

RuggedCom Inc.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
1st Quarter ended June 30, 2010

RuggedCom Inc.
CONSOLIDATED BALANCE SHEETS
(in thousands of United States dollars)

	June 30, 2010	March 31, 2010
	(unaudited)	(audited)
	\$	\$
Assets		
Current		
Cash and cash equivalents (note 5)	32,878	33,140
Accounts receivable (note 6)	11,989	13,494
Prepaid expenses and other	1,854	1,825
Inventories (note 7)	11,381	10,497
Income taxes recoverable	240	1,036
Future income taxes	600	637
	58,942	60,629
Future income taxes	222	431
Severance pay fund	498	520
Property and equipment	11,010	11,372
Goodwill (note 4)	1,839	1,928
Intangible assets	10,460	11,373
	82,971	86,253
Liabilities		
Current		
Accounts payable and accrued liabilities	6,633	7,618
Current portion of warranty liability	486	604
Income taxes payable	97	280
Current portion of deferred income	24	99
Current portion of lease costs	57	26
Current portion of obligations under capital leases	96	105
	7,393	8,732
Warranty liability	400	413
Deferred income	40	32
Severance payable	534	558
Obligations under capital leases	70	95
Lease costs payable	260	265
	8,697	10,095
Shareholders' Equity		
Capital stock (note 8)	48,976	48,886
Contributed surplus (note 10)	2,907	2,538
Accumulated other comprehensive income (loss) (note 9)	1,339	4,887
Retained earnings	21,052	19,847
	22,391	24,734
	74,274	76,158
	82,971	86,253

See accompanying notes to consolidated interim financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
(in thousands of United States dollars except per share information)

	3 month period ended June 30, 2010	3 month period ended June 30, 2009
	\$	\$
Revenue	19,990	16,017
Cost of goods sold	8,064	6,940
	<hr/>	<hr/>
Gross margin	11,926	9,077
	<hr/>	<hr/>
Operating expenses		
Research and development	2,918	2,025
Sales and marketing	3,989	2,978
General and administrative	2,401	1,953
Investment tax credits	(499)	(187)
Loss (gain) on foreign exchange	(533)	531
Amortization	1,287	393
	<hr/>	<hr/>
	9,563	7,693
	<hr/>	<hr/>
Operating income	2,363	1,384
Net interest income	31	63
	<hr/>	<hr/>
Income before income taxes	2,394	1,447
	<hr/>	<hr/>
Provision for income taxes (note 11)		
Current	985	505
Future	204	57
	<hr/>	<hr/>
	1,189	562
	<hr/>	<hr/>
Net income for the period	1,205	885
	<hr/>	<hr/>
Retained earnings — Beginning of period	19,847	15,662
	<hr/>	<hr/>
Retained earnings — End of period	21,052	16,547
	<hr/> <hr/>	<hr/> <hr/>
Net earnings per common share (note 13)		
Basic	\$ 0.10	\$ 0.07
Diluted	\$ 0.10	\$ 0.07
Basic weighted average number of common shares	12,147,149	11,896,306
Diluted weighted average number of common shares	12,399,988	12,623,918

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of United States dollars)

	3 month period ended June 30, 2010	3 month period ended June 30, 2009
	\$	\$
Net income for the period	1,205	885
Unrealized foreign currency translation gain (loss) (note 9)	(3,548)	4,570
	<hr/>	<hr/>
Comprehensive income for the period	<u>(2,343)</u>	<u>5,455</u>

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of United States dollars)

	3 month period ended June 30, 2010	3 month period ended June 30, 2009
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	1,205	885
Non-cash items		
Amortization of property and equipment	654	302
Amortization of other assets	634	91
Future income taxes	204	57
Stock-based compensation	402	278
Warranty liability	(89)	29
Lease costs	42	99
Net change in non-cash working capital (note 12 (a))	(735)	(3,899)
	2,317	(2,158)
Investing activities		
Additions to property and equipment	(818)	(553)
Additions to other assets	(228)	(652)
	(1,046)	(1,205)
Financing activities		
Repayment of obligations under capital leases	(26)	(46)
Issuance of common shares	57	1,706
	31	1,660
Effect of exchange rates on cash	(1,563)	3,709
Increase (decrease) in cash and cash equivalents	(261)	2,006
Cash and cash equivalents — Beginning of period	33,140	45,099
Cash and cash equivalents — End of period (note 12(b))	32,879	47,105

See accompanying notes to consolidated financial statements.

RuggedCom Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

1. THE COMPANY

RuggedCom Inc. (the Company) was incorporated under the provisions of the Business Corporations Act (Ontario) on February 22, 2001. The Company provides rugged communications networking solutions designed for mission-critical applications in harsh environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and, accordingly, certain disclosures normally included in annual audited consolidated financial statements prepared in accordance with Canadian GAAP are not provided. These consolidated financial statements have been prepared following accounting principles consistent with those used in the annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended March 31, 2010, except as disclosed in note 3. The results of operations for the interim period are not necessarily indicative of the results of operations for any other interim period or a full fiscal period.

Recently issued accounting pronouncements

Business combinations

In January 1, 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581, Business Combinations. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new standard will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

Consolidated financial statements

In January 2009, the CICA published Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and should be adopted at the same time as Section 1582. Early adoption is permitted as of the beginning of a fiscal year. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, Software Revenue Recognition as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption.

The Company has elected to early adopt this abstract prospectively to revenue arrangements with multiple deliverables entered into or materially modified on or after April 1, 2010. Arrangements that were entered into prior to April 1, 2010 will continue to be accounted for under the old accounting standard.

The Company's revenue arrangements may contain multiple elements; however, to date revenue from multiple elements has not been significant. Accordingly the adoption of the new EIC 175 did not make a material impact on the Company's financial statements. The Company is still required to determine the appropriate accounting under EIC 175, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes.

In the past, for arrangements involving multiple elements, the Company allocated revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. EIC 175 has eliminated the use of the residual value method, and therefore, effective April 1, 2010, the Company has allocated revenue using the relative selling price method of the separate units of accounting. The multiple elements in an arrangement typically might include one or more of the following: hardware, software, installation, and/or other professional service offerings as described in Note 2 of the Company's Annual Financial Statements for 2010. The Company allocates the arrangement fee, in a multiple element transaction, to the separate elements based on their relative selling prices, as indicated by vendor-specific objective evidence or third-party evidence of selling, and if both are not available, estimated selling prices is used. The allocated portion of the arrangement which is undelivered is then deferred.

In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple element arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

4. ACQUISITION

On September 17, 2009 the Company completed the acquisition of 100% of the shares of WiNetworks Ltd. for cash of \$8,904, including acquisition costs of \$652.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations of WiNetworks have been included in the consolidated financial statements since the date of acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed on acquisition:

Assets purchased

Inventory	\$ 2,834
Other current assets	657
Property and equipment	1,208
Other assets	160
Future tax asset	1,952
Technological assets	8,228
Agreements	390
Customer list	655
Goodwill	1,628
	<u>17,712</u>

Liabilities assumed

Current liabilities	2,747
Future tax liability	1,952
Loan	4,875
	<u>9,574</u>

Net non-cash assets acquired	8,138
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Cash acquired	766
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Net assets acquired	<u>\$ 8,904</u>
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Upon the closing of the purchase, RuggedCom repaid the loan acquired as part of the acquisition. Future tax liabilities associated with the temporary differences of the acquired non-deductible intangible assets have been recorded. The goodwill recorded as a result of the acquisition is not tax deductible.

5. REVOLVING DEMAND FACILITY

The Company has a \$1,000 Canadian dollar revolving demand facility with a major Canadian financial institution. Funds drawn against this facility bear interest at prime rate. The use of the revolving demand facility has been restricted by \$139 United States dollars as security for guarantees. The bank has a first ranking on \$1,000 Canadian of term deposits and bank balances. As at June 30, 2010 and 2009, there was no balance drawn against this facility.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

6. ACCOUNTS RECEIVABLE

	June 30, 2010	March 31, 2010
	<u>\$</u>	<u>\$</u>
Trade receivables	12,056	13,538
Allowance for doubtful accounts	(67)	(44)
	<u>11,989</u>	<u>13,494</u>

7. INVENTORIES

	June 30, 2010	March 31, 2010
	<u>\$</u>	<u>\$</u>
Raw materials	10,786	10,130
Finished goods	595	367
	<u>11,381</u>	<u>10,497</u>

Included in cost of goods sold is a recovery of \$ 199 (2009 - provision of \$108) recognized in the period for losses of inventories.

8. CAPITAL STOCK

Authorized

- Unlimited number of Class A shares
- Unlimited number of common shares

Issued

	June 30, 2010	March 31, 2010
	<u>\$</u>	<u>\$</u>
12,156,938 (March 31, 2010 - 12,144,458) common shares	<u>48,976</u>	<u>48,886</u>
	Number	Amount
	<u>of shares</u>	<u>\$</u>
Balance, March 31, 2010	12,144,458	48,886
Issued for options exercised (a)	12,480	90
Balance, June 30, 2010	<u>12,156,938</u>	<u>48,976</u>

(a) Common shares issued for options vested and exercised in the period were 12,480 at a weighted average share price of \$4.64 (\$4.77 Canadian).

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the reconciliation of accumulated other comprehensive income (loss):

	2010	2009
	\$	\$
Balance - Beginning of the period	4,887	(8,952)
Unrealized foreign currency translation gain (loss) for the period	(3,548)	4,570
Balance - End of the period	<u>1,339</u>	<u>(4,382)</u>

10. CONTRIBUTED SURPLUS

The following table presents the reconciliation of contributed surplus with respect to stock-based compensation:

	2010	2009
	\$	\$
Balance - Beginning of period	2,538	1,559
Stock-based compensation expense	402	278
Fair value of options exercised	(33)	(119)
Balance - End of period	<u>2,907</u>	<u>1,718</u>

11. INCOME TAXES

	2010	2009
	\$	\$
Earnings before income taxes	2,394	1,447
Tax at statutory rate (28.28% ;2008 - 31.14%)	677	451
Subsidiaries foreign tax rates differential	42	-
Permanent differences	325	131
Effect of rate change	89	(18)
Allowance, net of benefit, for unused tax losses	60	-
Other	(4)	(2)
	<u>1,189</u>	<u>562</u>

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

12. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	3 month period ended June 30, 2010	3 month period ended June 30, 2009
	\$	\$
Accounts receivable	918	1,771
Prepaid expenses and other	(117)	(377)
Inventories	(1,414)	(59)
Accounts payable and accrued liabilities	(658)	(793)
Income taxes payable	598	(4,541)
Deferred income	(62)	100
	(735)	(3,899)
	(735)	(3,899)

b) Cash and cash equivalents

	2010	2009
	\$	\$
Cash	10,335	7,245
Cash equivalents	22,543	39,860
	32,878	47,105
	32,878	47,105

(c) Supplemental disclosures

	2010	2009
	\$	\$
Interest paid	3	6
Income taxes paid	99	4,854

(d) Included in amortization on intangibles is \$365 of amortization on intangibles from the purchase of WiNetworks.

13. EARNINGS PER COMMON SHARE

The following is a reconciliation of basic and diluted earnings per common share:

	3 month period ended June 30, 2010	3 month period ended June 30, 2009
	\$	\$
Net income and dilutive net income attributable to common shareholders	1,205	885
Common shares outstanding — Beginning of period	12,139,771	11,804,347
Weighted average number of common shares issued in the period	7,378	91,959
Basic weighted average number of common shares	12,147,149	11,896,306
Effect of dilutive securities, stock options and warrants	252,839	727,612
Diluted weighted average common shares outstanding — End of period	12,399,988	12,623,918
	12,399,988	12,623,918

RuggedCom Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

14. SEGMENTED INFORMATION

The Company has determined that it has two reportable segments: RuggedCom and WiNetworks. Each business segment assumes responsibility for its operating results. In the prior year the Company only had one reportable segment.

The RuggedCom segment derives its revenue mainly from the sale of Ethernet based equipment and the software and services that are associated with the products. The WiNetworks segment derives its revenues mainly from the sale of RuggedMAX equipment and services that are associated with the products.

Segments are defined as components for which information is available and is regularly evaluated by the chief operating decision maker or decision making group. The Company also manages its operations on a geographic and industry basis.

a) By business segment

	3 month period ended June 30, 2010			3 month period ended June 30, 2009
	RuggedCom	WiNetworks	Consolidated	Consolidated
	\$	\$	\$	\$
Revenue	19,348	642	19,990	16,017
Cost of goods sold	7,657	407	8,064	6,940
Gross margin	11,691	235	11,926	9,077
Operating expenses:				
Research and development	1,889	1,029	2,918	2,025
Sales and marketing	3,943	46	3,989	2,978
General and administrative	2,037	364	2,401	1,953
Investment tax credits	(405)	(94)	(499)	(187)
Foreign exchange loss (gain)	(578)	45	(533)	531
Amortization	1,136	151	1,287	393
Total operating expenses	8,022	1,541	9,563	7,693
Interest income (expense)	33	(2)	31	63
Income before income taxes	3,702	(1,308)	2,394	1,447
Provision for income taxes - current	985	-	985	505
Provision for income taxes - future	204	-	204	57
Net income (loss)	2,513	(1,308)	1,205	885
Assets	75,924	7,047	82,971	69,370

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")

14. SEGMENTED INFORMATION (continued)

b) By geographic region

Sales	3 month period ended June 30, 2010			3 month period ended June 30, 2009	
	RuggedCom	WiNetworks	Consolidated	Consolidated	
	\$	\$	\$	\$	\$
North America	8,291	274	8,565	7,795	
Latin America	1,693	35	1,728	1,070	
Asia Pacific	4,365	8	4,373	2,665	
Europe, Middle East and Africa	4,999	325	5,324	4,487	
Total	19,348	642	19,990	16,017	

c) By industry

Sales	3 month period ended June 30, 2010			3 month period ended June 30, 2009	
	RuggedCom	WiNetworks	Consolidated	Consolidated	
	\$	\$	\$	\$	\$
Electric Power (Utilities)	13,053	384	13,437	10,425	
Transportation Systems	3,836	-	3,836	2,791	
Industrial Processes	1,578	85	1,663	1,482	
Military	852	101	953	1,273	
Other	29	72	101	46	
Total	19,348	642	19,990	16,017	

d) The following table details our sales allocated by region among countries exceeding 10%:

	3 month period ended June 30, 2010			3 month period ended June 30, 2009	
	RuggedCom	WiNetworks	Consolidated	Consolidated	
Canada	11.1%	20.4%	11.4%	7.7%	
USA	32.4%	21.3%	32.1%	41.3%	

15. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's consolidated financial statement presentation.