisions. Upon such payment or deposit of the total Corporation Liquidation Amount, the holders of the Exchangeable Shares will thereafter be considered and deemed for all purposes to be holders of the Pixelworks Common Stock delivered to them or to any custodian on their behalf.

5.3. After the Corporation has satisfied its obligations to pay the holders of the Exchangeable Shares the Corporation Liquidation Amount per Exchangeable Share pursuant to section 5.1, such holders will not be entitled to share in any further distribution of the assets of the Corporation.

5.4. Pixelworks Nova Scotia will have the overriding right (the "Liquidation Call Right"), in the event of and notwithstanding the proposed liquidation, dissolution or winding-up of the Corporation pursuant to these share provisions, to purchase from all but not less than all of the holders of Exchangeable Shares (other than any holder of Exchangeable Shares which is Pixelworks or an Affiliate of Pixelworks) on the Corporation Liquidation Date all but not less than all of the Exchangeable Shares held by each such holder on payment by Pixelworks Nova Scotia to each holder of an amount per Exchangeable Share (the "Liquidation Call Purchase Price") equal to the sum of (i) the Current Market Price of a share of Pixelworks Common Stock on the last Business Day prior to the Corporation Liquidation Date, which must be satisfied in full by Pixelworks Nova Scotia causing to be delivered to such holder one share of Pixelworks Common Stock, plus (ii) to the extent not paid by the Corporation, an additional amount equal to the Dividend Amount. In the event of the exercise of the Liquidation Call Right by Pixelworks Nova Scotia in accordance with these share provisions, each holder of Exchangeable Shares (other than Pixelworks or any Affiliate of Pixelworks) will be obligated to sell all of the Exchangeable Shares held by the holder to Pixelworks Nova Scotia on the Corporation Liquidation Date and, upon payment by Pixelworks Nova Scotia to the holder of the Liquidation Call Purchase Price for each such share, the Corporation will have no obligation to pay the Corporation Liquidation Amount of such shares so purchased by Pixelworks Nova Scotia. If Pixelworks Nova Scotia does not exercise the Liquidation Call Right the holders of the Exchangeable Shares will be entitled to receive in exchange therefor, on the Corporation Liquidation Date, the Corporation Liquidation Amount otherwise payable by the Corporation in connection with the liquidation, dissolution or winding-up of the Corporation pursuant to this Article 5.

5.5. To exercise the Liquidation Call Right, Pixelworks Nova Scotia must notify the Transfer Agent, as agent for the holders of Exchangeable Shares, and the Corporation of Pixelworks Nova Scotia's intention to exercise such right at least 45 days before the Corporation Liquidation Date in the case of a voluntary liquidation, dissolution or winding-up of the Corporation and at least five Business Days before the Corporation Liquidation Date in the case of an involuntary liquidation, dissolution or winding-up of the Corporation. The Transfer Agent will notify the holders of Exchangeable Shares as to whether or not Pixelworks Nova Scotia has exercised the Liquidation Call Right forthwith after the expiry of the period during which that right may be exercised by Pixelworks Nova Scotia. If Pixelworks Nova Scotia exercises the Liquidation Call Right, then on the Corporation Liquidation Date,

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Pixelworks Nova Scotia will purchase and holders will sell all of the Exchangeable Shares then outstanding for a price per share equal to the Liquidation Call Purchase Price.

5.6. For the purposes of completing the purchase of the Exchangeable Shares pursuant to the exercise of the Liquidation Call Right, Pixelworks Nova Scotia will deposit with the Transfer Agent, on or before the Corporation Liquidation Date, certificates representing the aggregate number of shares of Pixelworks Common Stock deliverable by Pixelworks Nova Scotia pursuant to such exercise and a cheque or cheques of Pixelworks Nova Scotia payable at par at any branch of the bankers of Pixelworks Nova Scotia representing the aggregate Dividend Amount in payment of the total Liquidation Call Purchase Price (without interest), less any amounts withheld pursuant to section 12.3. Provided that Pixelworks Nova Scotia has complied with the immediately preceding sentence, on and after the Corporation Liquidation Date, the rights of each holder of Exchangeable Shares will be limited to receiving such holder's proportionate part of the total Liquidation Call Purchase Price payable by Pixelworks Nova Scotia upon presentation and surrender by the holder of certificates representing the Exchangeable Shares held by such holder and, on and after the Corporation Liquidation Date, the holder will be considered and deemed for all purposes to be the holder of the shares of Pixelworks Common Stock to which it is entitled pursuant to the exercise of the Liquidation Call Right. Upon surrender to the Transfer Agent of a certificate or certificates representing Exchangeable Shares, together with such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the OBCA and the articles and by-laws of the Corporation and such additional documents and instruments as the Transfer Agent may reasonably require, the holder of such surrendered certificate or certificates will be entitled to receive in exchange therefor, and the Transfer Agent on behalf of Pixelworks Nova Scotia will deliver to such holder, certificates representing the number of shares of Pixelworks Common Stock to which the holder is entitled pursuant to the exercise of the Liquidation Call Right and a cheque or cheques of Pixelworks Nova Scotia payable at par at any branch of the bankers of Pixelworks Nova Scotia in payment of the remaining portion, if any, of the total Liquidation Call Purchase Price (without interest), less any amounts withheld pursuant to section 12.3.

ARTICLE 6.
RETRACTION OF EXCHANGEABLE SHARES BY HOLDER

6.1. A holder of Exchangeable Shares will be entitled at any time, subject to the exercise by Pixelworks Nova Scotia of the Retraction Call Right and otherwise upon compliance with the provisions of this Article 6, to require the Corporation to redeem on the Retraction Date any or all of the Exchangeable Shares registered in the name of such holder for an amount per share (the "Retraction Price") equal to the sum of (i) the Current Market Price of a share of Pixelworks Common Stock on the last Business Day prior to the Retraction Date, which must be satisfied in full by the Corporation causing to be delivered to such holder one share of Pixelworks Common Stock for each Exchangeable Share presented and surrendered by the holder, plus (ii) the Dividend Amount. To effect such redemption, the holder must present and surrender at the registered office of the Corporation or at any office of the Transfer Agent as may be specified by the Corporation by notice to the holders of Exchangeable Shares the certificate or certificates representing the Exchangeable Shares which the holder desires to have the Corporation redeem, together with such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the OBCA and the articles and by-laws of the Corporation and such additional documents and instruments as the Transfer Agent, Pixelworks or the Corporation may reasonably require, and together with a duly executed statement (the "Retraction Request") in the form of Schedule A hereto or in such other form as may be acceptable to the Corporation, acting reasonably:

- (a) specifying that the holder desires to have all or any number specified therein of the Exchangeable Shares represented by such certificate or certificates (the "Retracted Shares") redeemed by the Corporation;
- (b) stating the Retraction Date, provided that, if a Retraction Date is not specified by the holder in the Retraction Request, the Retraction Date will be deemed to be the fifteenth Business Day after the date on which the Retraction Request is received by the Corporation; and
- (c) acknowledging the overriding right (the "Retraction Call Right") of Pixelworks Nova Scotia to purchase all but not less than all of the Retracted Shares directly from the holder and that the Retraction Request will be deemed to be a revocable offer by the holder to sell all but not less than all of the Retracted Shares to Pixelworks Nova Scotia in accordance with the Retraction Call Right on the terms and conditions set out in section 6.3.

6.2. Subject to the exercise by Pixelworks Nova Scotia of the Retraction Call Right, upon receipt by the Corporation or the Transfer Agent in the manner specified in section 6.1 of a certificate or certificates representing the number of Retracted Shares, together with a Retraction Request, and provided that the Retraction Request is not revoked by the holder in the manner specified in section 6.7, the Corporation will redeem the Retracted Shares effective at the close of business on the Retraction Date and will cause to be delivered to such holder the total Retraction Price with respect to such shares. If only a part of the Exchangeable Shares represented by any certificate is redeemed (or purchased by Pixelworks Nova Scotia pursuant to the Retraction Call Right), a new certificate for the balance of such Exchangeable Shares will be issued to the holder at the expense of the Corporation.

6.3. Upon receipt by the Corporation of a Retraction Request, the Corporation will immediately notify Pixelworks Nova Scotia thereof. In order to exercise the Retraction Call Right, Pixelworks Nova Scotia must notify the Corporation of its determination to do so (the "Pixelworks Nova Scotia Call Notice") within five Business Days of notification to Pixelworks Nova Scotia by the Corporation of the receipt by the Corporation of the Retraction Request. If Pixelworks Nova Scotia does not so notify the Corporation within such five Business Day period, the Corporation will notify the holder as soon as practicable thereafter that Pixelworks Nova Scotia will not exercise the Retraction Call Right. If Pixelworks Nova Scotia delivers the Pixelworks Nova Scotia Call Notice within such five Business Day period, and provided that the Retraction Request is not revoked by the holder in the manner specified

in section 6.7, the Retraction Request will thereupon be considered only to be an offer by the holder to sell the Retracted Shares to Pixelworks Nova Scotia in accordance with the Retraction Call Right. In such event, the Corporation will not redeem the Retracted Shares and Pixelworks Nova Scotia will purchase from such holder and such holder will sell to Pixelworks Nova Scotia on the Retraction Date the Retracted Shares for a purchase price (the "Purchase Price") per Exchangeable Share equal to the Retraction Price per share. To the extent that Pixelworks Nova Scotia pays the Dividend Amount in respect of the Retracted Shares, the Corporation will no longer be obligated to pay any declared and unpaid dividends

on such Retracted Shares. For the purposes of completing a purchase pursuant to the Retraction Call Right, Pixelworks Nova Scotia will deposit with the Transfer Agent, on or before the Retraction Date, certificates representing shares of Pixelworks Common Stock registered in the name of the holder or in such other name as the holder may request, and a cheque or cheques of Pixelworks Nova Scotia payable at par at any branch of the bankers of Pixelworks Nova Scotia representing the aggregate Dividend Amount (without interest), less any amounts withheld pursuant to section 12.3. Provided that Pixelworks Nova Scotia has complied with the immediately preceding sentence, the closing of the purchase and sale of the Retracted Shares pursuant to the Retraction Call Right will be deemed to have occurred as at the close of business on the Retraction Date and, for greater certainty, no redemption by the Corporation of such Retracted Shares will take place on the Retraction Date. If Pixelworks Nova Scotia does not deliver a Pixelworks Nova Scotia Call Notice within such five Business Day period, and provided that the Retraction Request is not revoked by the holder in the manner specified in section 6.7, the Corporation will redeem the Retracted Shares on the Retraction Date and in the manner otherwise contemplated in this Article 6.

6.4. The Corporation or Pixelworks Nova Scotia, as the case may be, will deliver or cause the Transfer Agent to deliver to the relevant holder, at the address of the holder recorded in the securities register of the Corporation for the Exchangeable Shares or at the address specified in the holder's Retraction Request or by holding for pick-up by the holder at the registered office of the Corporation or at any office of the Transfer Agent as may be specified by the Corporation by notice to the holders of Exchangeable Shares, certificates representing shares of Pixelworks Common Stock registered in the name of the holder or in such other name as the holder may request, and, if applicable and on or before the payment date therefor, a cheque payable at par at any branch of the bankers of the Corporation or Pixelworks Nova Scotia, as applicable, representing the aggregate Dividend Amount in payment of the total Retraction Price or the total Purchase Price, as the case may be (without interest), in each case, less any amounts withheld pursuant to section 12.3, and such delivery of such certificates and cheques on behalf of the Corporation or by Pixelworks Nova Scotia, as the case may be, or by the Transfer Agent will be deemed to be payment of and satisfy and discharge all liability for the total Retraction Price or total Purchase Price, as the case may be, to the extent that the same is represented by such share certificates and cheques (plus any amounts withheld pursuant to section 12.3).

6.5. On and after the close of business on the Retraction Date, the holder of the Retracted Shares will cease to be a holder of such Retracted Shares and will not be entitled to exercise any of the rights of a holder in respect thereof, other than the right to receive its proportionate part of the total Retraction Price or total Purchase Price, as the case may be, unless upon presentation and surrender of certificates in accordance with the foregoing provisions, payment of the total Retraction Price or the total Purchase Price, as the case may be, is not made as provided in section 6.4, in which case the rights of such holder will remain unaffected until the total Retraction Price or the total Purchase Price, as the case may be, has been paid in the manner provided in this section. On and after the close of business on the Retraction Date, provided that the presentation and surrender of certificates and payment of the total Purchase Price, as the case may be, has been made in accordance with the foregoing provisions, the holder of the Retracted Shares so redeemed by the Corporation or purchased by Pixelworks Nova Scotia will thereafter be considered and deemed for all purposes to be a holder of the shares of Pixelworks Common Stock delivered to it.

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6.6. Notwithstanding any other provision of this Article 6, the Corporation will not be obligated to redeem Retracted Shares specified by a holder in a Retraction Request to the extent that such redemption of Retracted Shares would be contrary to solvency requirements or other provisions of applicable law. If the Corporation believes that on any Retraction Date it would not be permitted by any of such provisions to redeem the Retracted Shares tendered for redemption on such date, and provided that Pixelworks Nova Scotia has not exercised the Retraction Call Right with respect to the Retracted Shares, the Corporation will be obligated only to redeem Retracted Shares specified by a holder in a Retraction Request to the extent of the maximum number that may be so redeemed (rounded down to the nearest whole number of shares) as would not be contrary to such provisions and will notify the holder and the Trustee at least two Business Days prior to the Retraction Date as to the number of Retracted Shares which will not be redeemed by the Corporation. In any case in which the redemption by the Corporation of Retracted Shares would be contrary to solvency requirements or other provisions of applicable law, the Corporation will redeem the maximum number of Exchangeable Shares which the Board of Directors determines the Corporation is, on the Retraction Date, permitted to redeem, which will be selected as nearly as may be proportionately disregarding fractions) in proportion to the total number of Exchangeable Shares tendered for retraction by holders thereof and the Corporation will issue to each holder of Retracted Shares a new certificate, at the expense of the Corporation, representing the Retracted Shares not redeemed by the Corporation pursuant to section 6.2. Provided that the Retraction Request is not revoked by the holder in the manner specified in section 6.7 and provided further that Pixelworks Nova Scotia has not exercised the Retraction Call Right with respect to the Retracted Shares, the holder of any such Retracted Shares not redeemed by the Corporation pursuant to section 6.2 as a result of solvency requirements or other provisions of applicable law will be deemed, by giving the Retraction Request, to have instructed the Trustee to require Pixelworks to purchase such Retracted Shares from such holder on the Retraction Date or as soon as practicable thereafter on payment by Pixelworks to such holder of the Purchase Price of each such Retracted Share, all as more specifically provided in the Voting and Exchange Trust Agreement.

6.7. A holder of Retracted Shares may by notice in writing given by the holder to the Corporation before the close of business on the Business Day immediately preceding the Retraction Date, withdraw its Retraction Request, in which event such Retraction Request will be null and void and, for greater certainty, the revocable offer constituted by the Retraction Request to sell the Retracted Shares to Pixelworks Nova Scotia and the instruction to the Trustee to require Pixelworks to purchase such Retracted Shares will each be deemed to have been revoked.

ARTICLE 7. REDEMPTION OF EXCHANGEABLE SHARES

7.1. Subject to applicable law, and provided that Pixelworks Nova Scotia has not exercised the Redemption Call Right, the Corporation will redeem, on the Redemption Date, all but not less than all of the then outstanding Exchangeable Shares for an amount per share (the "Redemption Price") equal to the Current Market Price of one share of Pixelworks Common Stock on the last Business Day prior to the Redemption Date, which must be satisfied in full by the Corporation causing to be delivered to each holder of Exchangeable Shares one share of Pixelworks Common Stock for each Exchangeable Share held by such holder, plus (ii) the Dividend Amount.

7.2. In any case of a redemption of Exchangeable Shares under this Article 7, the Corporation will send or cause to be sent to each holder of Exchangeable Shares, at least 60 days before the Redemption Date (other than a Redemption Date established in connection with an Pixelworks Control Transaction, an Exchangeable Share Voting Event or an Exempt Exchangeable Share Voting Event), a notice in writing of the redemption by the Corporation or the purchase by Pixelworks Nova Scotia under the Redemption Call Right, as the case may be, of the Exchangeable Shares held by such holder. In the case of a Redemption Date established in connection with an Pixelworks Control Transaction, an

Exchangeable Share Voting Event or an Exempt Exchangeable Share Voting Event, the written notice of redemption by the Corporation or the purchase by Pixelworks Nova Scotia under the Redemption Call Right will be sent on or before the Redemption Date, on as many days' prior written notice as may be determined by the Board of Directors to be reasonably practicable in the circumstances. In any such case, such notice will set out the Redemption Price, the Redemption Date and, if applicable, particulars of the Redemption Call Right.

7.3. On or after the Redemption Date and subject to the exercise by Pixelworks Nova Scotia of the Redemption Call Right, the Corporation will cause to be delivered to the holders of the Exchangeable Shares to be redeemed the Redemption Price of each such Exchangeable Share, upon presentation and surrender at the registered office of the Corporation or at any office of the Transfer Agent as may be specified by the Corporation in such notice of the certificates representing such Exchangeable Shares, together with such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the OBCA and the articles and by-laws of the Corporation and such additional documents and instruments as the Transfer Agent, Pixelworks or the Corporation may reasonably require. Payment of the total Redemption Price for such Exchangeable Shares will be made by delivery to each holder, at the address of the holder recorded in the securities register of the Corporation or by holding for pick-up by the holder at the registered office of the Corporation or at any office of the Transfer Agent as may be specified by the Corporation in such notice, on behalf of the Corporation, certificates representing shares of Pixelworks Common Stock and, if applicable, a cheque of the Corporation payable at par at any branch of the bankers of the Corporation in payment of the Dividend Amount (without interest), in each case, less any amounts withheld pursuant to section 12.3. On and after the Redemption Date, the holders of the Exchangeable Shares called for redemption will cease to be holders of such Exchangeable Shares and will not be entitled to exercise any of the rights of holders in respect thereof, other than the right to receive their proportionate part of the total Redemption Price, unless payment of the total Redemption Price for such Exchangeable Shares is not made upon presentation and surrender of certificates in accordance with the foregoing provisions, in which case the rights of the holders will remain unaffected until the total Redemption Price has been paid in the manner provided in this section. The Corporation will have the right at any time after the sending of a notice of its intention to redeem the Exchangeable Shares as aforesaid to deposit or cause to be deposited the total Redemption Price for (except as provided in the preceding sentence) the Exchangeable Shares so called for redemption, or of such Exchangeable Shares represented by certificates that have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption, in a custodial account with any chartered bank or trust company in Canada named in such notice (without interest), less any amounts withheld pursuant to section 12.3. Upon the later of such deposit being made and the Redemption Date, the Exchangeable Shares in respect of which such deposit has been made will be redeemed and the rights of the holders thereof after such deposit or Redemption Date, as the case may be, will be limited to receiving their proportionate part of the total Redemption Price for such Exchangeable Shares so deposited (without interest), against presentation and surrender of the certificates held by them, respectively, in accordance with the foregoing provisions. Upon such payment or deposit of the total Redemption Price, the holders of the Exchangeable Shares will thereafter be considered and deemed for all purposes to be holders of the Pixelworks Common Stock delivered to them or to any custodian on their behalf.

7.4. Pixelworks Nova Scotia will have the overriding right (the "Redemption Call Right"), notwithstanding the proposed redemption of Exchangeable Shares by the Corporation pursuant to these share provisions, to purchase from all but not less than all of the holders of Exchangeable Shares (other than any holder of Exchangeable Shares which is Pixelworks or an Affiliate of Pixelworks) on the Redemption Date all but not less than all of the Exchangeable Shares held by each such holder on payment by Pixelworks Nova Scotia to each holder of an amount per Exchangeable Share equal to the Redemption Price. In the event of the exercise of the Redemption Call Right by Pixelworks Nova Scotia, each holder will be obligated to sell all of the Exchangeable Shares held by the holder to

Pixelworks Nova Scotia on the Redemption Date and, upon payment by Pixelworks Nova Scotia to the holder of the Redemption Price for each such share, the Corporation will have no obligation to redeem such shares so purchased by Pixelworks Nova Scotia or to pay the Redemption Price in respect thereof. If Pixelworks Nova Scotia does not exercise the Redemption call Right in the manner described above, on the Redemption Date the holders of the Exchangeable Shares will be entitled to receive in exchange therefor the Redemption Price otherwise payable by the Corporation in connection with the redemption of Exchangeable Shares pursuant to this Article 7.

7.5. To exercise the Redemption Call Right, Pixelworks Nova Scotia must notify the Transfer Agent, as agent for the holders of Exchangeable Shares, and the Corporation of Pixelworks Nova Scotia's intention to exercise such right at least 60 days before the Redemption Date, except in the case of a redemption occurring as a result of an Pixelworks Control Transaction, an Exchangeable Share Voting Event or an Exempt Exchangeable Share Voting Event, in which case Pixelworks Nova Scotia will so notify the Transfer Agent and the Corporation on or before the Redemption Date. The Transfer Agent will notify the holders of Exchangeable Shares as to whether or not Pixelworks Nova Scotia has exercised the Redemption Call Right forthwith after the expiry of the period during which that right may be exercised by Pixelworks Nova Scotia. If Pixelworks Nova Scotia exercises the Redemption Call Right, Pixelworks Nova Scotia will purchase and the holders will sell, on the Redemption Date, all of the Exchangeable Shares then outstanding for a price per share equal to the Redemption Price.

7.6. For the purposes of completing the purchase of the Exchangeable Shares pursuant to the exercise of the Redemption Call Right, Pixelworks Nova Scotia will deposit with the Transfer Agent, on or before the Redemption Date, certificates representing the aggregate number of shares of Pixelworks Common Stock deliverable by Pixelworks Nova Scotia pursuant to such exercise and a cheque or cheques of Pixelworks Nova Scotia payable at par at any branch of the bankers of Pixelworks Nova Scotia representing the aggregate Dividend Amount in payment of the total Redemption Price (without interest), less any amounts withheld pursuant to section 12.3. Provided that Pixelworks Nova Scotia has complied with the immediately preceding sentence, on and after the Redemption Date, the rights of each holder of Exchangeable Shares will be limited to receiving such holder's proportionate part of the total Redemption Price payable by Pixelworks Nova Scotia upon presentation and surrender by the holder of certificates representing the Exchangeable Shares held by such holder and the holder, on and after the Redemption Date, will be considered and deemed for all purposes to be the holder of the shares of Pixelworks Common Stock to which it is entitled pursuant to the exercise of the Redemption Call Right. Upon surrender to the Transfer Agent of a certificate or certificates representing Exchangeable Shares, together with such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the OBCA and the articles and by-laws of the Corporation and such additional documents and instruments as the Transfer Agent may reasonably require, the holder of such surrendered certificate or certificates will be entitled to receive in exchange therefor, and the Transfer Agent on behalf of Pixelworks Nova Scotia

will deliver to such holder, certificates representing shares of Pixelworks Common Stock to which the holder is entitled pursuant to the exercise of the Redemption Call Right and a cheque or cheques of Pixelworks Nova Scotia payable at par at any branch of the bankers of Pixelworks Nova Scotia in payment of the remaining portion, if any, of the total Redemption Price (without interest), less any amounts withheld pursuant to section 12.3.

**ARTICLE 8.
PURCHASE FOR CANCELLATION**

8.1. Subject to applicable law, the Corporation may purchase for cancellation at any time and from time to time all or any part of the outstanding Exchangeable Shares at any price by tender to all the holders of record of Exchangeable Shares then outstanding or through the facilities of any stock exchange or stock quotation system on which the Exchangeable Shares are then listed or quoted at any

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price per share, together with an amount equal to the Dividend Amount. If in response to an invitation for tenders under the provisions of this section 8.1, more Exchangeable Shares are tendered at a price or prices acceptable to the Corporation than the Corporation is prepared to purchase, the Exchangeable Shares to be purchased by the Corporation will be purchased as nearly as possible on a proportionate basis according to the number of shares tendered by each holder who submits a tender to the Corporation, provided that when shares are tendered at different prices, the pro rating will be effected (disregarding fractions) only with respect to the shares tendered at the price at which more shares were tendered than the Corporation is prepared to purchase after the Corporation has purchased all the shares tendered at lower prices. If only part of the Exchangeable Shares represented by any certificate will be purchased, a new certificate for the balance of such shares will be issued at the expense of the Corporation.

**ARTICLE 9.
VOTING RIGHTS**

9.1. Except as required by applicable law and by Article 10, the holders of Exchangeable Shares will not be entitled as such to receive notice of or to attend any meeting of the shareholders of the Corporation or to vote at any such meeting.

**ARTICLE 10.
AMENDMENT AND APPROVAL**

10.1. The rights, privileges, restrictions and conditions attaching to the Exchangeable Shares may be added to, changed or removed but only with the approval of the holders of the Exchangeable Shares as specified in section 10.2.

10.2. Any approval given by the holders of the Exchangeable Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Exchangeable Shares or any other matter requiring the approval or consent of the holders of the Exchangeable Shares (including pursuant to sections 4.1, 11.1, 11.2 and 12.2) will be deemed to have been sufficiently given if it has been given in accordance with applicable law, subject to a minimum requirement that such approval be evidenced by a resolution passed by not less than two-thirds of the votes cast on such resolution at a meeting of holders of Exchangeable Shares duly called and held at which the holders of at least 25% of the holders of outstanding Exchangeable Shares at that time are present or represented by proxy; provided that if at any such meeting the holders of at least 25% of the outstanding Exchangeable Shares at that time are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting will be adjourned to such date not less than five days thereafter and to such time and place as may be designated by the chairman of such meeting. At such adjourned meeting the holders of Exchangeable Shares present or represented by proxy thereat may transact the business for which the meeting was originally called and a resolution passed at that meeting by the affirmative vote of not less than two-thirds of the votes cast on such resolution at such meeting will constitute the approval or consent of the holders of the Exchangeable Shares.

**ARTICLE 11.
RECIPROCAL CHANGES, ETC.
IN RESPECT OF PIXELWORKS COMMON STOCK**

11.1. Each holder of an Exchangeable Share acknowledges that the Exchangeable Share Support Agreement provides, in part, that Pixelworks will not, without the prior approval of the Corporation

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and the prior approval of the holders of the Exchangeable Shares given in accordance with section 10.2:

- (a) issue or distribute shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock) to the holders of all or substantially all of the then outstanding shares of Pixelworks Common Stock by way of stock dividend or other distribution, other than an issue of shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock) to holders of shares of Pixelworks Common Stock who exercise an option to receive dividends in shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock) in lieu of receiving cash dividends;
- (b) issue or distribute rights, options or warrants to the holders of all or substantially all of the then outstanding shares of Pixelworks Common Stock entitling them to subscribe for or to purchase shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock); or
- (c) issue or distribute to the holders of all or substantially all of the then outstanding shares of Pixelworks Common Stock:
 - (i) shares or securities of Pixelworks of any class other than Pixelworks Common Stock (other than shares convertible into or

exchangeable for or carrying rights to acquire shares of Pixelworks Common Stock);

- (ii) rights, options or warrants other than those referred to in section 11.1(b);
- (iii) evidences of indebtedness of Pixelworks; or
- (iv) assets of Pixelworks;

unless the economic equivalent (as determined by the Board of Directors as contemplated in section 3.6) on a per share basis of such rights, options, securities, shares, evidences of indebtedness or other assets is issued or distributed simultaneously to holders of the Exchangeable Shares.

11.2. Each holder of an Exchangeable Share acknowledges that the Exchangeable Share Support Agreement further provides, in part, that Pixelworks will not, without the prior approval of the Corporation and the prior approval of the holders of the Exchangeable Shares given in accordance with section 10.2:

- (a) subdivide, redivide or change the then outstanding shares of Pixelworks Common Stock into a greater number of shares of Pixelworks Common Stock;
- (b) reduce, combine, consolidate or change the then outstanding shares of Pixelworks Common Stock into a lesser number of shares of Pixelworks Common Stock; or
- (c) reclassify or otherwise change the shares of Pixelworks Common Stock or effect an amalgamation, merger, reorganization or other transaction affecting the shares of Pixelworks Common Stock;

unless the same or an economically equivalent change (as determined by the Board of Directors as contemplated in section 3.6) is made simultaneously to, or in the rights of the holders of, the Exchangeable Shares. The Exchangeable Share Support Agreement further provides, in part, that these provisions of the Exchangeable Share Support Agreement may not be changed without the approval of the holders of the Exchangeable Shares given in accordance with section 10.2.

ARTICLE 12. ACTIONS BY THE CORPORATION

12.1. The Corporation will take all such actions and so all such things as is necessary or advisable to perform and comply with and to ensure performance and compliance by Pixelworks, Pixelworks Nova Scotia and the Corporation with all provisions of the Exchangeable Share Support Agreement applicable to Pixelworks, Pixelworks Nova Scotia and the Corporation, respectively, in accordance with the terms thereof including, without limitation, taking all such actions and doing all such things as are necessary or advisable to enforce to the fullest extent possible for the direct benefit of the Corporation all rights and benefits in favour of the Corporation under or pursuant to such agreement.

12.2. The Corporation will not propose, agree to or otherwise give effect to any amendment to, or waiver or forgiveness of its rights or obligations under, the Exchangeable Share Support Agreement without the approval of the holders of the Exchangeable Shares given in accordance with section 10.2, other than such amendments, waivers and/or forgiveness as may be necessary or advisable for the purposes of:

- (a) adding to the covenants of the other parties to such agreement for the protection of the Corporation or the holders of the Exchangeable Shares thereunder;
- (b) making such provisions or modifications not inconsistent with such agreement as may be necessary or desirable with respect to matters or questions arising thereunder which, in the good faith opinion of the Board of Directors, it may be expedient to make, provided that the Board of Directors is of the good faith opinion, after consultation with counsel, that such provisions and modifications will not be prejudicial to the interests of the holders of the Exchangeable Shares; or
- (c) making such changes in or corrections to such agreement, which, on the advice of counsel to the Corporation, are required for the purpose of curing or correcting any ambiguity or defect or inconsistent provision or clerical omission or mistake or manifest error contained therein, provided that the Board of Directors is of the good faith opinion, after consultation with counsel, that such changes or corrections will not be prejudicial to the interests of the holders of the Exchangeable Shares.

12.3. The Corporation, Pixelworks Nova Scotia, Pixelworks and the Transfer Agent will be entitled to deduct and withhold from any dividend or consideration otherwise payable to any holder of Exchangeable Shares such amounts as the Corporation, Pixelworks Nova Scotia, Pixelworks or the Transfer Agent is required to deduct and withhold with respect to such payment under the *Income Tax Act* (Canada), the *United States Internal Revenue Code of 1986* or any provisions of provincial, state, local or foreign tax law, in each case, as amended. To the extent that amounts are so withheld, such withheld amounts will be treated for all purposes hereof as having been paid to the holder of the Exchangeable Shares in respect of which such deduction and withholding was made, provided that such amounts are remitted to the appropriate taxing authority. To the extent that the amount so required or permitted to be deducted or withheld from any payment to a holder exceeds the cash portion of the consideration otherwise payable to the holder, the Corporation, Pixelworks Nova Scotia, Pixelworks and the Transfer Agent are hereby authorized to sell or otherwise dispose of such portion of the consideration as is necessary to provide sufficient funds to the Corporation, Pixelworks Nova Scotia, Pixelworks or the Transfer Agent, as the case may be, to enable it to comply with such deduction or withholding requirement and the Corporation, Pixelworks Nova Scotia, Pixelworks or the Transfer Agent will notify the holder thereof and remit to such holder any unapplied balance of the net proceeds of such sale.

12.4. All shares of Pixelworks Common Stock delivered by or on behalf of the Corporation, Pixelworks Nova Scotia, or Pixelworks to any holder of Exchangeable Shares in accordance with these

share provisions will be duly issued as fully paid and non-assessable and will be free and clear of any lien, claim or encumbrance.

ARTICLE 13.
LEGEND; CALL RIGHTS

13.1. The certificates evidencing the Exchangeable Shares will contain or have affixed them a legend, in form and on terms approved by the Board of Directors, with respect to the Exchangeable Share Support Agreement, the Call Rights, and the Voting and Exchange Trust Agreement (including the provisions with respect to the voting rights, exchange right and automatic exchange right thereunder).

13.2. Each holder of an Exchangeable Share, whether of record or beneficial, by virtue of becoming and being such a holder will be deemed to acknowledge each of the Liquidation Call Right, the Retraction Call Right and the Redemption Call Right, in each case, in favour of Pixelworks Nova Scotia, and the overriding nature thereof in connection with the liquidation, dissolution or winding-up of the Corporation or the retraction or redemption of Exchangeable Shares, as the case may be, and to be bound thereby in favour of Pixelworks Nova Scotia as therein provided.

ARTICLE 14.
NOTICES

14.1. Any notice, request or other communication to be given to the Corporation by a holder of Exchangeable Shares must be in writing and will be valid and effective if given by registered mail (postage prepaid) or by fax or by delivery to the registered office of the Corporation and addressed to the attention of the Secretary of the Corporation. Any such notice, request or other communication, if given by mail, will be deemed to have been given and received on the fourth Business Day following the date of mailing, and if given by fax or delivery, will only be deemed to have been given and received upon actual receipt thereof by the Corporation.

14.2. Any presentation and surrender by a holder of Exchangeable Shares to the Corporation or the Transfer Agent of certificates representing Exchangeable Shares in connection with the liquidation, dissolution or winding-up of the Corporation or the retraction or redemption of Exchangeable Shares must be made by ordinary mail (postage prepaid) or by delivery to the registered office of the Transfer Agent as may be specified by the Corporation, in each case, addressed to the attention of the Secretary of the Corporation. Any such presentation and surrender of certificates will only be deemed to have been made and to be effective upon actual receipt thereof by the Corporation or the Transfer Agent, as the case may be. Any such presentation and surrender of certificates made by ordinary mail will be at the sole risk of the holder mailing the same.

14.3. Any notice, request or other communication to be given to a holder of Exchangeable Shares by or on behalf of the Corporation must be in writing and will be valid and effective if given by mail (postage prepaid) or by delivery to the address of the holder recorded in the securities register of the Corporation or, in the event of the address of any such holder not being so recorded, then at the last known address of such holder. Any such notice, request or other communication, if given by mail, will be deemed to have been given and received on the third Business Day following the date of mailing and, if given by delivery, will be deemed to have been given and received on the date of delivery. Accidental failure or omission to give any notice, request or other communication to one or more holders of Exchangeable Shares will not invalidate or otherwise alter or affect any action or proceeding to be taken by the Corporation pursuant thereto.

14.4. If the Corporation determines that mail service is or is threatened to be interrupted at the time when the Corporation is required or elects to give any notice to the holders of Exchangeable Shares hereunder, the Corporation may, notwithstanding the provisions hereof, give such notice by means of publication in The Globe and Mail, national edition, or any other English language daily newspaper or

newspapers of general circulation in Canada, once in each of two successive weeks, and notice so published will be deemed to have been given on the latest date on which the first publication has taken place. If, by reason of any actual or threatened interruption of mail service due to strike, lock-out or otherwise, any notice to be given to the Corporation would be unlikely to reach its destination in a timely manner, such notice will be valid and effective only if delivered personally to the Corporation in accordance with section 14.1 or 14.2, as the case may be.

QuickLinks

[JALDI SEMICONDUCTOR CORP. EXCHANGEABLE SHARE PROVISIONS](#)

EXCHANGEABLE SHARE SUPPORT AGREEMENT

THIS AGREEMENT, dated as of *September 6, 2002*, is between:

PIXELWORKS INC., a corporation existing under the laws of the State of Oregon

("Pixelworks")

—and—

PIXELWORKS NOVA SCOTIA COMPANY, an unlimited company existing under the laws of the Province of Nova Scotia

("Pixelworks Nova Scotia")

—and—

JALDI SEMICONDUCTOR CORP., a corporation existing under the laws of the Province of Ontario

(the "Corporation")

WHEREAS, pursuant to an agreement made effective as of April 30, 2002 between Pixelworks, Pixelworks Nova Scotia, the Corporation and various shareholders of the Corporation (the "Reorganization Agreement"), the Corporation has agreed, subject to the satisfaction of certain conditions, to amend its articles to create a new class of non-voting exchangeable shares (the "Exchangeable Shares") and to convert all outstanding common shares of the Corporation into Exchangeable Shares.

AND WHEREAS, each Exchangeable Share is exchangeable at the holder's option at any time, without further payment, for one share of common stock of Pixelworks (the "Pixelworks Common Stock").

AND WHEREAS, Pixelworks, Pixelworks Nova Scotia and the Corporation agreed in the Reorganization Agreement to execute an exchangeable share support agreement substantially in the form of this agreement, coincident with and as part of the issue of the Exchangeable Shares.

NOW THEREFORE in consideration of the respective covenants and agreements provided in this agreement and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto covenant and agree as follows.

**ARTICLE 1.
DEFINITIONS AND INTERPRETATION**

1.1. Definitions

Each term in this agreement denoted by initial capital letters and not otherwise defined has the meaning ascribed to it in the rights, privileges, restrictions and conditions attaching to the Exchangeable Shares (collectively, the "Exchangeable Share Provisions"), unless the context requires otherwise.

1.2. Interpretation Not Affected by Headings

The division of this agreement into Articles, sections and other portions and the insertion of headings are for convenience of reference only and will not affect the construction or interpretation of this agreement. Unless otherwise indicated, all references to an "Article" or "section" followed by a number and/or letter refer to the specified Article or section of this agreement. The terms "this agreement", "hereof", "herein" and "hereunder" and similar expressions refer to this agreement and

not to any particular Article, section or other portion hereof, and include any agreement or instrument supplementary or ancillary hereto.

1.3. Number, Gender

In this agreement, unless the context otherwise requires, words importing the singular number will include the plural and *vice versa*, and words importing any gender include all genders.

1.4. Date for Any Action

If any date which any action is required to be taken under this agreement is not a Business Day, such action will be required to be taken on the next succeeding Business Day.

**ARTICLE 2.
COVENANTS OF PIXELWORKS AND THE CORPORATION**

2.1. Covenants Regarding Exchangeable Shares

So long as any Exchangeable Shares (other than Exchangeable Shares owned by Pixelworks or its Affiliates) remains outstanding, Pixelworks will:

- (a) not declare or pay any dividend on the shares of Pixelworks Common Stock unless (i) the Corporation (1) simultaneously declares or pays, as the case may be, an equivalent dividend (as provided for in the Exchangeable Share Provisions and as determined by the Board of Directors as contemplated by section 2.7(d)) on the Exchangeable Shares (an "Equivalent Dividend"), and (2) has sufficient money or other assets or authorized but unissued securities available to enable the due declaration and the due and punctual payment, in accordance with applicable law, of any Equivalent Dividend, or (ii) the Corporation (1) simultaneously subdivides the Exchangeable Shares in lieu of a stock dividend thereon (as provided for in the Exchangeable Share Provisions) (an "Equivalent Stock Subdivision"), and (2) has sufficient authorized but unissued securities available to enable the Equivalent Stock Subdivision;
 - (b) advise the Corporation sufficiently in advance of the declaration by Pixelworks of any dividend on the shares of Pixelworks Common Stock and take all such other actions as are reasonably necessary, in co-operation with the Corporation, to ensure that (i) the respective declaration date, record date and payment date for an Equivalent Dividend will be the same as the declaration date, record date and payment date for the corresponding dividend on the shares of Pixelworks Common Stock or (ii) the record date and effective date for an Equivalent Stock Subdivision will be the same as the record date and payment date for the corresponding stock dividend on the shares of Pixelworks Common Stock;
 - (c) ensure that the record date for any dividend declared on the shares of Pixelworks Common Stock is not less than 10 Business Days after the declaration date of such dividend;
 - (d) take all such actions and do all such things as are reasonably necessary or desirable to enable and permit the Corporation, in accordance with applicable law, to pay and otherwise perform its obligations with respect to the satisfaction of the Corporation Liquidation Amount, the Retraction Price or the Redemption Price in respect of each issued and outstanding Exchangeable Share (other than Exchangeable Shares owned by Pixelworks or its Affiliates) upon the liquidation, dissolution or winding up of the Corporation, the delivery of a Retraction Request by a holder of Exchangeable Shares or a redemption of Exchangeable Shares by the Corporation, as the case may be, including without limitation all such actions and all such things as are necessary or desirable to enable and permit the Corporation to cause to be delivered shares of Pixelworks Common Stock to the holders of Exchangeable Shares in accordance with the provisions of Articles 5, 6 or 7, as the case may be, of the Exchangeable Share Provisions;
-
- (e) take all such actions and do all such things as are reasonably necessary or desirable to enable and permit Pixelworks Nova Scotia, in accordance with applicable law, to perform its obligations arising upon the exercise by it of the Liquidation Call Right, the Retraction Call Right or the Redemption Call Right, including without limitation all such actions and all such things as are necessary or desirable to enable and permit Pixelworks Nova Scotia to cause to be delivered shares of Pixelworks Common Stock to the holders of Exchangeable Shares in accordance with the provisions of the Liquidation Call Right, the Retraction Call Right or the Redemption Call Right, as the case may be; and
 - (f) if it becomes a "specified financial institution" (as such term is defined in the *Income Tax Act* (Canada)) or does not deal at arm's length with such a person, take all such actions and do all such things as are reasonably necessary or desirable to cause Pixelworks Nova Scotia to exercise the Retraction Call Right if requested to do so by a holder of Exchangeable Shares making a Retraction Request.

2.2. Prohibition on Voluntary Liquidation and Other Action

Pixelworks covenants that it will not take any action, and agrees to cause Pixelworks Nova Scotia or any other Affiliate of Pixelworks not to take any action, in each case relating to a voluntary liquidation, dissolution, winding-up or other reorganization of the Corporation or its successors or Pixelworks Nova Scotia or its successors, as the case may be, prior to the Redemption Date (as defined in the Exchangeable Share Provisions) unless prior to such liquidation, dissolution, winding-up or other reorganization has taken such actions to ensure that it is possible for holders of Exchangeable Shares to extend through to the Redemption Date (subject to the continuing effect of other provisions of the Voting and Exchange Support Agreement (as defined in the Exchangeable Share Provisions) which may permit the redemption or other termination of the Exchangeable Shares prior to the Redemption Date) the deferral of any gain incurred by such holders that would otherwise have been recognized at the Effective Time (as such term is defined in the Reorganization Agreement) as a result of the consummation of the transactions contemplated by the Reorganization Agreement.

2.3. Segregation of Funds

Pixelworks will cause the Corporation or Pixelworks Nova Scotia, as the case may be, to deposit a sufficient amount of funds in a separate account of the Corporation or Pixelworks Nova Scotia and segregate a sufficient amount of such other assets and property as is necessary to enable the Corporation to pay dividends when due and to enable the Corporation or Pixelworks Nova Scotia to pay or otherwise satisfy their respective obligations under Articles 5, 6 or 7 of the Exchangeable Share Provisions, as applicable.

2.4. Reservation of Pixelworks Common Stock

Pixelworks hereby represents, warrants and covenants in favour of the Corporation and Pixelworks Nova Scotia that Pixelworks has reserved for issuance and, at all times while any Exchangeable Shares (other than Exchangeable Shares held by Pixelworks or its Affiliates) are outstanding, will keep available, free from pre-emptive and other rights, out of its authorized and unissued capital stock such number of shares of Pixelworks Common Stock (or other shares or securities into which shares of Pixelworks Common Stock may be reclassified or changed as contemplated by section 2.8) (a) as is equal to the sum of (i) the number of Exchangeable Shares issued and outstanding from time to time, and (ii) the number of Exchangeable Shares issuable upon the exercise of all rights, options or other entitlements to acquire Exchangeable Shares outstanding from time to time, and (b) as are now and may hereafter be required to enable and permit Pixelworks to meet its obligations under the Voting and Exchange Trust Agreement and under any other security or commitment pursuant to which Pixelworks may now or hereafter be required to issue shares of Pixelworks Common Stock, to enable and permit Pixelworks Nova Scotia to meet its obligations under each of the Liquidation Call Right, the Retraction Call Right and the Redemption Call Right and to enable and permit the Corporation to meet its obligations under this agreement and under the Exchangeable Share Provisions.

2.5. Notification of Certain Events

In order to assist Pixelworks in complying with its obligations under this agreement and to permit Pixelworks Nova Scotia to exercise the Liquidation Call Right, the Retraction Call Right and the Redemption Call Right, the Corporation will notify Pixelworks and Pixelworks Nova Scotia of each of the following events at the time set forth below:

- (a) in the event of any determination by the Board of Directors to institute voluntary liquidation, dissolution or winding up proceedings with respect to the Corporation or to effect any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, at least 60 days prior to the proposed effective date of such liquidation, dissolution, winding up or other distribution;
- (b) promptly, upon the earlier of receipt by the Corporation of notice of and the Corporation otherwise becoming aware of any threatened or instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding up of the Corporation or to effect any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs;
- (c) immediately, upon receipt by the Corporation of a Retraction Request;
- (d) on the same date on which notice of redemption is given to holders of Exchangeable Shares, upon the determination of a Redemption Date in accordance with the Exchangeable Share Provisions; and
- (e) as soon as practicable upon the issuance by the Corporation of any Exchangeable Shares (other than those issuable pursuant to the Reorganization Agreement), rights, options or warrants to acquire Exchangeable Shares or other securities exchangeable for or convertible into Exchangeable Shares.

2.6. Delivery of Pixelworks Common Stock to the Corporation and Pixelworks Nova Scotia

In furtherance of its obligations under sections 2.1(d) and (e), upon notice from the Corporation or Pixelworks Nova Scotia of any event that requires the Corporation or Pixelworks Nova Scotia to cause to be delivered shares of Pixelworks Common Stock to any holder of Exchangeable Shares, Pixelworks will forthwith issue and deliver or cause to be issued and delivered to the Corporation or Pixelworks Nova Scotia the requisite number of shares of Pixelworks Common Stock to be received by, and issued to or to the order of, the former holder of the surrendered Exchangeable Shares, as the Corporation or Pixelworks Nova Scotia may direct. All such shares of Pixelworks Common Stock will be duly authorized and validly issued as fully paid and non-assessable and will be free and clear of any lien, claim or encumbrance. In consideration of the issuance and delivery of each such share of Pixelworks Common Stock, the Corporation or Pixelworks Nova Scotia, as the case may be, will issue to Pixelworks, or, as Pixelworks may direct, common shares of the Corporation or Pixelworks Nova Scotia, cash, securities or other property having equivalent value.

2.7. Qualification of Pixelworks Common Stock

If any shares of Pixelworks Common Stock (or other shares or securities into which shares of Pixelworks Common Stock may be reclassified or changed as contemplated by section 2.8) to be issued and delivered hereunder require registration or qualification with or approval of or the filing of any document, including any prospectus or similar document or the taking of any proceeding with or the obtaining of any order, ruling or consent from any governmental or regulatory authority under any Canadian or United States federal, provincial or state securities or other law or regulation or pursuant to the rules and regulations of any securities or other regulatory authority or the fulfilment of any other Canadian or United States legal requirement before such shares (or such other shares or securities) may be issued by Pixelworks and delivered by Pixelworks at the direction of Pixelworks Nova Scotia or the Corporation, if applicable, to the holder of surrendered Exchangeable Shares or in order that such shares (or such other shares or securities) may be freely traded thereafter (other than any

restrictions of general application on transfer of securities by reason of a holder being a "control person" for purposes of Canadian provincial securities laws or an "affiliate" of Pixelworks for purposes of United States federal or state securities laws), Pixelworks, in good faith, will expeditiously take all such actions and do all such things as are necessary or desirable to cause such shares of Pixelworks Common Stock (or such other shares or securities) to be delivered hereunder, to comply with any such requirements, and thereafter to be and remain duly registered, qualified or approved under applicable law and to be listed, quoted or posted for trading on all stock exchanges and quotation systems on which outstanding shares of Pixelworks Common Stock (or such other shares or securities) have been listed by Pixelworks and remain listed and are quoted or posed for trading at such time. The parties commit to the usual and customary procedures relating to indemnification of the shareholders by Pixelworks and relating to delivery of prospectuses. Notwithstanding the foregoing, nothing in this section or otherwise will require Pixelworks to become a "reporting issuer" or equivalent under Canadian provincial securities laws.

2.8. Economic Equivalence

- (a) Pixelworks will not, without the prior approval of the Corporation and the prior approval of the holders of the Exchangeable Shares given in accordance with section 10.2 of the Exchangeable Share Provisions:
 - (i) issue or distribute shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock) to the holders of all or substantially all of the then outstanding shares of Pixelworks Common Stock by way of stock dividend or other distribution, other than an issue of shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock) in lieu of receiving cash dividends;
 - (ii) issue or distribute rights, options or warrants to the holders of all or substantially all of the then outstanding shares of Pixelworks Common Stock entitling them to subscribe for or to purchase shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock); or

- (iii) issue or distribute to the holders of all or substantially all of the then outstanding shares of Pixelworks Common Stock (A) shares or securities of Pixelworks of any class other than shares of Pixelworks Common Stock (other than shares convertible into or exchangeable for or carrying rights to acquire shares of Pixelworks Common Stock), (B) rights, options or warrants other than those referred to in section 2.8(a)(ii), (C) evidences of indebtedness of Pixelworks or (D) assets of Pixelworks;

unless the economic equivalent (as determined by the Board of Directors as contemplated in section 2.8(d)) on a per share basis of such rights, options, securities, shares, evidences of indebtedness of other assets is issued or distributed simultaneously to holders of the Exchangeable Shares, in which case, for greater certainty, no approval of the holders of Exchangeable Shares is required.

- (b) Pixelworks will not, without the prior approval of the Corporation and the prior approval of the holders of the Exchangeable Shares given in accordance with section 10.2 of the Exchangeable Share Provisions:
 - (i) subdivide, redivide or change the then outstanding shares of Pixelworks Common Stock into a greater number of shares of Pixelworks Common Stock; or
 - (ii) reduce, combine, consolidate or change the then outstanding shares of Pixelworks Common Stock into a lesser number of shares of Pixelworks Common Stock; or
 - (iii) reclassify or otherwise change the shares of Pixelworks Common Stock or effect an amalgamation, merger, reorganization or other transaction affecting shares of Pixelworks Common Stock;

unless the same or an economically equivalent change (as determined by the Board of Directors as contemplated in section 2.8(d)) is made simultaneously to, or in the rights of the holders of, the Exchangeable Shares, in which case, for greater certainty, no approval of the holders of Exchangeable Shares is required.

- (c) Pixelworks will ensure that the record date for any event referred to in sections 2.8(a) or (b), or (if no record date is applicable for such event) the effective date for any such event, is not less than five Business Days after the date on which such event is declared or announced by Pixelworks (with contemporaneous notification thereof by Pixelworks to the Corporation).
- (d) The Board of Directors will determine, in good faith and in its sole discretion, economic equivalence for the purposes of any event referred to in sections 2.8(a) or (b) and each such determination will be conclusive and binding on Pixelworks. In making each such determination, the Board of Directors will consider, without excluding other factors determined by the Board of Directors to be relevant, the following factors:
 - (i) in the case of any stock dividend or other distribution payable in shares of Pixelworks Common Stock, the number of such shares issued in proportion to the number of shares of Pixelworks Common Stock previously outstanding;
 - (ii) in the case of the issuance or distribution of any rights, options or warrants to subscribe for or purchase shares of Pixelworks Common Stock (or securities exchangeable for or convertible into or carrying rights to acquire shares of Pixelworks Common Stock), the relationship between the exercise price of each such right, option or warrant and the Current Market Price of a share of Pixelworks Common Stock;
 - (iii) in the case of the issuance or distribution of any other form of property (including, without limitation, any shares of securities of Pixelworks of any class other than shares of Pixelworks Common Stock, any rights, options or warrants other than those referred to in section 2.8(d)(ii), any evidence of indebtedness of Pixelworks or any assets of Pixelworks), the relationship between the fair market value (as determined by the Board of Directors) of such property to be issued or distributed with respect to each outstanding share of Pixelworks Common Stock and the Current Market Price of a share of Pixelworks Common Stock;
 - (iv) in the case of any subdivision, redivision or change of the then outstanding share of Pixelworks Common Stock into a greater number of shares of Pixelworks Common Stock or the reduction, combination, consolidation or change of the then outstanding shares of Pixelworks Common Stock into a lesser number of shares of Pixelworks Common Stock or any amalgamation, merger, reorganization or other transaction affecting shares of Pixelworks Common Stock, the effect thereof upon the then outstanding shares of Pixelworks Common Stock; and
 - (v) in all such cases, the general taxation consequences of the relevant event to holders of Exchangeable Shares to the extent that such consequences may differ from the taxation consequences to holders of shares of Pixelworks Common Stock as a result of differences between taxation laws of Canada and the United States (except for any differing consequences arising as a result of differing marginal taxation rates and without regard to the individual circumstances of holders of Exchangeable Shares).

For the purpose of the foregoing determinations, the current market value of any security listed and traded or quoted on a securities exchange will be the weighted average of the daily trading prices of that security during a period of not less than 20 consecutive trading days ending not more than three trading days before the date of the termination on the principal securities exchange on which such securities are listed and traded or quoted, provided, however, that if in the opinion of the Board of Directors, distribution or trading activity of such securities during such period does not create a market which reflects the fair market

value of such securities, then the current market value of such securities will be determined by the Board of Directors, in good faith and at its sole discretion.

- (e) The Corporation agrees that, to the extent required, upon due notice from Pixelworks, the Corporation will use its best efforts to take

or cause to be taken such steps as may be necessary for the purposes of ensuring that appropriate dividends are paid or other distributions are made by the Corporation, or subdivisions, redivisions or changes are made to the Exchangeable Shares, in order to implement the required economic equivalence with respect to the shares of Pixelworks Common Stock and Exchangeable Shares as provided for in this section 2.8.

2.9. Tender Offers

If a tender offer, share exchange offer, issuer bid, take-over bid or similar transaction with respect to shares of Pixelworks Common Stock (each, an "Offer") is proposed by Pixelworks or is proposed to Pixelworks or its shareholders and is recommended by the board of directors of Pixelworks, or is otherwise effected or to be effected with the consent or approval of the board of directors of Pixelworks, and the Exchangeable Shares are not redeemed by the Corporation or purchased by Pixelworks Nova Scotia pursuant to the Redemption Call Right, Pixelworks will use its reasonable efforts, expeditiously and in good faith, to take all such actions and do all such things as are necessary or desirable to enable and permit holders of Exchangeable Shares to participate in such Offer to the same extent and on an economically equivalent basis as the holders of shares of Pixelworks Common Stock, without discrimination. Without limiting the generality of the foregoing, Pixelworks will use its reasonable efforts expeditiously and in good faith to ensure that holders of Exchangeable Shares may participate in all such Offers without being required to exercise their right to retract Exchangeable Shares as against the Corporation (or, if so required, to ensure that any such retraction will be effective only upon, and will be conditional upon, the closing of the Offer and only to the extent necessary to tender to or deposit under the Offer). Nothing herein will affect the rights of the Corporation to redeem (or Pixelworks Nova Scotia to purchase pursuant to the Redemption Call Right) Exchangeable Shares, as applicable, in the event of an Pixelworks Control Transaction.

2.10. Ownership of Outstanding Shares

Without the prior approval of the Corporation and the prior approval of the holders of Exchangeable Shares given in accordance with section 10.2 of the Exchangeable Share Provisions, Pixelworks covenants and agrees in favour of the Corporation that, as long as any outstanding Exchangeable Shares are owned by any person or entity other than Pixelworks or any of its Affiliates, Pixelworks will be and remain the direct or indirect beneficial owner of all issued and outstanding voting shares in the capital of the Corporation and Pixelworks Nova Scotia.

2.11. Pixelworks and Affiliates Not to Vote Exchangeable Shares

Pixelworks covenants and agrees that it will appoint and cause to be appointed proxyholders with respect to all Exchangeable Shares held by it and its Affiliates for the sole purpose of attending each meeting of holders of Exchangeable Shares in order to be counted as part of the quorum for each such meeting. Pixelworks further covenants and agrees that it will not exercise, and will cause its Affiliates not to exercise, any voting rights which may be exercisable by holders of Exchangeable Shares from time to time pursuant to the Exchangeable Share Provisions or pursuant to the provisions of the *Business Corporations Act* (Ontario) (or any successor or other corporate statute by which the Corporation may in the future be governed) with respect to any Exchangeable Shares held by it or by its Affiliates in respect of any matter considered at any meeting of holders of Exchangeable Shares.

2.12. Rule 10b-18 Purchases

For greater certainty, nothing in this agreement, including without limitation the obligations of Pixelworks contained in section 2.9, will limit the ability of Pixelworks or the Corporation to make a

"Rule 10b-18 Purchase" of shares of Pixelworks Common Stock pursuant to Rule 10b-18 of the U.S. *Securities Exchange Act of 1934*, as amended, or any successor provisions thereof.

2.13. Stock Exchange Listing

Pixelworks covenants and agrees in favour of the Corporation that, as long as any outstanding Exchangeable Shares are owned by any person or entity other than Pixelworks or any of its Affiliates, Pixelworks will use its reasonable best efforts to maintain a listing for Pixelworks Common Shares on Nasdaq or other stock exchange.

ARTICLE 3. PIXELWORKS SUCCESSORS

3.1. Certain Requirements in Respect of Combination

Subject to section 3.3, Pixelworks will not consummate any transaction (whether by way of reconstruction, reorganization, consolidation, merger, transfer, sale, lease or otherwise) whereby all or substantially all of its undertaking, property and assets would become the property of any other Person or, in the case of a merger, of the continuing corporation resulting therefrom unless, but may do so if:

- (a) such other Person or continuing corporation (the "Pixelworks Successor"), by operation of law, becomes, without more, bound by the terms and provisions of this agreement or, if not so bound, executes, prior to or contemporaneously with the consummation of such transaction, an agreement supplemental hereto and such other instruments (if any) as are reasonably necessary or advisable to evidence the assumption by the Pixelworks Successor of liability for all amounts payable and property deliverable hereunder and the covenant of such Pixelworks Successor to pay and deliver or cause to be delivered the same and its agreement to observe and perform all the covenants and obligations of Pixelworks under this agreement; and
- (b) such transaction is on such terms and conditions that substantially preserve and do not impair in any material respect any of the rights, duties, powers and authorities of the other parties hereunder or the holders of Exchangeable Shares.

3.2. Vesting of Powers in Successor

Whenever the conditions of section 3.1 have been duly observed and performed, the parties, if required by section 3.1, will execute and deliver a supplemental agreement hereto and thereupon the Pixelworks Successor will possess and from time to time may exercise each and every right and power and will be subject to each and every obligation of Pixelworks under this agreement in the name of Pixelworks or otherwise

and any act or proceeding under any provision of this agreement required to be done or performed by the board of directors of Pixelworks or any officers of Pixelworks may be done and performed with like force and effect by the directors or officers of such Pixelworks Successor.

3.3. Wholly-Owned Subsidiaries

Nothing herein will be construed as preventing the amalgamation or merger of any wholly-owned direct or indirect subsidiary of Pixelworks with or into Pixelworks or the winding up, liquidation or dissolution of any wholly-owned subsidiary of Pixelworks provided that all of the assets of such subsidiary are transferred to Pixelworks or another wholly-owned direct or indirect subsidiary of Pixelworks and any such transactions are expressly permitted by this Article 3.

ARTICLE 4. GENERAL

4.1. Term

This agreement will come into force and be effective as of the date hereof and will terminate and be of no further force and effect at such time as no Exchangeable Shares (or securities or rights

convertible into or exchangeable for or carrying rights to acquire Exchangeable Shares) are held by any person or entity other than Pixelworks and any of its Affiliates.

4.2. Amendments, Modifications

This agreement may not be amended or modified except by an agreement in writing executed by the Corporation, Pixelworks Nova Scotia and Pixelworks and approved by the holders of the Exchangeable Shares in accordance with section 10.2 of the Exchangeable Share Provisions.

4.3. Ministerial Amendments

Notwithstanding section 4.2, the parties to this agreement may in writing, at any time and from time to time, without the approval of the holders of the Exchangeable Shares, amend or modify this agreement for the purposes of:

- (a) adding to the covenants of any or all parties, provided that the board of directors of each of the Corporation, Pixelworks Nova Scotia and Pixelworks is of the good faith opinion that such additions will not be prejudicial to the rights or interests of the holders of the Exchangeable Shares;
- (b) making such amendments or modifications not inconsistent with this agreement as may be necessary or desirable with respect to matters or questions which, in the good faith opinion of the board of directors of each of the Corporation, Pixelworks Nova Scotia and Pixelworks, it may be expedient to make, provided that each such board of directors is of the good faith opinion that such amendments or modifications will not be prejudicial to the rights or interests of the holders of the Exchangeable Shares; or
- (c) making such changes or corrections which, on the advice of counsel to the Corporation, Pixelworks Nova Scotia and Pixelworks, are required for the purpose of curing or correcting any ambiguity or defect or inconsistent provision or clerical omission or mistake or manifest error, provided that the board of directors of each of the Corporation, Pixelworks Nova Scotia and Pixelworks is of the good faith opinion that such changes or corrections will not be prejudicial to the rights or interests of the holders of the Exchangeable Shares.

4.4. Meeting to Consider Amendments

The Corporation, at the request of Pixelworks or Pixelworks Nova Scotia, will call a meeting or meetings of the holders of the Exchangeable Shares for the purpose of considering any proposed amendment or modification requiring approval pursuant to section 4.2. Any such meeting or meetings will be called and held in accordance with the by-laws of the Corporation, the Exchangeable Share Provisions and all applicable laws.

4.5. Changes in Capital of Pixelworks and the Corporation

At all times after the occurrence of any event contemplated pursuant to sections 2.8 and 2.9 or otherwise, as a result of which either the shares of Pixelworks Common Stock or the Exchangeable Shares or both are in any way changed, this agreement will forthwith be amended and modified as necessary in order that it will apply with full force and effect, with the appropriate changes, to all new securities into which shares of Pixelworks Common Stock or the Exchangeable Shares or both are so changed and the parties will execute and deliver an agreement in writing giving effect to and evidencing such necessary amendments and modifications.

4.6. Amendments Only in Writing

No amendment to or modification or waiver of any of the provisions of this agreement otherwise permitted hereunder will be effective unless made in writing and signed by all of the parties hereto.

4.7. Assignment

This agreement is not assignable by any party.

4.8. Time

Time is of the essence of this agreement.

4.9. Governing Law

This agreement and the rights and obligations of the parties hereto will be governed by and construed and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

4.10. Severability

If any term or other provision of this agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto will negotiate in good faith to modify this agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent possible.

4.11. Enurement

This agreement is binding upon and enures to the benefit of the parties and their respective successors and assigns.

4.12. Notices to Parties

All notices and other communications hereunder will be in writing and will be given and will be deemed to have been duly given at the time of receipt, if delivered in person or sent by facsimile transmission on a Business Day at the place of receipt (or, if given on a non-Business Day at the place of receipt, will be deemed to have been duly given on the next succeeding Business Day at such place) to the parties as follows:

(a) if to Pixelworks or Pixelworks Nova Scotia:

8100 Nyberg Road, Third Floor
Tualatin, OR 97062 USA
Attention: Allen H. Alley
Fax: (503) 612-6713

(b) if to the Corporation:

38 Leek Crescent, Suite 200
Richmond Hill, ON L4B 4N8
Canada
Attention: Lance Greggain
Fax: (905) 831-6939

or to such other address as a party may have furnished to the others in writing in accordance herewith, except that notices of change of address will be effective only upon receipt.

4.13. Counterparts

This agreement may be executed in counterparts, each of which will be deemed an original, and all of which taken together will constitute one and the same document.

4.14. Attornment

Each of Pixelworks and Pixelworks Nova Scotia agrees that any action or proceeding arising out of or relating to this agreement may be instituted in the courts of Ontario, waives any objection which it may have now or hereafter to the venue of any such action or proceeding, irrevocably submits to the jurisdiction of the Ontario courts in any such action or proceeding, agrees to be bound by any judgement of those courts and agrees not to seek, and hereby waives, any review of the merits of any such judgment by the court of any other jurisdiction and hereby appoints the Corporation at its registered office in the Province of Ontario as its attorney for service of process.

[The Remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF the parties hereto have caused this agreement to be duly executed as of the date first above written.

PIXELWORKS INC.

By: /s/ ALLEN H. ALLEY

Name: Allen H. Alley
Title: *President and CEO*

IN WITNESS WHEREOF the parties hereto have caused this agreement to be duly executed as of the date first above written.

PIXELWORKS NOVA SCOTIA COMPANY

By: /s/ JEFFREY B. BOUCHARD

Name: Jeffrey B. Bouchard
Title: *President*

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IN WITNESS WHEREOF the parties hereto have caused this agreement to be duly executed as of the date first above written.

JALDI SEMICONDUCTOR CORP.

By: /s/ LANCE GREGGAIN

Name: Lance Greggain
Title: *President*

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QuickLinks

[EXCHANGEABLE SHARE SUPPORT AGREEMENT](#)

Voting and Exchange Trust Agreement

THIS AGREEMENT, dated as of September 6, 2002, is between:

JALDI SEMICONDUCTOR CORP., a corporation existing under the laws of the Province of Ontario

(the "Corporation")

—and—

PIXELWORKS INC., a corporation existing under the laws of the State of Oregon

("Pixelworks")

—and—

PIXELWORKS NOVA SCOTIA COMPANY, an unlimited company existing under the laws of the Province of Nova Scotia

("Pixelworks Nova Scotia")

—and—

CIBC MELLON TRUST COMPANY, a trust company existing under the laws of Canada or its successor as trustee

(the "Trustee")

WHEREAS, pursuant to an agreement made effective as of April 30, 2002 between Pixelworks, Pixelworks Nova Scotia, the Corporation and various shareholders of the Corporation (the "Reorganization Agreement"), the Corporation has agreed, subject to the satisfaction of certain conditions, to amend its articles to create a new class of non-voting exchangeable shares (the "Exchangeable Shares") and to convert all outstanding common shares of the Corporation into Exchangeable Shares.

AND WHEREAS, each Exchangeable Share is exchangeable at the holder's option at any time, without further payment, for one share of common stock of Pixelworks (the "Pixelworks Common Stock").

AND WHEREAS, Pixelworks, Pixelworks Nova Scotia and the Corporation agreed in the Reorganization Agreement to execute a voting and share trust agreement substantially in the form of this agreement, coincident with and as part of the issue of the Exchangeable Shares.

AND WHEREAS, these recitals are made by the Corporation, Pixelworks and Pixelworks Nova Scotia and not by the Trustee.

NOW THEREFORE in consideration of the respective covenants and agreements provided in this agreement and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto covenant and agree as follows.

**ARTICLE 1.
DEFINITIONS AND INTERPRETATION**

1.1. Definitions

In this agreement, the following terms have the following meanings:

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by, or under common control of, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control of"), as applied

to any Person, means the possession by another Person, directly or indirectly, of the power to direct or cause the direction of the management and policies of that first-mentioned Person, whether through the ownership of voting securities, by contract or otherwise.

"Authorized Investments" has the meaning ascribed to it in section 6.11.

"Automatic Exchange Right" means the benefit of the obligation of Pixelworks to purchase all of the outstanding Exchangeable Shares (other than Exchangeable Shares held by Pixelworks or its Affiliates) from the holders thereof pursuant to section 5.11.

"Beneficiaries" means the registered holders from time to time of Exchangeable Shares, other than Pixelworks and its Affiliates.

"Beneficiary Votes" has the meaning ascribed to it in section 4.2.

"Board of Directors" means the board of directors of the Corporation.

"Business Day" means any day on which commercial banks are generally open for business in Toronto, Ontario and Tualatin, Oregon, other than a Saturday, a Sunday or a day observed as a holiday in Toronto, Ontario under the laws of the Province of Ontario or the federal laws of Canada or in Tualatin, Oregon under the laws of the State of Oregon or the federal laws of the United States of America.

"Call Rights" means the Liquidation Call Right, the Redemption Call Right and the Retraction Call Right, collectively.

"Canadian Dollar Equivalent" means, in respect of an amount expressed in a currency other than Canadian dollars (the "Foreign Currency Amount") at any date, the product obtained by multiplying (i) the Foreign Currency Amount and (ii) the noon spot exchange rate on such date for the relevant foreign currency expressed in Canadian dollars as reported by the Bank of Canada or, if such noon spot exchange rate is not available, such spot exchange rate on such date for such foreign currency expressed in Canadian dollars as may be deemed by the Board of Directors to be appropriate for such purpose.

"Code" mean the United States Internal Revenue Code of 1986, as amended.

"Corporation Insolvency Event" means the consent of the Corporation to the institution of bankruptcy, insolvency or winding-up proceedings against it, or the filing of a petition, answer or consent seeking dissolution or winding-up under any bankruptcy, insolvency or analogous laws, including without limitation, the *Companies Creditors' Arrangement Act* (Canada) and the *Bankruptcy and Insolvency Act* (Canada), where the Corporation fails to contest in good faith any such proceedings commenced in respect of it within 30 days of becoming aware thereof, or the consent by the Corporation to the filing of any such petition or to the appointment of a receiver, or the institution by the Corporation of any such proceeding, or the making by the Corporation of a general assignment for the benefit of creditors, or the admission in writing by the Corporation of its inability to pay its debts generally as they become due, or the Corporation not being permitted, pursuant to solvency requirements of applicable law, to redeem any Retracted Shares in accordance with the Exchangeable Share Provisions.

"Current Market Price" means, in respect of a share of Pixelworks Common Stock on any date, the Canadian Dollar Equivalent of the average of the closing prices of the Pixelworks Common Stock during a period of 20 consecutive trading days ending not more than three trading days before such date on Nasdaq, or, if the shares of Pixelworks Common Stock are not then quoted on Nasdaq, on such other stock exchange or automated quotation system on which shares of Pixelworks Common Stock are listed or quoted, as the case may be, as may be selected by the Board of Directors for such purpose; provided, however, that if in the opinion of the Board of

Directors the public distribution or trading activity of Pixelworks Common Stock during such period does not create a market that reflects the fair market value of Pixelworks Common Stock, then the Current Market price of a share of Pixelworks Common Stock will be determined by the Board of Directors, in good faith and in its sole discretion; and provided further that any such selection, opinion or determination by the Board of Directors will be conclusive and binding.

"Dividend Amount" means, at any date with respect to any Exchangeable Share, the full amount of all dividends, if any, declared and unpaid on each such Exchangeable Share held by a holder on any dividend record date which occurred prior to such date.

"Exchange Right" has the meaning ascribed thereto in section 5.1.

"Exchangeable Share Provisions" means the rights, privileges, restrictions and conditions attached to the Exchangeable Shares as set out in the articles of the Corporation. **"Exchangeable Shares"** means the non-voting exchangeable shares in the capital of the Corporation having the rights, privileges, restrictions and conditions set forth in the Exchangeable Share Provisions.

"Exchangeable Share Support Agreement" means the Exchangeable Share Support Agreement dated as of *September 6, 2002* between the Corporation, Pixelworks Nova Scotia and Pixelworks.

"Indemnified Parties" has the meaning ascribed to it in section 8.1.

"Liquidation Call Right" has the meaning ascribed to it in the Exchangeable Share Provisions.

"List" has the meaning ascribed to it in section 4.6.

"Nasdaq" means the Nasdaq National Market.

"Officer's Certificate" means, with respect to the Pixelworks or the Corporation, as the case may be, a certificate signed by any one director or officer of such corporation.

"Person" includes any individual firm, partnership, joint venture, limited liability company, unlimited liability company, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate, corporation, unincorporated association or organization, syndicate or other entity, whether or not having legal status.

"Pixelworks Common Stock" means the shares of common stock, par value US\$0.001, in the capital of Pixelworks, and any other securities into which such shares may be changed, including shares into which Pixelworks Common Stock may be changed consequent upon an amalgamation, merger, reorganization or other transaction affecting the Pixelworks Common Stock.

"Pixelworks Consent" means a written consent sought by Pixelworks from its stockholders, including Pixelworks Stockholders.;

"Pixelworks Liquidation Date" has the meaning ascribed to it in section 5.11(c).

"Pixelworks Liquidation Event" has the meaning ascribed to it in section 5.11(b).

"Pixelworks Meeting" means a meeting of stockholders of Pixelworks at which Pixelworks Stockholders are entitled to vote.

"Pixelworks Stockholders" means holders of Pixelworks Common Stock.

"Pixelworks Successor" has the meaning ascribed to it in section 10.1(a).

"Redemption Call Right" has the meaning ascribed to it in the Exchangeable Share Provisions.

"Retracted Shares" has the meaning ascribed to it in section 5.7.

"Retraction Call Right" has the meaning ascribed to it in the Exchangeable Share Provisions.

"Retraction Request" has the meaning ascribed to it in the Exchangeable Share Provisions.

"Special Voting Share" means the one share of special voting stock of Pixelworks, par value US\$0.01, which entitles the holder of record of such share to a number of votes at meetings of Pixelworks Stockholders equal to the number of Exchangeable Shares outstanding from time to time (other than Exchangeable Shares held by Pixelworks and its Affiliates), which share is to be issued to, deposited with, and voted by, the Trustee as described in this agreement.

"Trust" means the trust created by this agreement.

"Trustee" means CIBC Mellon Trust Company, a trust company organized and existing under the laws of Canada and authorized to carry on the business of a trust company in all the provinces of Canada, and any successor trustee appointed under this agreement.

"Trust Estate" means the Special Voting Share, any other securities, the Exchange Right, the Automatic Exchange Right and any money or other property which may be held by the Trustee from time to time pursuant to this agreement.

"Voting Rights" means the rights of the holders of Exchangeable Shares to direct the voting of the Special Voting Share in accordance with this agreement.

1.2. Interpretation Not Affected by Headings

The division of this agreement into Articles, sections and other portions and the insertion of headings are for convenience of reference only and should not affect the construction or interpretation of this agreement. Unless otherwise indicated, all references to an "Article" or "section" followed by a number and/or a letter refer to the specified Article or section of this agreement. The terms "this agreement", "hereof", "herein" and "hereunder" and similar expressions refer to this agreement and not to any particular Article, section or other portion hereof, and include any agreement or instrument supplementary or ancillary hereto.

1.3. Number, Gender

In this agreement, unless the context otherwise requires, words importing the singular number include the plural and vice versa, and words importing any gender include all genders.

1.4. Date for any Action

If any date on which any action is required to be taken under this agreement is not a Business Day, such action will be required to be taken on the next succeeding Business Day.

ARTICLE 2. PURPOSE OF AGREEMENT

2.1. Establishment of Trust

The purpose of this agreement is to create the Trust for the benefit of the Beneficiaries, as herein provided. The Trustee will hold the Special Voting Share in order to enable the Trustee to exercise the Voting Rights and will hold the Exchange Right and the Automatic Exchange Right in order to enable the Trustee to exercise such rights, in each case as trustee for and on behalf of the Beneficiaries as provided in this agreement.

ARTICLE 3. SPECIAL VOTING SHARE

3.1. Issue and Ownership of the Special Voting Share

Pixelworks hereby issues to and deposits with the Trustee, the Special Voting Share to be held of record by the Trustee as trustee for and on behalf of, and for the use and benefit of, the Beneficiaries and in accordance with the provisions of this agreement. Pixelworks hereby acknowledges receipt from the Trustee, as trustee for and on behalf of the Beneficiaries, of good and valuable consideration (and the adequacy thereof) for the issuance of the Special Voting Share by Pixelworks to the Trustee. During the term of the Trust and subject to the terms and conditions of this agreement, the Trustee will possess and be vested with full legal ownership of the Special Voting Share and will be entitled to exercise all of the rights and powers of an owner with respect to the Special Voting Share, provided that the Trustee will:

- (a) hold the Special Voting Share and the legal title thereto as trustee solely for the use and benefit of the Beneficiaries in accordance with the provisions of this agreement; and
- (b) except as specifically authorized by this agreement, have no power or authority to sell, transfer, vote or otherwise deal in or with the Special Voting Share, and the Special Voting Share may not be used or disposed of by the Trustee for any purpose other than the purposes for which this Trust is created pursuant to this agreement.

3.2. Legended Share Certificates

The Corporation will cause each certificate representing Exchangeable Shares to bear an appropriate legend notifying the Beneficiaries of their right to instruct the Trustee with respect to the exercise of the Voting Rights in respect of the Exchangeable Shares of the Beneficiaries.

3.3. Safe Keeping of Certificate

The Trustee or its duly authorized agent will at all times hold the certificate representing the Special Voting Share in safe keeping.

ARTICLE 4. EXERCISE OF VOTING RIGHTS

4.1. Voting Rights

The Trustee, as the holder of record of the Special Voting Share, will be entitled to all of the Voting Rights, including the right to vote in person or by proxy the Special Voting Share on any matters, questions, proposals or propositions whatsoever that may properly come before the Pixelworks Stockholders at a Pixelworks Meeting or in connection with a Pixelworks Consent. The Voting Rights will be and remain vested in and exercised by the Trustee. Subject to section 6.15:

- (a) the Trustee will exercise the Voting Rights only on the basis of instructions received in accordance with this Article 4 from Beneficiaries entitled to instruct the Trustee as to the voting thereof at the time at which the Pixelworks Meeting is held or a Pixelworks Consent is sought; and
- (b) to the extent that no instructions are received from a Beneficiary with respect to the Voting Rights to which such Beneficiary is entitled, the Trustee will not exercise or permit the exercise of such Voting Rights.

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4.2. Number of Votes

With respect to all Pixelworks Meetings and all Pixelworks Consents, each Beneficiary will be entitled to instruct the Trustee to cast and exercise one of the votes comprised in the Voting Rights for each Exchangeable Share owned of record by such Beneficiary on the record date established by Pixelworks or by applicable law for such Pixelworks Meeting or Pixelworks Consent, as the case may be (the "Beneficiary Votes"), in respect of each matter, question, proposal or proposition to be voted on at such Pixelworks Meeting or in connection with such Pixelworks Consent.

4.3. Mailings to Shareholders

With respect to each Pixelworks Meeting and Pixelworks Consent, the Trustee will use its reasonable efforts to mail or cause to be mailed (or otherwise communicate in the same manner as Pixelworks utilizes in communications to Pixelworks Stockholders, subject to applicable regulatory requirements and to the Trustee being advised in writing of that method and it being able to provide that method of communication) to each of the Beneficiaries named in the List referred to in section 4.6, such mailing or communication to commence on the same day as the mailing or notice (or other communication) with respect thereto is commenced by Pixelworks to Pixelworks Stockholders:

- (a) a copy of such notice, together with any related meeting materials to be provided to Pixelworks Stockholders;
- (b) a statement that such Beneficiary is entitled to instruct the Trustee as to the exercise of the Beneficiary Votes with respect to such Pixelworks Meeting or Pixelworks Consent or, pursuant to section 4.7, to attend such Pixelworks Meeting and to exercise personally the Beneficiary Votes at that meeting;
- (c) a statement as to the manner in which such instructions may be given to the Trustee to exercise the votes attaching to the Special Voting Share, including an express indication that instructions may be given to the Trustee to give:
 - (i) a proxy to such Beneficiary or its designee to exercise personally the Beneficiary Votes; or
 - (ii) a proxy to a designated agent or other representative of the management of Pixelworks to exercise such Beneficiary Votes;
- (d) a statement that if no such instructions are received from the Beneficiary, the Beneficiary Votes to which such Beneficiary is entitled will not be exercised;
- (e) a form of direction whereby the Beneficiary may direct and instruct the Trustee as to voting and otherwise as contemplated herein; and
- (f) a statement of the time and date by which such instructions must be received by the Trustee in order to be binding upon it, which, in the case of a Pixelworks Meeting, may not be earlier than the close of business on the second Business Day prior to such meeting, and of the method for revoking or amending such instructions.

Unless otherwise agreed to by Pixelworks and the Trustee, the materials referred to above are to be provided to the Trustee by Pixelworks.

For the purposes of determining Beneficiary Votes to which a Beneficiary is entitled in respect of any Pixelworks Meeting or Pixelworks Consent, the number of Exchangeable Shares owned of record by the Beneficiary will be determined at the close of business on the record date established by Pixelworks or by applicable law for purposes of determining Pixelworks Stockholders entitled to vote at such Pixelworks Meeting or

to sign such Pixelworks Consent. Pixelworks will notify the Trustee of any decision of the board of directors of Pixelworks with respect to the calling of any Pixelworks Meeting and will provide all necessary information and materials to the Trustee in each case promptly and in

any event in sufficient time to enable the Trustee to perform its obligations contemplated by this section 4.3.

4.4. Copies of Shareholders Records

Pixelworks will deliver to the Trustee copies of all proxy materials (including notices of Pixelworks Meetings but excluding proxies to vote shares of Pixelworks Common Stock), information statements, reports (including, without limitation, all interim and annual financial statements) and all other written materials that, in each case, are to be distributed from time to time to Pixelworks Stockholders in sufficient quantities and in sufficient time so as to enable the Trustee to send those materials to each Beneficiary at the same time as such materials are sent to Pixelworks Stockholders. The Trustee will mail or otherwise send to each Beneficiary, at the expense of Pixelworks, copies of all such materials (and all materials specifically directed to the Beneficiaries or to the Trustee for the benefit of the Beneficiaries by Pixelworks) received by the Trustee from Pixelworks contemporaneously with the sending of such materials to Pixelworks Stockholders. The Trustee will also make available for inspection by any Beneficiary at the Trustee's principal office in the City of Toronto all proxy materials, information statements, reports and other written communications that are:

- (a) received by the Trustee as the registered holder of the Special Voting Share and made available by Pixelworks generally to Pixelworks Stockholders; or
- (b) specifically directed to the Beneficiaries or to the Trustee for the benefit of the Beneficiaries by Pixelworks.

4.5. Other Materials

As soon as reasonably practicable after receipt by Pixelworks or Pixelworks Stockholders (if such receipt is known by Pixelworks) of any material sent or given by or on behalf of a third party to Pixelworks Stockholders generally, including, without limitation, dissident proxy circulars (and related information and material) and tender and exchange offer circulars (and related information and material), Pixelworks will use its reasonable efforts to obtain and deliver to the Trustee copies thereof in sufficient quantities so as to enable the Trustee to forward such material (unless the same has been provided directly to Beneficiaries by such third party) to each Beneficiary as soon as possible thereafter. As soon as reasonably practicable after receipt thereof, the Trustee will mail or otherwise send to each Beneficiary, at the expense of Pixelworks, copies of all such materials received by the Trustee from Pixelworks. The Trustee will also make available for inspection by any Beneficiary at the Trustee's principal office in the City of Toronto during regular business hours copies of all such materials.

4.6. List of Persons Entitled to Vote

The Corporation will prepare or cause to be prepared (a) prior to each annual, general and special Pixelworks Meeting or the seeking of any Pixelworks Consent and (b) forthwith upon each request made at any time by the Trustee in writing, a list (a "List") of the names and addresses of the Beneficiaries arranged in alphabetical order and showing the number of Exchangeable Shares held of record by each such Beneficiary, in each case at the close of business on the date specified by the Trustee in such request or, in the case of a List prepared in connection with a Pixelworks Meeting or a Pixelworks Consent, at the close of business on the record date established by Pixelworks or pursuant to applicable law for determining the Pixelworks Stockholder entitled to receive notice of and/or to vote at such Pixelworks Meeting or to give consent in connection with such Pixelworks Consent. Each such List will be delivered to the Trustee promptly after receipt by the Corporation of such request or the record date for such meeting or seeking of consent, as the case may be, and in any event within sufficient time to enable the Trustee to perform its obligations under this agreement. Pixelworks agrees

to give the Corporation written notice (with a copy to the Trustee) of the calling of any Pixelworks Meeting or the seeking of any Pixelworks Consent, together with the record dates therefor, sufficiently in advance of the date of the calling of such Pixelworks Meeting or the seeking of such consent so as to enable the Corporation to perform its obligations under this section 4.6.

4.7. Entitlement to Direct Votes

Any Beneficiary named in a List prepared in connection with any Pixelworks Meeting or Pixelworks Consent will be entitled (a) to instruct the Trustee in the manner described in section 4.3 with respect to the exercise of the Beneficiary Votes to which such Beneficiary is entitled or (b) to attend such meeting and personally exercise at such meeting (or to exercise with respect to any written consent), as the proxy of the Trustee, the Beneficiary Votes to which such Beneficiary is entitled.

4.8. Voting by Trustee and Attendance of Trustee Representative at Meeting

- (a) In connection with each Pixelworks Meeting and Pixelworks Consent, the Trustee will exercise, either in person or by proxy, in accordance with the instructions received from a Beneficiary pursuant to section 4.3, the Beneficiary Votes as to which such Beneficiary is entitled to direct the vote (or any lesser number thereof as may be set forth in the instructions); provided, however, that such written instructions are received by the Trustee prior to the time and date fixed by the Trustee for receipt of such instructions in the notice given by the Trustee to the Beneficiary pursuant to section 4.3.
- (b) Subject to timely receipt of instructions as contemplated by section 4.3(f), the Trustee will cause a representative who is empowered by it to sign and deliver, on behalf of the Trustee, proxies for Voting Rights to attend each Pixelworks Meeting. Upon submission by a Beneficiary (or its designee) of identification satisfactory to the Trustee's representative, and at the Beneficiary's request, such representative will sign and deliver to such Beneficiary (or its designee) a proxy to exercise personally the Beneficiary Votes as to

which such Beneficiary is otherwise entitled hereunder to direct the vote, if such Beneficiary either (i) has not previously given the Trustee instructions pursuant to section 4.3 in respect of such meeting, or (ii) submits to such representative written revocation of any such previous instructions. At such meeting, the Beneficiary exercising such Beneficiary Votes will have the same rights as the Trustee to speak at the meeting on any matter, question, proposal or proposition, to vote by way of ballot on the meeting in respect of any matter, question, proposal or proposition, and to vote at such meeting by way of a show of hands in respect of any matter, question or proposition.

4.9. Distributions of Written Materials

Any written materials distributed by the Trustee pursuant to this agreement will be sent by mail (or otherwise communicated in the same manner as Pixelworks utilizes in communications to Pixelworks Stockholders, subject to applicable regulatory requirements and to the Trustee being advised in writing of that method of communication and it being able to provide that method of communication) to each Beneficiary at its address as shown on the books of the Corporation. The Corporation will provide or cause to be provided to the Trustee for this purpose, on a timely basis and without charge or other expense:

- (a) a current List; and
- (b) upon the request of the Trustee, mailing labels to enable the Trustee to carry out its duties under this agreement.

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4.10. Termination of Voting Rights

All of the rights of a Beneficiary with respect to the Beneficiary Votes exercisable in respect of the Exchangeable Shares held by such Beneficiary, including the right to instruct the Trustee as to the voting of or to vote personally such Beneficiary Votes, will be deemed to be surrendered by the Beneficiary to Pixelworks or Pixelworks Nova Scotia, as the case may be, and such Beneficiary Votes and the Voting Rights represented thereby will cease immediately upon the delivery by such holder to the Trustee of the certificates representing such Exchangeable Shares in connection with the exercise by the Beneficiary of the Exchange Right or the occurrence of the automatic exchange of Exchangeable Shares for shares of Pixelworks Common Stock, as specified in Article 5 (unless, in either case, Pixelworks has not delivered the requisite shares of Pixelworks Common Stock issuable in exchange therefor to the Trustee for delivery to the Beneficiaries), or upon the redemption of Exchangeable Shares pursuant to Article 6 or 7 of the Exchangeable Share Provisions, or upon the effective date of the liquidation, dissolution or winding-up of the Corporation pursuant to Article 5 of the Exchangeable Share Provisions, or upon the purchase of Exchangeable Shares from the holder thereof by Pixelworks Nova Scotia pursuant to the exercise by Pixelworks Nova Scotia of any Call Right.

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ARTICLE 5. EXCHANGE RIGHT, AUTOMATIC EXCHANGE RIGHT AND CALL RIGHTS

5.1. Grant and Ownership of the Exchange Right

Pixelworks hereby grants to the Trustee, as trustee for and on behalf of, and for the use and benefit of, the Beneficiaries, the right (the "Exchange Right"), upon the occurrence and during the continuance of a Corporation Insolvency Event, to require Pixelworks to purchase from each or any Beneficiary all or any part of the Exchangeable Shares held by the Beneficiary and the Automatic Exchange Right, all in accordance with the provisions of this agreement. Pixelworks hereby acknowledges receipt from the Trustee, as trustee for and on behalf of the Beneficiaries, of good and valuable consideration (and the adequacy thereof) for the grant of the Exchange Right and the Automatic Exchange Right by Pixelworks to the Trustee. During the term of the Trust and subject to the terms and conditions of this agreement, the Trustee will possess and be vested with full legal ownership of the Exchange Right and the Automatic Exchange Right and will be entitled to exercise all of the rights and powers of an owner with respect to the Exchange Right and the Automatic Exchange Right, provided that the Trustee will:

- (a) hold the Exchange Right and the Automatic Exchange Right and the legal title thereto as trustee solely for the use and benefit of the Beneficiaries in accordance with the provisions of this agreement; and
- (b) except as specifically authorized by this agreement, have no power or authority to exercise or otherwise deal in or with the Exchange Right or the Automatic Exchange Right, and the Trustee will not exercise any such rights for any purpose other than the purposes for which the Trust is created pursuant to this agreement.

5.2. Legended Share Certificates

The Corporation will cause each certificate representing Exchangeable Shares to bear an appropriate legend notifying the Beneficiaries of:

- (a) their right to instruct the Trustee with respect to the exercise of the Exchange Right in respect of the Exchangeable Shares held by a Beneficiary; and
- (b) the Automatic Exchange Right.

5.3. General Exercise of Exchange Right

The Exchange Right will be and remain vested in and exercisable by the Trustee. Subject to section 6.15, the Trustee will exercise the Exchange Right only on the basis of instructions received pursuant to this Article 5 from Beneficiaries entitled to instruct the Trustee as to the exercise thereof. To the extent that no instructions are received from a Beneficiary with respect to the Exchange Right, the Trustee will not exercise or permit the exercise of the Exchange Right.

5.4. Purchase Price

The total purchase price payable by Pixelworks for each Exchangeable Share to be purchased by Pixelworks under the Exchange Right will be an amount per share equal to (a) the Current Market Price of a share of Pixelworks Common Stock on the last Business Day prior to the day of closing of the purchase and sale of such Exchangeable Share under the Exchange Right, which will be satisfied in full by Pixelworks causing to be sent to such holder one share of Pixelworks Common Stock, plus (b) to the extent not paid by the Corporation, an additional amount equivalent to the Dividend Amount. In connection with each exercise of the Exchange Right, Pixelworks will provide to the Trustee an Officer's Certificate setting forth the calculation of the purchase price for each Exchangeable Share.

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The total purchase price for each such Exchangeable Share so purchased may be satisfied only by Pixelworks issuing and delivering or causing to be delivered to the Trustee, on behalf of the relevant Beneficiary, one share of Pixelworks Common Stock and a cheque for the balance, if any, of the purchase price without interest (but less any amounts withheld pursuant to section 5.13).

5.5. Exercise Instructions

Subject to the terms and conditions herein set forth, a Beneficiary will be entitled, upon the occurrence and during the continuance of a Corporation Insolvency Event, to instruct the Trustee to exercise the Exchange Right with respect to all or any part of the Exchangeable Shares registered in the name of such Beneficiary on the books of the Corporation. To cause the exercise of the Exchange Right by the Trustee, the Beneficiary will deliver to the Trustee, in person or by certified or registered mail, at its principal office in Toronto, Ontario, or at such other places in Canada as the Trustee may from time to time designate by written notice to the Beneficiaries, the certificates representing the Exchangeable Shares which such Beneficiary desires Pixelworks to purchase, duly endorsed in blank for transfer, and accompanied by such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the *Business Corporations Act* (Ontario) and the articles and by-laws of the Corporation may reasonably require together with (a) a duly completed form of notice of exercise of the Exchange Right, contained on the reverse of or attached to the Exchangeable Share certificates, stating (i) that the Beneficiary thereby instructs the Trustee to exercise the Exchange Right so as to require Pixelworks to purchase from the Beneficiary the number of Exchangeable Shares specified therein, (ii) that such Beneficiary has good title to and owns all such Exchangeable Shares to be acquired by Pixelworks free and clear of liens, claims and encumbrances, (iii) the name or names in which the certificates representing shares of Pixelworks Common Stock issuable in connection with the exercise of the Exchange Right are to be issued and (iv) the names and addresses of the persons to whom such new certificates should be delivered; and (b) payment (or evidence satisfactory to the Trustee, the Corporation and Pixelworks of payment) of the taxes (if any) payable as contemplated by section 5.8. If only part of the Exchangeable Shares represented by any certificate or certificates delivered to the Trustee are to be purchased by Pixelworks under the Exchange Right, a new certificate for the balance of such Exchangeable Shares will be issued to the holder at the expense of the Corporation.

5.6. Delivery of Pixelworks Common Stock; Effect of Exercise

As soon as practicable after receipt by the Trustee of the certificates representing the Exchangeable Shares which the Beneficiary desires Pixelworks to purchase under the Exchange Right, together with such documents and instruments of transfer and a duly completed form of notice of exercise of the Exchange Right (and payment of taxes, if any, payable as contemplated by section 5.8 or evidence thereof), duly endorsed for transfer to Pixelworks, the Trustee will notify Pixelworks and the Corporation of its receipt of the same, which notice to Pixelworks and to the Corporation will constitute exercise of the Exchange Right by the Trustee on behalf of the holder of such Exchangeable Shares, and Pixelworks will promptly thereafter deliver or cause to be delivered to the Trustee, for delivery to the Beneficiary of such Exchangeable Shares (or to such other persons, if any, properly designated by such Beneficiary) the number of shares or Pixelworks Common Stock issuable in connection with the exercise of the Exchange Right, and on the applicable payment date, cheques for the balance, if any, of the total purchase price therefor without interest (but less any amounts withheld pursuant to section 5.13); provided, however, that no such delivery will be made unless and until the Beneficiary requesting the same has paid (or provided evidence satisfactory to the Trustee, the Corporation and Pixelworks of the payment of) the taxes (if any) payable as contemplated by section 5.8. Immediately upon the giving of notice by the Trustee to Pixelworks and to the Corporation of the exercise of the Exchange Right as provided in this section 5.6, the closing of the transaction of purchase and sale contemplated by the Exchange Right will be deemed to have occurred and the

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holder of such Exchange Shares will be deemed to have transferred to Pixelworks all of such holder's right, title and interest in and to such Exchangeable Shares and the related interest in the Trust Estate and will cease to be a holder of such Exchangeable Shares and will not be entitled to exercise any of the rights of a holder in respect thereof, other than the right to receive its proportionate part of the total purchase price therefor (together with a cheque for the balance, if any, of the total purchase price therefor without interest), unless the requisite number of shares of Pixelworks Common Stock is not issued and delivered by Pixelworks to the Trustee within five Business Days of the date of the giving of such notice by the Trustee, in which case the rights of the Beneficiary will remain unaffected until such shares of Pixelworks Common Stock are so issued and delivered by Pixelworks and any such cheque is delivered and paid. Upon delivery by Pixelworks to the Trustee of such shares of Pixelworks Common Stock and cheque, if any, the Trustee will deliver such Pixelworks Common Stock and such cheque to such Beneficiary (or to such other person, if any, properly designated by such Beneficiary). Concurrently with such Beneficiary ceasing to be a holder of Exchangeable Shares, the Beneficiary will be considered and deemed for all purposes to be the holder of the shares of Pixelworks Common Stock delivered to it pursuant to the exercise of the Exchange Right.

5.7. Exercise of Exchange Right Subsequent to Retraction

If a Beneficiary has exercised its right under Article 6 of the Exchangeable Share Provisions to require the Corporation to redeem any or all of the Exchangeable Shares held by the Beneficiary (the "Retracted Shares") and is notified by the Corporation pursuant to section 6.6 of the Exchangeable Share Provisions that the Corporation will not be permitted as a result of solvency requirements of applicable law to redeem all such Retracted Shares, subject to receipt by the Trustee of written notice to that effect from the Corporation, and provided that Pixelworks Nova Scotia has not exercised the Retraction Call Right with respect to the Retracted Shares and that the Beneficiary has not revoked the Retraction Request

delivered by the Beneficiary to the Corporation pursuant to section 6.1 of the Exchangeable Share Provisions, the Retraction Request will constitute and will be deemed to constitute notice from the Beneficiary to the Trustee instructing the Trustee to exercise the Exchange Right with respect to those Retracted Shares that the Corporation is unable to redeem. In any such event, the Corporation hereby agrees with the Trustee and in favour of the Beneficiary to immediately notify the Trustee of such prohibition against the Corporation redeeming all of the Retracted Shares and to promptly forward to cause to be forwarded to the Trustee all relevant materials delivered by the Beneficiary to the Corporation or to the transfer agent of the Exchangeable Shares (including without limitation, a copy of the retraction request delivered pursuant to section 6.7 of the Exchangeable Share Provisions) in connection with such proposed redemption of the Retracted Shares and the Trustee will thereupon exercise the Exchange Right with respect to the Retracted Shares that the Corporation is not permitted to redeem and will require Pixelworks to purchase such shares in accordance with the provisions of Article 5.

5.8. Stamp or Other Transfer Taxes

Upon any sale of Exchangeable Shares to Pixelworks pursuant to the Exchange Right, or the Automatic Exchange Right, the share certificate or certificates representing shares of Pixelworks Common stock to be delivered in connection with the payment of the total purchase price therefor will be issued in the name of the Beneficiary of the Exchangeable Shares so sold or in such name or names as such Beneficiary may otherwise direct in writing without charge to the holder of the Exchangeable Shares so sold; provided, however, that such Beneficiary (a) will pay (and none of Pixelworks, the Corporation or the Trustee will be required to pay) any documentary, stamp, transfer or other taxes that may be payable in respect of any transfer involved in the issuance or delivery of such shares to a person other than such Beneficiary or (b) must have evidenced to the satisfaction of the Trustee, Pixelworks and the Corporation that such taxes, if any, have been paid.

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5.9. Notice of Corporation Insolvency Event

As soon as practicable following the occurrence of a Corporation Insolvency Event or any event that, with the giving of notice or the passage of time or both, would be a Corporation Insolvency Event, the Corporation and Pixelworks will give written notice thereof to the Trustee. As soon as practicable following the receipt of notice from the Corporation or Pixelworks of the occurrence of a Corporation Insolvency Event, the Trustee will mail to each Beneficiary, at the expense of Pixelworks, a notice of such Corporation Insolvency Event in the form provided by Pixelworks, which notice will contain a brief statement of the rights of the Beneficiaries with respect to the Exchange Right.

5.10. Qualification of Pixelworks Common Stock

Pixelworks covenants that if any shares of Pixelworks Common Stock to be issued and delivered pursuant to the Exchange Right or the Automatic Exchange Right require registration or qualification with or approval of or the filing of any document, including any prospectus or similar document, or the taking of any proceeding with or the obtaining of any order, ruling or consent from any governmental or regulatory authority under any Canadian or United States federal, provincial or state law or regulation or pursuant to the rules and regulations of any regulatory authority or the fulfilment of any other Canadian or United States federal, provincial or state legal requirement before such shares may be issued and delivered by Pixelworks to the initial holder thereof or in order that such shares may be freely traded thereafter (other than any restrictions of general application on transfer of securities by reason of a holder being a "control person" of Pixelworks for purposes of Canadian provincial securities laws or an "affiliate" of Pixelworks for purposes of United States federal or state securities laws), Pixelworks, in good faith, will expeditiously take all such actions and do all such things as are reasonably necessary or desirable to cause all shares of Pixelworks Common Stock to be delivered pursuant to the Exchange Right or the Automatic Exchange Right, to comply with any such requirements, and thereafter to be and remain duly registered, qualified or approved under applicable law and to be listed, quoted or posted for trading on all stock exchanges and quotation systems on which outstanding shares of Pixelworks Common Stock have been listed by Pixelworks and remain listed and are quoted for trading at such time. The parties commit to the usual and customary procedures relating to indemnification of the shareholders by Pixelworks and relating to delivery of prospectuses. Notwithstanding the foregoing, nothing in this section or otherwise will require Pixelworks to become a "reporting issuer" or equivalent under Canadian provincial securities laws.

5.11. Automatic Exchange on Liquidation of Pixelworks

- (a) Pixelworks will give the Trustee written notice of each of the following events at the time set forth below:
 - (i) in the event of any determination by the board of directors of Pixelworks to institute voluntary liquidation, dissolution or winding-up proceedings with respect to Pixelworks or to effect any other distribution of assets of Pixelworks among its shareholders for the purpose of winding up its affairs, at least 60 days prior to the proposed effective date of such liquidation, dissolution or winding-up or other distribution; and
 - (ii) as soon as practicable following the earlier of (A) receipt by Pixelworks of notice of, and (B) Pixelworks otherwise becoming aware of, any threatened or instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding-up of Pixelworks or to effect any other distribution of assets of Pixelworks among its shareholders for the purpose of winding up its affairs, in each case where Pixelworks has failed to contest in good faith any such proceeding commenced in respect of Pixelworks within 30 days of becoming aware thereof.

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- (b) As soon as practicable following receipt by the Trustee from Pixelworks of notice of any event (an "Pixelworks Liquidation Event") contemplated by section 5.11(a)(i) or (ii), the Trustee will give notice thereof to the Beneficiaries. Such notice will be provided by Pixelworks to the Trustee and will include a brief description of the automatic exchange of Exchangeable Shares for shares of Pixelworks Common Stock provided for in section 5.11(c).
- (c) In order that the Beneficiaries will be able to participate on a proportionate basis with Pixelworks Stockholders in the distribution of assets of Pixelworks in connection with a Pixelworks Liquidation Event, on the fifth Business Day prior to the effective date (the

"Pixelworks Liquidation Date") of a Pixelworks Liquidation Event, all of the then outstanding Exchangeable Shares will be automatically exchanged for shares of Pixelworks Common Stock. To effect such automatic exchange, Pixelworks will purchase on the fifth Business Day prior to the Pixelworks Liquidation Date each Exchangeable Share then outstanding and held by Beneficiaries, and each Beneficiary will sell the Exchangeable Shares held by it at such time, for a total purchase price per share equal to (a) the Current Market Price of a share of Pixelworks Common Stock on the fifth Business Day prior to the Pixelworks Liquidation Date, which will be satisfied in full by Pixelworks issuing to the Beneficiary one share of Pixelworks Common Stock and (b) to the extent not paid by the Corporation, an additional amount equivalent to the Dividend Amount. In connection with such automatic exchange, Pixelworks will provide to the Trustee an Officer's Certificate setting forth the calculation of the purchase price for each Exchangeable Share.

- (d) The closing of the transaction of purchase and sale contemplated by the automatic exchange of Exchangeable Shares for shares of Pixelworks Common Stock will be deemed to have occurred on the fifth Business Day prior to the Pixelworks Liquidation Date, and on such date each Beneficiary will be deemed to have transferred to Pixelworks all of the Beneficiary's right, title and interest in such Beneficiary's Exchangeable Shares and the related interest in the Trust Estate and will cease to be a holder of such Exchangeable Shares. On such date, Pixelworks will issue to the Beneficiary the shares of Pixelworks Common Stock issuable upon the automatic exchange of Exchangeable Shares for shares of Pixelworks Common Stock and on the applicable payment date will deliver to the Trustee for delivery to the Beneficiary a cheque for the balance, if any, of the total purchase price for such Exchangeable Shares without interest but less any amounts withheld pursuant to section 5.13. Concurrently with such Beneficiary ceasing to be a holder of Exchangeable Shares, the Beneficiary will be considered and deemed for all purposes to be the holder of the shares of Pixelworks Common Stock issued pursuant to the automatic exchange of Exchangeable Shares for shares of Pixelworks Common Stock and the certificates held by the Beneficiary previously representing the Exchangeable Shares exchanged by the Beneficiary with Pixelworks pursuant to such automatic exchange will thereafter be deemed to represent shares of Pixelworks Common Stock issued to the Beneficiary by Pixelworks pursuant to such automatic exchange. Upon the request of a Beneficiary and the surrender by the Beneficiary of Exchangeable Share certificates deemed to represent shares of Pixelworks Common Stock, duly endorsed in blank and accompanied by such instruments of transfer as Pixelworks may reasonably require, Pixelworks will deliver or cause to be delivered to the Beneficiary certificates representing shares of Pixelworks Common Stock of which the Beneficiary is the holder.

5.12. Prohibition on Voluntary Liquidation and Other Action

Pixelworks covenants that it will not take any action, and agrees to cause Pixelworks Nova Scotia or any other Affiliate of Pixelworks not to take any action, in each case relating to a voluntary liquidation, dissolution, winding-up or other reorganization of the Corporation or its successors or Pixelworks Nova Scotia or its successors, as the case may be, prior to the Redemption Date (as defined

in the Exchangeable Share Provisions) unless prior to such liquidation, dissolution, winding-up or other reorganization has taken such actions to ensure that it is possible for holders of Exchangeable Shares to extend through to the Redemption Date (subject to the continuing effect of other provisions of the Voting and Share Trust Agreement (as defined in the Exchangeable Share Provisions) which may permit the redemption or other termination of the Exchangeable Shares prior to the Redemption Date) the deferral of any gain incurred by such holders that would otherwise have been recognized at the Effective Time (as such term is defined in the Reorganization Agreement) as a result of the consummation of the transactions contemplated by the Reorganization Agreement.

5.13. Withholding Rights

Pixelworks, the Corporation and the Trustee will be entitled to deduct and withhold from any consideration otherwise payable under this agreement to any holder of Exchangeable Shares or Pixelworks Common Stock such amounts as Pixelworks, Canada or the Trustee is required or permitted to deduct and withhold with respect to such payment under the *Income Tax Act* (Canada), the Code or any provision of provincial, state, local or foreign tax law, in each case as amended or succeeded. To the extent that amounts are so withheld, such withheld amounts will be treated for all purposes as having been paid to the holder of the shares in respect of which such deduction and withholding was made, provided that such withheld amounts are remitted to the appropriate taxing authority. To the extent that the amounts so required or permitted to be deducted or withheld from any payment to a holder exceeds the cash portion of the consideration otherwise payable to the holder, Pixelworks, the Corporation and the Trustee are hereby authorized to sell or otherwise dispose of such portion of the consideration as is necessary to provide sufficient funds to Pixelworks, the Corporation or the Trustee, as the case may be, to enable it to comply with such deduction or withholding requirements and Pixelworks, the Corporation or the Trustee will notify the holder thereof and remit to such holder any unapplied balance of the net proceeds of such sale. Pixelworks represents and warrants that, based upon facts currently known to it, it has no current intention, as at the date of this agreement, to deduct or withhold from any dividend paid to holders of Exchangeable Shares any amounts under the Code.

5.14. Pixelworks Common Stock

Pixelworks hereby represents, warrants and covenants that the shares of Pixelworks Common Stock issuable as described herein or pursuant to the Exchangeable Share Provisions (including by Pixelworks Nova Scotia pursuant to the Call Rights) will be duly authorized and validly issued as fully paid and non-assessable and will be free and clear of any lien, claim or encumbrance.

ARTICLE 6. CONCERNING THE TRUSTEE

6.1. Powers and Duties of the Trustee

The rights, powers, duties and authorities of the Trustee under this agreement, in its capacity as Trustee of the Trust, include:

- (a) receipt and deposit of the Special Voting Share from Pixelworks as trustee for and on behalf of the Beneficiaries in accordance with the provisions of this agreement;
- (b) granting proxies and distributing materials to Beneficiaries as provided in this agreement;

- (c) voting the Beneficiary Votes in accordance with the provisions of this agreement;
- (d) receiving the grant of the Exchange Right and the Automatic Exchange Right from Pixelworks as trustee for and on behalf of the Beneficiaries in accordance with the provisions of this agreement;

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- (e) exercising the Exchange Right and enforcing the benefit of the Automatic Exchange Right, in each case in accordance with the provisions of this agreement, and in connection therewith receiving from Beneficiaries Exchangeable Shares and other requisite documents and distributing to such Beneficiaries shares of Pixelworks Common Stock and cheques, if any, to which such Beneficiaries are entitled upon the exercise of the Exchange Right or pursuant to the Automatic Exchange Right, as the case may be;
- (f) holding title to the Trust Estate;
- (g) investing any money forming, from time to time, a part of the Trust Estate as provided in this agreement;
- (h) taking action at the direction of a Beneficiary or Beneficiaries to enforce the obligations of Pixelworks and the Corporation under this agreement; and
- (i) taking such other actions and doing such other things as are specifically provided in this agreement.

In the exercise of such rights, powers, duties and authorities the Trustee will have (and is granted) such incidental and additional rights, powers and authority not in conflict with any of the provisions of this agreement as the Trustee, acting in good faith and in the reasonable exercise of its discretion, may deem necessary, appropriate or desirable to effect the purpose of the Trust. Any exercise of such discretionary rights, powers and authorities by the Trustee will be final, conclusive and binding upon all Persons.

The Trustee, in exercising its rights, powers, duties and authorities hereunder, will act honestly and in good faith and with a view to the best interests of the Beneficiaries and will exercise the care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The Trustee will not be bound to give notice or do or take any act, action or proceeding by virtue of the powers conferred on it hereby unless and until it is specifically required to do so under the terms hereof or by the provisions of applicable law; nor will the Trustee be required to take any notice of, or to do, or to take any act, action or proceeding as a result of any default or breach of any provision hereunder, unless and until notified in writing of such default or breach, which notices will distinctly specify the default or breach desired to be brought to the attention of the Trustee and in the absence of such notice, the Trustee may, for all purposes of this agreement, conclusively assume that no default or breach has been made in the observance or performance of any of the representations, warranties, covenants, agreements or conditions contained herein.

6.2. No Conflict of Interest

The Trustee represents to Pixelworks, Pixelworks Nova Scotia and to the Corporation that, at the date of execution and delivery of this agreement, there exists no material conflict of interest in the role of the Trustee as a fiduciary hereunder and the role of the Trustee in any other capacity. The Trustee, within 90 days after it becomes aware that such material conflict of interest exists, will either eliminate such material conflict of interest or resign in the manner and with the effect specified in Article 9. If notwithstanding the foregoing provisions of this section 6.2 the Trustee has such a material conflict of interest, the validity and enforceability of this agreement will not be affected in any manner whatsoever by reason only of the existence of such material conflict of interest. If the Trustee contravenes the foregoing provisions of this section 6.2, any interested party may apply to the Ontario Superior Court of Justice for an order that the Trustee be replaced as trustee hereunder.

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6.3. Dealings with Transfer Agents, Registrars, etc.

Pixelworks and the Corporation irrevocably authorize the Trustee, from time to time:

- (a) to consult, communicate and otherwise deal with the respective registrars and transfer agents and with any such subsequent registrar or transfer agent, of the Exchangeable Shares and the shares of Pixelworks Common Stock; and
- (b) to requisition, from time to time, (i) from any such registrar or transfer agent any information readily available from the records maintained by it which the Trustee may reasonably require for the discharge of its duties and responsibilities under this agreement and (ii) from the transfer agent of the shares of Pixelworks Common Stock, and any subsequent transfer agent of such shares, the share certificates issuable upon the exercise from time to time of the Exchange Right and pursuant to the Automatic Exchange Right in the manner specified in Article 5.

Pixelworks and the Corporation irrevocably authorize their respective registrars and transfer agents to comply with all such requests. Pixelworks covenants that it will supply its transfer agent with duly executed share certificates for the purpose of completing the exercise from time to time of the Exchange Right and the Automatic Exchange Right in each case pursuant to Article 5.

6.4. Books and Records

The Trustee will keep available for inspection by Pixelworks and the Corporation at the Trustee's principal office in Toronto, Ontario, correct and complete books and records of accounts relating to the Trust created by this agreement, including, without limitation, all relevant data relating to mailings and instructions to and from Beneficiaries and all transactions pursuant to the Exchange Right and the Automatic Exchange Right. On

or before the first March 31 of the term of this agreement and on or before March 31 in every year thereafter, so long as the Special Voting Share is on deposit with the Trustee, the Trustee will transmit to Pixelworks and the Corporation a brief report, dated as of the preceding December 31, with respect to:

- (a) the property and funds comprising the Trust Estate as of that date;
- (b) the number of exercises of the Exchange Right, if any, and the aggregate number of Exchangeable Shares received by the Trustee on behalf of Beneficiaries in consideration of the issuance by Pixelworks of shares of Pixelworks Common Stock in connection with the Exchange Right, during the fiscal year ended on such December 31; and
- (c) any action taken by the Trustee in the performance of its duties under this agreement which it had not previously reported.

6.5. Income Tax Returns and Reports

The Trustee, to the extent necessary, will prepare and file or cause to be prepared and filed on behalf of the Trust appropriate Canadian income tax returns and any other returns or reports as may be required by applicable law or pursuant to the rules and regulations of any securities exchange or other trading system through which the Exchangeable Shares are traded, and in connection therewith may obtain the advice of and assistance from such experts as the Trustee may reasonably consider necessary or advisable. If requested by the Trustee, Pixelworks will retain such experts to provide such advice or assistance to the Trustee.

6.6. Indemnification Prior to Certain Actions by Trustee

The Trustee will exercise any or all of the rights, duties, powers or authorities vested in it by this agreement at the request, order or direction of any Beneficiary upon such Beneficiary furnishing to the

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Trustee reasonable funding, security or indemnity against the costs, expenses and liabilities which may be incurred by the Trustee therein or thereby, provided that no Beneficiary will be obligated to furnish to the Trustee any such funding, security or indemnity in connection with the exercise by the Trustee of any of its rights, duties, powers and authorities with respect to the Special Voting Share pursuant to Article 4, subject to section 6.15, and with respect to the Exchange Right pursuant to Article 5, subject to section 6.15, and with respect to the Automatic Exchange Right pursuant to Article 5, subject to section 6.15.

None of the provisions contained in this agreement will require the Trustee to expend or risk its own funds or otherwise incur financial liability in the exercise of any of its rights, powers, duties, or authorities unless funded, given security or indemnified as aforesaid.

6.7. Action of Beneficiaries

No Beneficiary will have the right to institute any action, suit or proceeding or to exercise any other remedy authorized by this agreement for the purpose of enforcing any of its rights or for the execution of any trust or power hereunder unless the Beneficiary has requested the Trustee to take or institute such action, suit or proceeding and has furnished the Trustee with the funds, security or indemnity referred to in section 6.6 and the Trustee has failed to act within a reasonable time thereafter. In such case, but not otherwise, the Beneficiary will be entitled to take proceedings in any court of competent jurisdiction such as the Trustee might have taken; it being understood and intended that no one or more Beneficiaries will have any right in any manner whatsoever to affect, disturb or prejudice the rights hereby created by any such action, or to enforce any right hereunder or the Voting Rights, the Exchange Right or the Automatic Exchange Right, except subject to the conditions and in the manner herein provided, and that all powers and trusts hereunder will be exercised and all proceedings at law will be instituted, had and maintained by the Trustee, except only as herein provided, and in any event for the equal benefit of all Beneficiaries.

6.8. Reliance Upon Declarations

The Trustee will not be considered to be in contravention of any of its rights, powers, duties and authorities hereunder if, when required, it acts and relies in good faith upon statutory declarations, certificates, opinions, Lists, mailing labels, reports or other papers or documents furnished pursuant to the provisions hereof or required by the Trustee to be furnished to it in the exercise of its rights, powers, duties and authorities hereunder if such statutory declarations, certificates, opinions, Lists, mailing labels, reports or other papers or documents comply with the provisions of section 6.9, if applicable, and with any other applicable provisions of this agreement.

6.9. Evidence and Authority to Trustee

Pixelworks and/or the Corporation will furnish to the Trustee evidence of compliance with the conditions provided for in this agreement relating to any action or step required or permitted to be taken by Pixelworks and/or the Corporation or the Trustee under this agreement or as a result of any obligation imposed under this agreement, including, without limitation, in respect of the Voting Rights, the Exchange Right or the Automatic Exchange Right and the taking of any other action to be taken by the Trustee at the request of or on the application of Pixelworks and/or the Corporation promptly if and when:

- (a) such evidence is required by any other section of this agreement to be furnished to the Trustee in accordance with the terms of this section 6.9; or
- (b) the Trustee, in the exercise of its rights, powers, duties and authorities under this agreement, gives Pixelworks and/or the Corporation written notice requiring it to furnish such evidence in relation to any particular action or obligation specified in such notice.

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Such evidence will consist of an Officer's Certificate of Pixelworks and/or the Corporation or a statutory declaration or a certificate made by persons entitled to sign an Officer's Certificate stating that such condition has been complied with in accordance with the terms of this agreement.

Whenever such evidence relates to a matter other than the Voting Rights, the Exchange Right or the Automatic Exchange Right or the taking of any other action to be taken by the Trustee at the request or on the application of Pixelworks and/or the Corporation, and except as otherwise specifically provided herein, such evidence may consist of a report or opinion of any solicitor, attorney, auditor, accountant, appraiser, valuer, engineer or other expert or any other person whose qualifications give authority to a statement made by it, provided that if such report or opinion is furnished by a director, officer or employee of Pixelworks and/or the Corporation, it must be in the form of an Officer's Certificate or a statutory declaration.

Each statutory declaration, Officer's Certificate, opinion or report furnished to the Trustee as evidence of compliance with a condition provided for in this agreement will include a statement by the person giving the evidence:

- (a) declaring that the person has read and understands the provisions of this agreement relating to the condition in question;
- (b) describing the nature and scope of the examination or investigation upon which the person based the statutory declaration, certificate, statement or opinion; and
- (c) declaring that the person has made such examination or investigation as the person believes is necessary to enable the person to make the statements or give the opinions contained or expressed herein.

6.10. Experts, Advisors and Agents

The Trustee may:

- (a) in relation to these presents act and rely on the opinion or advice of or information obtained from or prepared by any solicitor, attorney, auditor, accountant, appraiser, valuer, engineer or other expert, whether retained by the Trustee or by Pixelworks and/or the Corporation or otherwise, and may retain or employ such assistants as may be necessary to the proper discharge of its powers and duties and determination of its rights hereunder any may pay proper and reasonable compensation for all such legal and other advice or assistance as aforesaid; and
- (b) retain or employ such agents and other assistants as it may reasonably require for the proper determination and discharge of its powers and duties hereunder, and may pay reasonable remuneration for all services performed for it (and will be entitled to receive reasonable remuneration for all services performed by it) in the discharge of the trusts hereof and compensation for all disbursements, costs and expenses made or incurred by it in the discharge of its duties hereunder and in the management of the Trust.

6.11. Investment of Money Held by Trustee

The trustee may retain any cash balance held in connection with this Agreement and may, but need not, hold the same in its deposit department or the deposit department of one of its Affiliates.

Upon receipt of a direction from the Corporation, the Trustee shall invest any moneys held by it in Authorized Investments in its name in accordance with such direction. Any direction from the Corporation to the Trustee shall be in writing and shall be provided to the Trustee no later than 9:00 am Eastern Standard Time on the day on which the investment is to be made. Any such direction received by the Trustee after 9:00 am Eastern Standard Time next business day. For the purpose of this

subsection, "Authorized Investments" means short term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a Province or a Canadian chartered bank (which may include an Affiliate or related party of the Trustee provided that such obligation is rated at least R1 (middle) by DBRS Inc. or an equivalent rating service. In the event the Trustee does not receive a direction or only a partial direction, the Trustee may hold cash balances constituting part or all of the escrowed fund and may, but need not, invest same in its deposit department or the deposit department of one of its Affiliates. For the purpose of this Section 6.11, "Affiliate" means affiliated companies within the meaning of the Business Corporations Act (Ontario) ("OBCA") and includes Canadian Imperial Bank of Commerce, CIBC Mellon Global Securities Company and Mellon Bank, N.A., and each of their affiliates within the meaning of the OBCA.

In the event that the Trustee does not receive a direction or only a partial direction, the Trustee may hold cash balances constituting part or all of the funds and may, but need not, invest same in its deposit department or the deposit department of one of its Affiliates; but the Trustee and its Affiliates shall not be liable to account for any profit to any parties to this Agreement or to any other person or entity other than that at a rate, if any, established from time to time by the trustee or one of its Affiliates.

The Trustee will maintain accurate books, records and accounts of the transactions effected or controlled by the Trustee hereunder and the receipt, investment, re-investment and disbursement of any funds held by the Trustee and will provide to Pixelworks and the Corporation records and statements thereof periodically upon request.

6.12. Trustee Not Required to Give Security

The Trustee will not be required to give any bond or security in respect of the execution of the trusts, rights, duties, powers and authorities of this agreement or otherwise in respect of the premises.

6.13. Trustee Not Bound to Act on Request

Except as otherwise specifically provided in this agreement, the Trustee will not be bound to act in accordance with any direction or request of Pixelworks and/or the Corporation or of the directors thereof until a duly authenticated copy of the instrument or resolution containing such

direction or request will have been delivered to the Trustee, and the Trustee will be empowered to act and rely upon any such copy purporting to be authenticated and believed by the Trustee to be genuine.

6.14. Authority to Carry on Business

The Trustee represents to Pixelworks and to the Corporation that, at the date of execution and delivery by it of this agreement, it is authorized to carry on the business of a trust company in each of the provinces of Canada but if, notwithstanding the provisions of this section 6.14, it ceases to be so authorized to carry on business, the validity and enforceability of this agreement and the Voting Rights, the Exchange Right and the Automatic Exchange Right will not be affected in any manner whatsoever by reason only of such event, but the Trustee will, within 90 days after ceasing to be authorized to carry on the business of a trust company in any province of Canada, either become so authorized or resign in the manner and with the effect specified in Article 9.

6.15. Conflicting Claims

If conflicting claims or demands are made or asserted with respect to any interest of any Beneficiary in any Exchangeable Shares, including any disagreement between the heirs, representatives, successors or assigns succeeding to all or any part of the interest of any Beneficiary in any Exchangeable Shares, resulting in conflicting claims or demands being made in connection with such interest, then the Trustee will be entitled, at its sole discretion, to refuse to recognize or to comply with

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any such claims or demands. In so refusing, the Trustee may elect not to exercise any Voting Rights, the Exchange Right or the Automatic Exchange Right subject to such conflicting claims or demands and, in so doing, the Trustee will not be or become liable to any person on account of such election or its failure or refusal to comply with any such conflicting claims or demands. The Trustee will be entitled to continue to refrain from acting and to refuse to act until:

- (a) the rights of all adverse claimants with respect to the Voting Rights, the Exchange Right or the Automatic Exchange Right subject to such conflicting claims or demands have been adjudicated by a final judgment of a court of competent jurisdiction and all rights of appeal have expired; or
- (b) all differences with respect to the Voting Rights, the Exchange Right or the Automatic Exchange Right subject to such conflicting claims or demands have been conclusively settled by a valid written agreement binding on all such adverse claimants, and the Trustee has been furnished with an executed copy of such agreement certified to be in full force and effect.

If the Trustee elects to recognize any claim or comply with any demand made by any such adverse claimant, it may in its discretion require such claimant to furnish such surety bond or other security satisfactory to the Trustee as it deems appropriate to fully indemnify it as between all conflicting claims or demands.

6.16. Acceptance of Trust

The Trustee hereby accepts the Trust created and provided for by in this agreement and agrees to perform the same upon the terms and conditions herein set forth and to hold all rights, privileges and benefits conferred hereby and by law in trust for the various persons who from time to time will be Beneficiaries, subject to all the terms and conditions herein set forth.

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ARTICLE 7. COMPENSATION

7.1. Fees and Expenses of the Trustee

Pixelworks and the Corporation jointly and severally agree to pay the Trustee reasonable compensation for all of the services rendered by it under this agreement and will reimburse the Trustee for all reasonable expenses (including, but not limited to, taxes, other than taxes based on the net income of the Trustee, compensation paid to experts and advisers, and travel expenses) and disbursements, including the cost and expense of any suit or litigation of any character and any proceedings before any governmental agency reasonably incurred by the Trustee in connection with its duties under this agreement; provided that Pixelworks and the Corporation will have no obligation to reimburse the Trustee for any expenses or disbursements paid, incurred or suffered by the Trustee in any suit or litigation in which the Trustee is determined to have acted in bad faith or with negligence, recklessness or wilful misconduct.

ARTICLE 8. INDEMNIFICATION AND LIMITATION OF LIABILITY

8.1. Indemnification of the Trustee

Pixelworks and the Corporation jointly and severally agree to indemnify and hold harmless the Trustee and each of its directors, officers, employees and agents appointed and acting in accordance with this agreement (collectively, the "Indemnified Parties") against all claims, losses, damages, reasonable costs, penalties, fines and reasonable expenses (including reasonable expenses of the Trustee's legal counsel) which, without fraud, negligence, recklessness, wilful misconduct or bad faith on the part of such Indemnified party, may be paid, incurred or suffered by the Indemnified Party by reason or as a result of the Trustee's acceptance or administration of the Trust, its compliance with its duties set forth in this agreement or any written or oral instruction delivered to the Trustee by Pixelworks or the Corporation pursuant hereto.

In no case will Pixelworks or the Corporation be liable under this indemnity for any claim against any of the Indemnified Parties unless Pixelworks and the Corporation are notified by the Trustee of the written assertion of a claim or of any action commenced against the Indemnified

Parties, promptly after any of the Indemnified Parties has received any such written assertion of a claim or has been served with a summons or other first legal process giving information as to the nature and basis of the claim. Subject to (ii) below, Pixelworks and the Corporation will be entitled to participate at their own expense in the defence and, if Pixelworks and the Corporation so elect at any time after receipt of such notice, either of them may assume the defence of any suit brought to enforce any such claim. The Trustee will have the right to employ separate counsel in any such suit and participate in the defence thereof but the fees and expenses of such counsel will be at the expense of the Trustee unless (i) the employment of such counsel has been authorized by Pixelworks or the Corporation, such authorization not to be unreasonably withheld or (ii) the named parties to any such suit include both the Trustee and Pixelworks or the Corporation and the Trustee has been advised by counsel acceptable to Pixelworks or the Corporation that there may be one or more legal defences available to the Trustee that are different from or in addition to those available to Pixelworks or the Corporation and that, in the judgment of such counsel, would present a conflict of interest were a joint representation to be undertaken (in which case Pixelworks and the Corporation will not have the right to assume the defence of such suit on behalf of the Trustee but will be liable to pay the reasonable fees and expenses of counsel for the Trustee).

The indemnity in this section 8.1 will survive termination of this agreement or the resignation or removal of the Trustee.

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8.2. Limitation of Liability

The Trustee will not be held liable for any loss which may occur by reason of depreciation of the value of any part of the Trust Estate or any loss incurred on any investment of funds pursuant to this agreement, except to the extent that such loss is attributable to the fraud, negligence, recklessness, wilful misconduct or bad faith on the part of the Trustee.

ARTICLE 9. CHANGE OF TRUSTEE

9.1. Resignation

The Trustee, or any trustee hereafter appointed, may at any time resign by giving written notice of such resignation to Pixelworks and the Corporation specifying the date on which it desires to resign, provided that such notice will not be given less than 45 days before such desired resignation date unless Pixelworks and the Corporation otherwise agree and provided further that such resignation will not take effect until the date of the appointment of a successor trustee and the acceptance of such appointment by the successor trustee. Upon receiving such notice of resignation, Pixelworks and the Corporation will promptly appoint a successor trustee, which will be a corporation organized and existing under the laws of Canada and authorized to carry on the business of a trust company in all provinces of Canada, by written instrument in duplicate, one copy of which will be delivered to the resigning trustee and one copy to the successor trustee. Failing appointment of a successor trustee by Pixelworks and the Corporation, a successor trustee may be appointed by an order of the Ontario Superior Court of Justice upon application by one or more parties hereto. Should the retiring trustee apply for the appointment of a successor trustee by an order of the Ontario Superior Court of Justice, it will be at the joint and several expense of Pixelworks and the Corporation.

9.2. Removal

The Trustee, or any trustee hereafter appointed, may (provided a successor trustee is appointed) be removed at any time on not less than 30 days' prior written notice by Pixelworks and the Corporation, in duplicate, one of which will be delivered to the trustee so removed and one copy to the successor trustee.

9.3. Successor Trustee

Any successor trustee appointed as provided under this agreement must execute, acknowledge and deliver to Pixelworks and to the Corporation and to its predecessor trustee an instrument accepting such appointment. Thereupon, the resignation or removal of the predecessor trustee will become effective and such successor trustee, without any further act, deed or conveyance, will become vested with all the rights, powers, duties and obligations of its predecessor under this agreement, with the like effect as if originally named as trustee in this agreement. However, on the written request of Pixelworks and the Corporation or of the successor trustee, the trustee ceasing to act, upon payment of any amounts then due to it pursuant to the provisions of this agreement, will execute and deliver an instrument transferring to such successor trustee all the right and powers of the trustee so ceasing to act. Upon the request of any such successor trustee, Pixelworks, the Corporation and such predecessor trustee will execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers.

9.4. Notice of Successor Trustee

Upon acceptance of appointment by a successor trustee as provided herein, Pixelworks and the Corporation will cause to be mailed notice of the succession of such trustee hereunder to each Beneficiary specified in a List. If Pixelworks or the Corporation fails to cause such notice to be mailed

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within 10 days after acceptance of appointment by the successor trustee, the successor trustee will cause such notice to be mailed at the expense of Pixelworks and the Corporation.

ARTICLE 10. PIXELWORKS SUCCESSORS

10.1. Certain Requirements in Respect of Combination

Subject to section 10.3, Pixelworks will not consummate any transaction (whether by way of reconstruction, reorganization, consolidation,

merger, transfer, sale, lease or otherwise) whereby all or substantially all of its undertaking, property and assets would become the property of any other person or, in the case of a merger, of the continuing corporation resulting therefrom unless, but may do so if:

- (a) such other Person or continuing corporation (the "Pixelworks Successor"), by operation of law, becomes, without more, bound by the terms and provisions of this agreement or, if not so bound, executes, prior to or contemporaneously with the consummation of such transaction, an agreement supplemental hereto and such other instruments (if any) as are reasonably, reasonably necessary or advisable to evidence the assumption by the Pixelworks Successor of liability for all amounts payable and property deliverable hereunder and the covenant of such Pixelworks Successor to pay and deliver or cause to be delivered the same and its agreement to observe and perform all the covenants and obligations of Pixelworks under this agreement; and
- (b) such transaction is on such terms and conditions that substantially preserve and not impair in any material respect any of the rights, duties, powers and authorities of the Trustee or of the Beneficiaries hereunder.

10.2. Vesting of Powers in Successor

Whenever the conditions of section 10.1 have been duly observed and performed, the Trustee and, if required by section 10.1, Pixelworks Successor and the Corporation will execute and deliver the supplemental agreement provided for in Article 11 and thereupon the Pixelworks Successor will possess and from time to time may exercise each and every right and power and will be subject to each and every obligation of Pixelworks under this agreement in the name of Pixelworks or otherwise and any act or proceeding under any provision of this agreement required to be done or performed by the board of directors of Pixelworks or any officers of Pixelworks may be done and performed with like force and effect by the directors or officers of such Pixelworks Successor.

10.3. Wholly-Owned Subsidiaries

Nothing herein will be construed as preventing the amalgamation or merger of any wholly-owned direct or indirect subsidiary of Pixelworks with or into Pixelworks or the winding-up, liquidation or dissolution of any wholly-owned subsidiary of Pixelworks provided that all of the assets of such subsidiary are transferred to Pixelworks or another wholly-owned direct or indirect subsidiary of Pixelworks and any such transactions are expressly permitted by this Article 10.

ARTICLE 11. AMENDMENTS AND SUPPLEMENTAL AGREEMENTS

11.1. Amendments, Modifications

This agreement may not be amended or modified except by an agreement in writing executed by Pixelworks, Pixelworks Nova Scotia, the Corporation and the Trustee and approved by the Beneficiaries in accordance with section 10.2 of the Exchangeable Share Provisions.

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11.2. Ministerial Amendments

Notwithstanding section 11.1, the parties to this agreement may in writing, at any time and from time to time, without the approval of the Beneficiaries, amend or modify this agreement for the purposes of:

- (a) adding to the covenants of any or all parties for the protection of the Beneficiaries, provided that the Trustee and the board of directors of each of the Corporation, Pixelworks Nova Scotia and Pixelworks is of the good faith opinion that such additions will not be prejudicial to the rights or interests of the Beneficiaries;
- (b) making such amendments or modifications not inconsistent with this agreement as may be necessary or desirable with respect to matters or questions which, in the good faith opinion of the board of directors of each Pixelworks, Pixelworks Nova Scotia and the Corporation and in the opinion of the Trustee (which, for this purpose, may rely on the advice of counsel), having in mind the best interests of the Beneficiaries, it may be expedient to make, provided that such boards of directors and the Trustee are of the opinion that such amendments and modifications will not be prejudicial to the interests of the Beneficiaries; or
- (c) making such changes or corrections which, on the advice of counsel to Pixelworks, Pixelworks Nova Scotia, the Corporation and the Trustee, are required for the purpose of curing or correcting any ambiguity or defect or inconsistent provision or clerical omission or mistake or manifest error, provided that the Trustee and the board of directors of each of Pixelworks, Pixelworks Nova Scotia and the Corporation is of the opinion that such changes or corrections will not be prejudicial to the rights and interests of the Beneficiaries.

11.3. Meeting to Consider Amendments

The Corporation, at the request of Pixelworks or Pixelworks Nova Scotia, will call a meeting or meetings of the Beneficiaries for the purpose of considering any proposed amendment or modification requiring approval pursuant to section 11.1. Any such meeting or meetings will be called and held in accordance with the by-laws of the Corporation, the Exchangeable Share Provisions and all applicable laws.

11.4. Changes in Capital of Pixelworks and the Corporation

At all times after the occurrence of any event contemplated pursuant to section 2.8 or 2.9 of the Exchangeable Share Support Agreement or otherwise, as a result of which either the shares of Pixelworks Common Stock or the exchangeable Shares or both are in any way changed, this agreement will forthwith be amended and modified as necessary in order that it will apply with full force and effect, with appropriate changes, to all new securities into which the shares of Pixelworks Common stock or the Exchangeable Shares or both are so changed and the parties will execute and deliver a supplemental agreement giving effect to and evidencing such necessary amendments and modifications.

11.5. Execution of Supplemental Agreements

No amendment to or modification or waiver of any of the provisions of this agreement otherwise permitted hereunder will be effective unless made in writing and signed by all of the parties. From time to time, the Corporation (when authorized by a resolution of its board of directors), Pixelworks (when authorized by a resolution of its board of directors) and the Trustee may, subject to the provisions of these presents, and they will, when so directed by these presents, execute and deliver by their proper

officers, agreements or other instruments supplemental hereto, which thereafter will form part hereof, for any one or more of the following purposes:

- (a) evidencing the succession of Pixelworks Successors and the covenants and obligations assumed by each such Pixelworks Successor in accordance with the provisions of Article 10 and the successors of any successor trustee in accordance with the provisions of Article 9;
- (b) making any additions to, deletions from or alterations of the provisions of this agreement or the Voting Rights, the Exchange Right or the Automatic Exchange Right which, in the opinion of the Trustee (which, for this purpose, may rely on the advice of counsel), will not be prejudicial to the interests of the Beneficiaries or are, in the opinion of counsel to the Trustee, necessary or advisable in order to incorporate, reflect or comply with any legislation the provisions of which apply to Pixelworks, the Corporation, the Trustee or this agreement; and
- (c) for any other purposes not inconsistent with the provisions of this agreement, including, without limitation, to make or evidence any amendment or modification to this agreement as contemplated hereby, provided that, in the opinion of the Trustee (which, for this purpose, may rely on the advice of counsel), the rights of the Trustee and Beneficiaries will not be prejudiced thereby.

ARTICLE 12. TERMINATION

12.1. Term

The Trust created by this agreement will continue until the earliest to occur of the following events:

- (a) no outstanding Exchangeable Shares (other than Exchangeable Shares in respect of which a holder is deemed, under this agreement or the Exchangeable Share Provisions, to be a holder of shares of Pixelworks Common Stock) are held by a Beneficiary (other than Pixelworks or its Affiliates);
- (b) each of Pixelworks and the Corporation elects in writing to terminate the Trust and such termination is approved by the Beneficiaries in accordance with section 10.2 of the Exchangeable Share Provisions; and
- (c) 21 years from the date of this agreement.

12.2. Survival of Agreement

This agreement will survive any termination of the Trust and will continue until there are no Exchangeable Shares (other than Exchangeable Shares in respect of which a holder is deemed, under this agreement or the Exchangeable Share Provisions, to be a holder of shares of Pixelworks Common Stock) outstanding held by a Beneficiary, provided, however, that the provisions of Articles 7 and 8 will survive any such termination of this agreement.

ARTICLE 13. GENERAL

13.1. Assignment

This agreement is not assignable by any party.

13.2. Time

Time is of the essence of this agreement.

13.3. Governing Law

This agreement and the rights and obligations of the parties will be governed by and construed and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

13.4. Severability

If any term or other provision of this agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto will negotiate in good faith to modify this agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the

fullest extent possible.

13.5. Enurement

This agreement is binding upon and enures to the benefit of the parties and their respective successors and permitted assigns and to the benefit of the Beneficiaries.

13.6. Notices to Parties

All notices and other communications hereunder must be in writing and must be given and will be deemed to have been duly given at the time of receipt, if delivered in person or sent by facsimile transmission on a Business Day at the place of receipt (or, if given on a non-Business Day at the place of receipt, will be deemed to have been duly given on the next succeeding Business Day at such place) to the parties as follows:

- (a) if to Pixelworks or Pixelworks Nova Scotia:

8100 Nyberg Road, Third Floor
Tualatin, OR 97062 USA
Attention: Allen H. Alley
Fax: (503) 612-6713

- (e) If to the Corporation:

38 Leek Crescent, Suite 200
Richmond Hill, ON L4B 4N8
Canada

Attention: Lance Greggain
Fax: (905) 831-6939

- (c) if to the Trustee:

CIBC Mellon Trust Company
320 Bay Street, Suite 600
Toronto, ON M5H 4A6
Attention: Vice President, Trust Services
Fax: (416) 643-5570

or to such other address as a party may have furnished to the others in writing in accordance herewith, except that notices of change of address will be effective only upon receipt.

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13.7. Notice to Beneficiaries

Any notices to be given and any documents to be sent to any Beneficiaries may be given or sent to the address of such Beneficiary shown on the register of holders of Exchangeable Shares in any manner permitted by the by-laws of the Corporation from time to time in force in respect of notices to shareholders and will be deemed to be received (if given or sent in such manner) at the time specified in such by-laws, the provisions of which by-laws will apply, with appropriate changes, to notices or documents sent to such Beneficiaries.

13.8. Counterparts

This agreement may be executed in counterparts, each of which will be deemed an original, but all of which taken together will constitute one and the same document.

13.9. Attornment

Each of Pixelworks and Pixelworks Nova Scotia agrees that any act or proceeding arising out of or relating to this agreement may be instituted in the courts of Ontario, waives any objection which it may have now or hereafter to the venue of any such action or proceeding, irrevocably submits to the jurisdiction of the Ontario courts in any such action or proceeding, agrees to be bound by any judgment of the Ontario courts and agrees not to seek, and hereby waives, any review of the merits of any such judgment by the court of any other jurisdiction and hereby appoints the Corporation at its registered office in the Province of Ontario as its attorney for service of process.

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IN WITNESS WHEREOF the parties hereto have caused this agreement to be duly executed as of the date first above written.

JALDI SEMICONDUCTOR CORP.

By: /s/ LANCE GREGGAIN

Name: Lance Greggain
Title: President and CEO

IN WITNESS WHEREOF the parties hereto have caused this agreement to be duly executed as of the date first above written.

PIXELWORKS INC.

By: /s/ ALEN H. ALLEY

Name: Alen H. Alley
Title:

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IN WITNESS WHEREOF the parties hereto have caused this agreement to be duly executed as of the date first above written.

PIXELWORKS NOVA SCOTIA COMPANY

By: /s/ JEFFREY B. BOUCHARD

Name: Jeff Bouchard
Title: CFO

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IN WITNESS WHEREOF the parties hereto have caused this agreement to be duly executed as of the date first above written.

CIBC MELLON TRUST COMPANY

By: /s/ WARREN JANSEN

Name: Warren Jansen
Title: Authorized Signatory

By: /s/ BRUCE CORNISH

Name: Bruce Cornish
Title: Authorized Signatory

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QuickLinks

[Voting and Exchange Trust Agreement](#)

**ARTICLES OF AMENDMENT TO
SIXTH AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
PIXELWORKS, INC.**

Article 2 of the Sixth Amended and Restated Articles of Incorporation (the "Restated Articles") of Pixelworks, Inc. is hereby amended by the addition of the following Section 2.4.

2.4. One series of Preferred Stock shall be designated "Special Voting Share Series Preferred Stock," and shall consist of one (1) share (the "Special Voting Share"). Special Voting Share Series Preferred Stock has an Issue Price of \$0.001 per share. The relative rights, preferences and limitations of the Special Voting Share Series Preferred Stock are as follows:

- a. **Dividends.** Neither the holder nor, if different, the owner of the Special Voting Share shall be entitled to receive dividends in its capacity as holder or owner thereof.
- b. **Voting Right.** The holder of record of the Special Voting Share shall be entitled to all of the voting rights, including the right to vote in person or by proxy, of the Special Voting Share on any matters, questions, proposals or propositions whatsoever that may properly come before the stockholders of the Corporation at a meeting of the Corporation or in connection with a consent of the Corporation.
- c. **Liquidation Preference.** In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the holder of the Special Voting Share shall be entitled to be paid out of the assets of the Corporation available for distribution to the stockholders, an amount equal to \$0.001 before any payment shall be made to the holders of Common Stock or any other class or series of stock ranking on liquidation junior to the Special Voting Share as to distribution of assets upon liquidation, dissolution or winding-up.
- d. **Ranking.** The Special Voting Share shall, with respect to rights on liquidation, dissolution and winding up, rank (i) *pari passu* with the Common Stock and (ii) junior to any other class or series of capital stock of the Corporation.
- e. **Redemption.** The Special Voting Share shall not be subject to redemption except that at such time as no exchangeable shares ("Exchangeable Shares") of Jaldi Semiconductor Corp. ("Jaldi") (other than Exchangeable Shares owned by the Corporation and its affiliates) shall be outstanding and no shares of stock, debt, options or other agreements which could give rise to the issuance of any Exchangeable Shares to any person (other than the Corporation and its affiliates) shall exist, the Special Voting Share shall automatically be redeemed and cancelled, for an amount equal to \$0.001 due and payable upon such redemption. Upon any such redemption or other purchase or acquisition of the Special Voting Share by the Corporation, the Special Voting Share shall be deemed retired and cancelled and may not be reissued.
- f. **Other Provisions.** Pursuant to the terms of an agreement (the "Voting and Share Trust Agreement") to be entered into between the Corporation, Pixelworks Nova Scotia Company, Jaldi and CIBC Mellon Trust Company (the "Trustee"), as such agreement may be amended, modified or supplemented from time to time (the "Trust Agreement"):
 - (A) during the term of the Trust Agreement, the Corporation may not, without the consent of the holders of the Exchangeable Shares, issue any other additional shares of the same series as the Special Voting Shares Series Preferred Stock;
 - (B) with respect to all meetings of stockholders of the Corporation at which holders of the Corporation's Common Stock are entitled to vote (each a "Meeting") and with respect to any written consents, to the extent permitted by the Articles and by-laws of the Corporation,

sought by the Corporation from its stockholders, including the holders of Common Stock (each a "Consent"), the Special Voting Share shall vote together with the Common Stock as a single class and subject to (C) shall have the identical voting rights to those of the Common Stock;
 - (C) the Special Voting Share entitles the holder of record to a number of votes in respect of a Meeting or in respect of a Consent equal to the number of Exchangeable Shares (as defined by the Trust Agreement) outstanding on the record date for determining stockholders entitled to vote at the applicable Meeting or in connection with the applicable Consent, from time to time (other than Exchangeable Shares held by the Corporation and its affiliates);
 - (D) the Trustee shall exercise the votes held by the Special Voting Share pursuant to and in accordance with the Trust Agreement;
 - (E) the voting rights attached to the Special Voting Share shall terminate pursuant to and in accordance with the Trust Agreement; and
 - (F) the powers, designations and preferences, participating, optional and other special rights, and the qualifications limitations and restrictions, of such Special Voting Share shall be as otherwise provided in the Trust Agreement.

QuickLinks

[ARTICLES OF AMENDMENT TO SIXTH AMENDED AND RESTATED ARTICLES OF INCORPORATION OF PIXELWORKS, INC.](#)