

RUGGEDCOM INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER ENDED JUNE 30, 2010

Dated: August 11, 2010

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, financial condition and cash flows of RuggedCom Inc. ("RuggedCom" or the "Company") for the three month periods ended June 30, 2010 and June 30, 2009. This MD&A should be read in conjunction with the Company's consolidated interim financial statements for the three month periods ended June 30, 2010 and June 30, 2009 and the notes thereto, the audited annual consolidated financial statements for the fiscal years ended March 31, 2010 and March 31, 2009, the notes thereto and the auditors report thereon.

All amounts in this MD&A are in US dollars unless otherwise indicated. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee. This MD&A is dated August 11, 2010 and is current to that date, unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com as well as the Company's website at www.ruggedcom.com.

NON-GAAP MEASURES

The Company reports its financial results in accordance with Canadian generally accepted accounting principles ("GAAP"). However, this MD&A contains references to certain non-GAAP financial measures such as EBITDA and EBITDA Margin. Non-GAAP financial measures are used by management to evaluate the performance of the Company. Non-GAAP financial measures do not have any meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers. Non-GAAP financial measures used herein have been applied on a consistent basis. "EBITDA" means earnings before interest, income taxes, depreciation and amortization. "EBITDA Margin" means the percentage obtained by dividing "EBITDA" by revenue. "EBITDA" is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. We believe that EBITDA and EBITDA Margin are useful supplemental information as they provide an indication of the results generated by the Company's main business activities before taking into consideration how these activities are financed and taxed and also prior to taking into consideration asset depreciation. Investors are cautioned that non-GAAP measures, such as those presented herein, should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of the Company's performance or to cash flows from operating and investing activities as measures of liquidity and cash flow.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this MD&A, particularly statements regarding future economic performance and finances, plans, expectations and objectives of management, may constitute "forward-looking" statements which reflect our current views with respect to future events and financial performance. When used in this MD&A, such forward-looking statements use words such as "may", "will", "expect", "believe", "anticipate", "plan", "intend", "estimate", "project", "continue" and other similar terminology of a forward-looking nature or negatives of those terms. These forward-looking statements are based on certain assumptions by management, certain of which are set out herein. The forward-looking statements appearing in this MD&A reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A.

Although management believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors and should not be read as guarantees of future performance or results. Accordingly, there are or will be a number of significant factors which could cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual future results, performance or achievements to differ materially include, but are not limited to, increased efforts by competitors to compete in our markets, growth in our key markets, our ability to manage our growth, our dependence on the electric power industry, the impact of the global financial crisis, foreign currency fluctuations, our ability to identify and integrate future acquisitions, changes in environmental and other regulation, our reliance on key personnel, our reliance on third-party suppliers, contract manufacturers and channel partners, our ability to protect our intellectual property, rapid technological change, potential product liability claims, our dependence on certain licensed intellectual property, and potential infringement by us of others' intellectual property rights, including our use of open source software.

RuggedCom is subject to significant risks and any past performance is no guarantee of future performance. RuggedCom cannot predict all of the risk factors, nor can it assess the impact, if any, of such risk factors on RuggedCom's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. This MD&A offers a brief overview of some of the risk factors to be considered in relation to RuggedCom's business. This list may not be exhaustive and new risk factors emerge from time to time. Please see the section "Risks and Uncertainties" for further information. We disclaim any intention or obligation to publicly update or revise any forward-looking statements after distribution of this MD&A, whether as a result of new information, future events or other circumstances, except as may be required pursuant to applicable securities laws.

Additional risk factor discussion can be found in the Company's continuous disclosure filings, reports and other filings with securities commissions and regulatory authorities in Canada and filed under the Company's profile on SEDAR at www.sedar.com.

RUGGEDCOM INC.

RuggedCom is a leading provider of rugged communications networking solutions designed for mission-critical applications in harsh environments. When used outside of benign office environments, communications networking equipment can be exposed to harmful conditions that impact network reliability, throughput, availability, security and data integrity. The Company's solutions are designed for use in harsh environments such as those found in electric power substations and "Smart Grids", intelligent transportation systems, industrial process control and military applications. RuggedCom's robust technology solutions include proprietary hardware (Ethernet switches, network routers, wireless devices, serial servers and media converters), software (proprietary embedded software and application software) and professional services.

RuggedCom's solutions facilitate the extension of Internet Protocol ("IP") based communications networks from benign office environments to harsh non-office environments. IP-based communications networks are faster, more flexible and offer greater functionality than the legacy, serial, low-speed communications systems currently used in most harsh environments. The extension of IP-based communications networks enables the seamless flow of information between an enterprise's non-office environment and its office environment. Moreover, the implementation of a common networking technology and infrastructure across an entire enterprise improves overall efficiency, increases the ability to monitor and secure operational assets and reduces costs associated with installation, integration, maintenance, parts and training.

RuggedCom continues to execute on its core strategies to capitalize on the opportunities presented by the Industrial Ethernet, Industrial Wireless, Cyber Security, and Smart Grid trends within the Electric Power, Transportation Systems, Industrial Processes and Military markets. During this quarter RuggedCom:

- introduced the RX1510, RX1511 and RX1512 models, compact and cost-effective versions of the RuggedBackbone™ RX1500 family of integrated layer 3 switching and routing devices;
- together with Siemens Energy, Inc., announced the availability of a wireless integrated distribution feeder automation (DFA) solution using RuggedCom's RuggedMAX™ broadband wireless solutions and Siemens' SIPROTEC® Compact line/feeder protection
- announced certification of the RuggedSwitch® RSG2100 and RS900G products for Rail Applications with EN Standard 50121-4 that ensures electromagnetic compatibility amongst telecommunications equipment;
- introduced the RuggedMAX WiN7018, a high power WiMAX base station designed to meet the new regulations in Canada for 1.8 GHz radio frequency spectrum for electric power applications;
- together with Itron Inc., a leading technology provider to the global energy and water industries, announced a partnership that will expand the scope of both companies' Smart Grid offerings. RuggedMAX™, an IEEE 802.16-2005 (WiMAX 802.16e) certified solution, will be integrated into Itron's OpenWay® smart metering solution as an additional WiMAX backhaul communications option for utilities;
- announced that the ARC Advisory Group, a leading market research firm for industrial automation, reported that RuggedCom had over 52% market share for Industrial Ethernet infrastructure in the

electric power market for 2009. In addition, the ARC report indicated that RuggedCom has grown its market share to the #2 position in the overall Industrial Ethernet infrastructure market.

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SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for the three month periods ended June 30, 2010 and 2009, respectively. The information in these tables have been derived from the unaudited consolidated interim financial statements and accompanying notes for the three month periods ended June 30, 2010 and June 30, 2009, as well as the March 31, 2010 audited consolidated financial statements. Investors should read the following information in conjunction with those statements and related notes. The financial information for the three months ended June 30, 2010 and 2009 has been prepared by management in accordance with GAAP in a manner consistent with its annual financial statements.

<u>Selected Consolidated Quarterly Financial Information</u>	Three months ended June 30 (unaudited)	
	2010	2009
	In thousands, except share amounts, data expressed as percentages and per share data	
Revenue	\$19,990	\$16,017
Cost of goods sold	<u>8,064</u>	<u>6,940</u>
Gross margin	11,926	9,077
Gross margin %	59.7%	56.7%
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)
Foreign currency loss	(533)	531
Amortization	<u>1,287</u>	<u>393</u>
Total operating expenses	<u>9,563</u>	<u>7,693</u>
Net interest income	<u>31</u>	<u>63</u>
Earnings before income taxes	2,394	1,447
Provision for income taxes – current	985	505
Provision for income taxes – future	<u>204</u>	<u>57</u>
Net earnings	<u>1,205</u>	<u>885</u>
Net Earnings Per Common Share:		
Basic	\$ 0.10	\$ 0.07
Diluted	\$ 0.10	\$ 0.07
Weighted Average Number of Common Shares Outstanding:		
Basic	12,147,149	11,896,306
Diluted	12,399,988	12,623,918
Other data:		
EBITDA ⁽¹⁾	\$ 3,650	\$ 1,777
EBITDA Margin % ⁽¹⁾	18.3%	11.1%

Notes:

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures".

<u>Net Earnings to EBITDA Reconciliation</u>	Three months ended June 30 (unaudited)	
	2010	2009
	In thousands	
Net earnings	\$1,205	\$885
Interest	(31)	(63)
Taxes	1,189	562
Amortization	<u>1,287</u>	<u>393</u>
EBITDA ⁽¹⁾	<u>\$3,650</u>	<u>\$1,777</u>

Notes:

(1) See "Non-GAAP measures"

	As at June 30	As at March 31
	2010 (unaudited)	2010
	In thousands	
<u>Consolidated Balance Sheet Data</u>		
Cash and cash equivalents	\$32,878	\$33,140
Working capital ⁽¹⁾	51,549	51,897
Total assets	82,971	86,253
Total liabilities	8,697	10,095
Total shareholders' equity	74,274	76,158

Notes:

(1) Working capital is calculated as current assets less current liabilities

Financial Highlights

Achieved record purchase orders of \$21.2 million in the first quarter, an increase of 18% over the same quarter a year ago.

Achieved revenues of \$20.0 million in the first quarter, representing an increase of 25% over the same quarter a year ago.

Gross margin came in at 59.7%, an increase of 300 bps over the same quarter a year ago

Net income of \$1.2 million compared to \$0.9 million for the same quarter a year ago, an increase of 36%.

OVERALL PERFORMANCE

Revenue and Expenses

Revenue

The Company's revenue is derived principally from the sale of IP-based rugged communications networking solutions including Ethernet switches, network routers, wireless devices, serial servers and media converters. The Company currently generates an insignificant percentage of revenue from application software and professional services.

The Company markets and sells rugged communications networking solutions worldwide through offices in North America, Europe and Asia. The Company's sales channel structure is different in each of the Company's target markets, but the majority of sales are derived from its sales team.

The Company's sales team is comprised of regional sales managers who are employees of RuggedCom and are supported by its field application engineers. The Company's regional sales managers also utilize a network of manufacturers' representatives and distributors, as well as channel partners, such as original equipment manufacturers, system integrators and consultants, each utilized to varying degrees based on the specific nature of target markets.

The Company's revenues have increased from both sales to new customers as well as sales of additional products and services to its existing customer base and it has broadened its geographic sales base. The sales cycle is typically characterized by extensive evaluation periods and in some cases bench trials and pilot deployments. Most of the Company's orders are made pursuant to purchase orders and the Company does not typically have long term supply contracts with our customers.

Through its acquisition of WiNetworks Ltd. on September 17, 2009, RuggedCom gained key technology and technical personnel that will enable it to significantly enhance its wireless product offering, thereby providing customers with more comprehensive cost effective solutions.

The Company monitors revenue performance in four main geographical areas: North America, Europe, the Middle East and Africa ("EMEA"), Asia-Pacific (including Australia) ("APAC") and Latin America. The Company also monitors revenue performance in four main market categories: Electric Power, Transportation, Industrial and Military.

Cost of Goods Sold

Cost of goods sold consists primarily of costs of manufacturing and assembly of products. A significant portion of these costs is represented by components and compensation costs for the manufacture and assembly of products. Cost of goods sold also includes related overhead, final assembly, quality assurance, inventory management and payments to local third-party subcontract manufacturers that perform outsourced manufacturing and assembly for the Company. Cost of goods sold also includes the cost of providing services to customers, primarily the cost of service-related personnel used for training and professional services.

Operating Expenses

The Company's operating expenses consist of (i) research and development expenditures and related investment tax credits, (ii) sales and marketing expenses, (iii) general and administrative expenses, (iv) foreign exchange gains and losses and (v) amortization.

Research and development expenses consist primarily of personnel and related costs associated with the Company's research and development efforts, including the development of new products,

enhancements to existing products, quality assurance activities, software development, tools and equipment. The Company is entitled to certain scientific research and experimental development (“SR&ED”) Canadian tax credits for qualifying research and development activities performed in Canada. Expenses are shown net of applicable SR&ED tax credits.

Sales and marketing expenses consist primarily of costs relating to personnel and to the Company's sales and marketing activities, including the salaries and commissions paid to the Company's sales force, commissions paid to independent industry sales representatives, advertising, trade shows and other promotional expenses.

General and administrative expenses are comprised primarily of costs relating to personnel and related costs associated with the administration of the Company's business, including, information technology, finance and customer support functions, legal and other professional fees, rental of office and manufacturing space, insurance and other corporate and overhead expenses.

Amortization of property and equipment and intangible assets is recorded over the estimated useful lives of the assets on a straight-line basis. Intangible assets consist primarily of intellectual property including issued patents, and patents for which applications have been filed, trademarks, domain names, technological assets, customer lists and certain agreements.

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INTERIM PERIOD OPERATING RESULTS

Revenue

The Company's reporting currency is in US dollars. For the three month period ending June 30th, 2010 ("Q1-F11") approximately 90% of the Company's sales revenues were in US dollars.

Highlights (for Q1-F11):

- Achieved sales revenues of \$20.0 million
 - Increase of 24.8% from same period prior year
- Achieved record purchase orders totaling \$21.2 million
 - Up 17.5% from same period prior year
- Achieved new company records in the following markets and regions:
 - Electric Power market had record revenues of \$13.4 million - up 28.9% year-over year
 - Transportation market had record revenues of \$3.8 million - up 37.5% year-over-year
 - Transportation market had record orders of \$4.6 million - up 60.4% year-over-year
 - EMEA region had record orders of \$5.2 million - up 13.9% year-over-year
- A total 451 customers placed orders
 - Increase of 5.4% from same period prior year
 - 92 (or 20%) were new customers

Sales for Q1-F11 were \$20.0 million compared to \$16.0 million for the same period in the last fiscal year, representing an increase of 24.8%. Customer purchase orders for Q1-F11 totaled \$21.2 million compared to \$18.1 million for the same period last year, representing an increase of 17.5%. Purchase orders for Q1-F11 were also the highest in the history of the Company and represented a sequential increase of 16.4% from the prior quarter of \$18.3 million.

In general, sales for Q1-F11 were driven by the continued deployment of IP-based rugged communications networking solutions across all of the Company's target markets and regions to both existing and new customers. New records for sales revenues were established in the Electric Power and Transportation markets while new records for orders were established in the Transportation market and the region of EMEA (Europe, Middle-East and Africa)

Sales by Market

Electric Power

Sales in the electric power market for Q1-F11 totaled \$13.4 million compared to \$10.4 million for the same period in the prior fiscal year, representing an increase of 28.9%. Sales in the electric power market for Q1-F11 comprised 67.2% of total Company sales for the quarter compared to 65.1% for the same period in the prior fiscal year. In addition, Q1-F11 sales established a new company record for quarterly sales in this sector. Sales in the electric power market continue to be led by the deployment of the Company's rugged communications networking solutions for use in substation automation as part of electric power grid modernization of transmission and distribution infrastructure across all geographic regions.

Transportation

Sales in the transportation market for Q1-F11 totaled \$3.8 million compared to \$2.8 million for the same period in the prior fiscal year, representing an increase of 37.5% and a new Company record for quarterly sales in this market. Sales in the transportation market for Q1-F11 comprised 19.2% of total Company sales for the quarter compared to 17.4% for the same period in the prior fiscal year. Growth in the current quarter was led by sales from the USA region, which has historically been the largest contributor. The Company believes that growth in this sector is being driven in part by stimulus spending in the USA on transportation infrastructure as well as government regulations requiring US rail companies to implement positive train control systems by December 2015. The Company expects, and it has been the Company's experience, that revenues from the transportation market could experience quarterly volatility for the remainder of the current fiscal year depending on project activity in the USA and the Company's ability to generate sales in other geographic regions.

Industrial

Sales in the industrial process market for Q1-F11 totaled \$1.7 million compared to \$1.5 million for the same period in the prior fiscal year, representing an increase of 12.2%. Sales in the industrial process market for Q1-F11 comprised 8.3% of total Company sales for the quarter compared to 9.3% for the same period in the prior fiscal year. Sales in this sector were driven primarily by sales of the Company's RuggedSwitch® family of industrial Ethernet switches for use in process automation applications across all geographic regions. The Company expects that revenues in this sector could experience quarterly volatility depending on global spending on process automation in the Oil and Gas, Mining and Metals, and Chemical sectors.

Military

Sales in the military market for Q1-F11 totaled \$1.0 million compared to \$1.3 million for the same period in the prior fiscal year, representing a decrease of 25.1%. Sales in the military market for Q1-F11 comprised 4.8% of total Company sales for the quarter compared to 7.9% for the same period in the prior fiscal year. The Company's experience indicates that sales by the Company in the military sector have quarterly variability due the nature of sales in this sector, which are characterized by long sales cycles and a relatively small number of large scale projects and a relatively small customer base.

(Unaudited) MARKET/SECTOR	Three months ended June 30 (as percentage of total)		Three months ended June 30 (\$ thousands)		Change
	2010	2009	2010	2009	%
Electric Power (Utilities)	67.2%	65.1%	\$13,437	\$10,425	+28.9%
Transportation	19.2%	17.4%	\$3,836	\$2,791	+37.5%
Industrial.....	8.3%	9.3%	\$1,663	\$1,482	+12.2%
Military	4.8%	7.9%	\$953	\$1,273	-25.1%
Other.....	<u>0.5%</u>	<u>0.3%</u>	<u>\$101</u>	<u>\$47</u>	<u>+116.2%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$19,990</u>	<u>\$16,017</u>	<u>+24.8%</u>

Notes:

(1) Totals may not equal column sum due to rounding

Sales by Region

North America

North America sales for Q1-F11 totaled \$8.6 million compared to \$7.8 million for the same period in the prior fiscal year, representing an increase of 9.9%. Sales in North America for Q1-F11 comprised 42.8% of total Company sales for the quarter compared to 48.7% for the same period in the prior fiscal year. Q1-F11 North America sales were driven primarily by sales in the electric power and transportation sectors.

Europe, Middle-East and Africa (EMEA)

EMEA sales for Q1-F11 totaled \$5.3 million compared to \$4.5 million for the same period in the prior fiscal year, representing an increase of 18.6%. Sales in EMEA for Q1-F11 comprised 26.6% of total Company sales for the quarter compared to 28.0% for the same period in the prior fiscal year. Q1-F11 EMEA sales were driven primarily by sales in the electric power sector.

Asia-Pacific (APAC)

APAC sales for Q1-F11 totaled \$4.4 million compared to \$2.7 million for the same period in the prior fiscal year, representing an increase of 64.1%. Sales in APAC for Q1-F11 comprised 21.9% of total Company sales for the quarter compared to 16.6% for the same period in the prior fiscal year. Q1-F11 APAC sales were driven primarily by sales in the electric power sector

Latin America

Latin America sales for Q1-F11 totaled \$1.7 million compared to \$1.1 million for the same period in the prior fiscal year, representing an increase of 61.5%. Sales in Latin America for Q1-F11 comprised 8.6% of total Company sales for the quarter compared to 6.7% for the same period in the prior fiscal year. Q1-F11 Latin America sales were driven primarily by sales in the electric power sector.

(Unaudited) REGION	Three months ended June 30 (as percentage of total)		Three months ended June 30 (\$ thousands)		Change
	2010	2009	2010	2009	%
North America.....	42.8%	48.7%	\$8,566	\$7,795	+9.9%
Latin America.....	8.6%	6.7%	\$1,728	\$1,070	+61.5%
Asia Pacific.....	21.9%	16.6%	\$4,373	\$2,665	+64.1%
Europe, Middle East & Africa ...	<u>26.6%</u>	<u>28.0%</u>	<u>\$5,324</u>	<u>\$4,487</u>	<u>+18.6%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$19,990</u>	<u>\$16,017</u>	<u>+24.8%</u>

Notes:

(1) Totals may not equal column sum due to rounding

Sales by Customer

The total number of customers who placed orders in Q1-F11 was 451 as compared to 428 for the same period in the previous financial year, an increase of 5.4%. In Q1-F11 the Company also added 92 new customers as compared to 105 for the same period in the prior fiscal year, representing a decrease of 12.4%. For the three month period ended June 30, 2010 the electric power sector contributed the largest number of new customers (i.e. 55 out of 92) accounting for 59.8% of the total new customers in the period.

In Q1-F11 the Company's top ten customers accounted for 44.2% of sales revenues. There were no customers which accounted for more than 10% of the Company's sales revenues in Q1-F11 or the same period in the prior year.

Gross Margin

Gross margin for Q1-F11 increased 31% to \$11.9 million, compared to \$9.1 million in the same period in the last fiscal year, but as a percentage of revenue, increased to 59.7% from 56.7% for the same period in the last fiscal year.

The lower gross margin percentage experienced in the year ago Q1-F10 period was largely due to a significant strengthening of the Canadian dollar against the US dollar during Q1-F10, which had a negative effect on margins, as inventory purchased when the Canadian dollar was relatively weaker, was later sold generating US dollar revenue which was translated at rates of exchange reflecting a stronger Canadian dollar. The majority of the Company's revenues and cost of goods sold are US dollar denominated and therefore gross margins are generally unaffected by movements in the Canadian to US dollar exchange rate. However, during periods of high exchange rate volatility, gross margins are impacted by exchange rate translations.

Operating Expenses

The following table presents additional comparative data for the Company's operating expenses:

Expenses as a Percentage of Revenue

	Three months ended June 30 (unaudited)	
	2010	2009
	\$	\$
Revenue	<u>19,990</u>	<u>16,017</u>
Research and development	2,918	2,025
% of revenue	14.6%	12.6%
Sales and marketing.....	3,989	2,978
% of revenue	20.0%	18.6%
General and administrative	2,401	1,953
% of revenue	12.0%	12.2%
Investment tax credits	(499)	(187)
% of revenue	-2.5%	-1.2%
Foreign exchange loss	(533)	531
% of revenue	-2.7%	3.3%
Amortization.....	1,287	393
% of revenue	6.4%	2.5%
Total operating expenses	<u>9,563</u>	<u>7,693</u>
% of revenue	47.8%	48.0%

Research and Development Expenses

Research and development expenses for Q1-F11 (net of \$0.5 million of accrued investment tax credits) increased 44% to \$2.9 million, or 14.6% of revenue, compared to \$2.0 million, or 12.6% of revenue, for the same period in the previous fiscal year. The increase in absolute dollar expense for Q1-F11 compared to the corresponding prior period was mainly attributable to increased research and development personnel costs resulting from an increase in the number of employees over the past 12 months from 57 to 96 (including additional headcount as a result of the WiNetworks acquisition), and to the continued development of new products and the enhancement of existing products.

Sales and Marketing Expenses

Sales and marketing expenses for Q1-F11 increased 34% to \$4.0 million, compared to \$3.0 million for the same period in the previous fiscal year, representing 20.0% and 18.6% of total revenues for each period, respectively. The increase in dollar amounts for Q1-F11 compared to the corresponding prior period was partially attributable to an increase in marketing activities, including higher levels of

advertising, trade show and related promotional expenses. An increase in the Company's sales personnel over the past 12 months from 41 to 56 and an increase in their total compensation, a portion of which is performance based, contributed to the increase. The Company expects that selling and marketing expenses will continue to increase in dollar amounts in future periods as amounts paid out to its sales force and to industry sales representatives increase commensurate with the growth in the Company's sales, as overall marketing activities and efforts increase, and as the Company continues to invest in marketing activities to promote its products.

General and Administrative Expenses

General and administrative expenses for Q1-F11 increased 23% to \$2.4 million, compared to \$2.0 million for the same period in the last fiscal year, representing 12.0% and 12.2% of total revenues for each period, respectively. The increase in absolute dollar expense for Q1-F11 compared to the corresponding year ago period was mainly attributable to the inclusion of approximately \$0.4 million of general and administrative expense associated with WiNetworks. In addition, an increase in the Company's general and administrative staff over the past year, as well as annual staff salary increases which took effect April 1, 2010, also contributed to the increase.

Investment Tax Credits

Beginning with Q2-F10 the Company began to report its investment tax credits separately from research and development expenses. The Company believes separate disclosure provides a better understanding of the gross research and development expenditures being made. In Q1-F11 the Company recorded \$0.5 million of investment tax credits compared with \$0.2 million in the same period last year. Investment tax credits include research and development grants received by the Company's WiNetworks subsidiary.

Foreign Exchange Loss/Gain

In Q1-F11 the Company realized foreign exchange gains of \$0.5 million primarily due to the weakening of the Canadian dollar against the US dollar during the quarter and the positive impact this had on the Company's US dollar denominated working capital (i.e. US\$ receivables). This compares to foreign exchange losses of \$0.5 million for the same period in the prior fiscal year due to the opposite effect of a strengthening Canadian dollar during Q1-FY10.

Prior to December 31, 2009 the Company had never hedged its foreign exchange exposure, believing that losses and gains tend to even out in the long run. As well, the Company has a partial natural hedge in that most of its revenues and cost of sales expenses are US dollar denominated. However, in an effort to partially counteract volatility experienced in the foreign exchange markets, in early April 2010 the Company entered into a forward contract with a major Canadian bank to sell US dollars during Q1-F11. There were no outstanding obligations relating to the forward contract as at June 30, 2010. Similar forward sales of US dollars were made in early July 2010.

Amortization

Amortization expense for Q1-F11 increased 228% to \$1.3 million, compared to \$0.4 million for the same period in the prior fiscal year, representing 6.4% and 2.5% of total revenues for each period, respectively. The increased amortization was due to a combination of factors, including significant leasehold improvements made to our new office and manufacturing facility in fiscal 2010, amortization of the intangible assets acquired as a result of the WiNetworks acquisition and the inclusion of amortization expense from WiNetworks' operations.

Interest and Other Income

The Company earned \$31,000 of interest income in Q1-F11 compared to \$63,000 of interest expense incurred in the same period last fiscal year. Interest income for Q1-F11 was earned on the Company's cash and cash equivalents, less a nominal amount of interest expense related principally to capital leases. The decrease in net interest income compared to the same quarter in the prior year is due to lower levels of cash available for investment due to the acquisition of WiNetworks and leaseholds improvements made at the Company's existing office and manufacturing facility.

Income Tax Expense

The Company recorded a tax provision for Q1-F11 of \$1.2 million which equates to an effective tax rate of 49.7%. This rate is higher than the statutory rate of approximately 28% due to the existence of certain permanent differences. This compares to a \$0.6 million income tax expense for the same period in the prior year, representing an effective tax rate of 38.8%.

Net Earnings

Net income before taxes for Q1-F11 was \$2.4 million compared to \$1.4 million for the same period in the last fiscal year, representing 12.0% and 9.0%, respectively, of total revenues for each period. Net income before taxes for Q1-F11 increased compared to the same period a year ago due to increased revenues and gross margin, including an increase in gross margin percentage (59.7% compared to 56.7%). The increase was also attributable to the realization of \$0.5 million of foreign exchange gains in Q1-FY11 versus \$0.5 million of foreign losses in the same period a year ago. The positive effects of the foregoing were partially offset by an increase in operating expenses to support the growth of our core business, as well as inclusion of WiNetworks losses for the period.

Net income after taxes for Q1-F11 was \$1.2 compared to \$0.9 million for Q1-F10, representing 6.0% and 5.5%, respectively, of total revenues for each period.

Outlook

In the long term, we believe we are well positioned to take advantage of the planned global infrastructure spending, specifically in the Electric Power and Transportation sectors.

The growth in Smart Grid momentum continues as demand for substation communication networks remains strong. In addition, the initial findings from the January 2010 Newton-Evans study of Electric Power Transmission and Distribution Investment revealed that over 80% of the responding utilities plan to increase or maintain capital expenditures in Smart Grid programs. However, the focus in Smart Grid could be shifting from Smart Metering to Distribution Automation, which could have the benefit of a shorter implementation cycle with little or no involvement of consumers. The large opportunities in the Smart Grid market could attract more competitors, which could result in increased competitive pricing pressure, particularly from local competitors in Asia and EMEA.

Strong order growth in the transportation sector is being driven by rail applications for Positive Train Control in the USA which has become a regulatory requirement for implementation by railway companies by December 2015. In addition, there is the potential for large opportunities in rail globally as countries such as India and China plan to modernize or build new rail infrastructure.

It is still too early to determine how the recent sovereign debt crisis affecting certain EU countries could impact government funded infrastructure projects in the Electric Power and Transportation sectors.

Ramping up sales of our WiMAX products and new product platforms in our key target markets could take longer than expected which could impact near term revenues and earnings growth. However, active opportunities for our RuggedMAX™ WiMAX technology are increasing across all of our markets with our first major order coming from the Oil and Gas sector in the Industrial market. We are also seeing multiple opportunities in the Military sector, including initial orders for our new product platforms.

Our objective remains to run the business for long term growth and profitability. Research and development will continue to be a key focus as the Company continues to invest in new product and service development and in current product and service enhancements. Additional resources will continue to be committed to sales and marketing as the Company further develops its global sales channels and continues to promote the RuggedCom brand in its key target markets. The Company will continue to evaluate potential acquisitions that offer complimentary products and services that can leverage our existing customer base.

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LIQUIDITY AND CAPITAL

	<u>As at June 30,</u> <u>2010</u>	<u>As at March 31,</u> <u>2010</u>
(In thousands, except Balance Sheet ratios)		
Key Balance Sheet Amounts and Ratios:		
Cash and cash equivalents	\$ 32,878	\$ 33,140
Working capital	51,549	51,897
Long term assets	24,029	25,624
Long term liabilities	1,304	1,363
Working capital ratio ⁽¹⁾	8.0	6.9
Days sales outstanding in accounts receivable ⁽²⁾	46 days	43 days
Inventory turnover ⁽³⁾	3.2 times	3.6 times

Notes:

- (1) Current assets divided by current liabilities.
- (2) Days sales in accounts receivable represents the number of days' worth of sales uncollected as at the date indicated. It is derived by calculating the number of days required to accumulate total cumulative daily sales equal to the current trade receivable balance.
- (3) Inventory turnover is defined as the total cost of goods sold for the last 12 months' period divided by the average inventory balance over that same 12 months.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term highly liquid investments that are readily convertible into known amounts of cash within three months or less and are subject to an insignificant risk of change in value.

Investments in cash equivalents and marketable securities are governed by the Company's Cash Management & Investment Policy as approved by the Board of Directors. Excess funds are invested in accordance with sound investment management principles. The policy stipulates that investments will at all times be based on the requirements for safety, liquidity and yield in that order of importance.

As at June 30, 2010, the Company had \$32.9 million of cash and cash equivalents compared to \$33.1 million as at March 31, 2010.

Working Capital

Working capital is defined as current assets less current liabilities. The Company's working capital balance decreased slightly to \$51.5 million at June 30, 2010 compared to \$51.9 million at the end of fiscal 2010. The Company's working capital ratio (current assets divided by current liabilities) increased to 8.0:1 compared to a working capital ratio of 6.9:1 as at March 31, 2010 mainly due to a 13% decrease in trade payables and accrued liabilities.

The Company's accounts receivable balance decreased \$1.5 million to \$12.0 million from \$13.5 million at the end of fiscal 2010. Days sales outstanding in accounts receivable ("DSO") increased to 46 days at March 31, 2010 from 43 days at the end of fiscal 2010. The Company's DSO could trend upward

to the extent that the Company increases its revenue base in markets outside of North America as, in the Company's experience, international receivables tend to take longer to collect. The Company's allowance for doubtful accounts increased from \$44,000 at the end of fiscal 2010 to \$67,000 as at March 31, 2010. (See "Critical Accounting Policies and Estimates – Allowance for Doubtful Accounts.")

Inventory balances increased by \$0.9 million to \$11.4 million at the end of Q1-FY11 from \$10.5 million at the end of fiscal 2010. Inventory levels increased in anticipation of receiving future orders for both wired and wireless products, in addition to advance purchase of certain components to achieve unit cost reductions. Inventory turnover, calculated using the last 12 months' cost of sales and average inventory balances, decreased from 3.6 times at the end of fiscal 2010 to 3.2 times at the end of Q1-FY11. The inventory turn calculation includes the impact of inventory held by WiNetworks. The Company would normally expect inventory turnover to increase over time as the Company continues to achieve cost productivity gains as a result of the growth in its business. However, the Company gives priority to meeting customers' request dates for delivery, which may require the stocking of additional inventory in order to meet short delivery schedules. This can occasionally impact inventory turnover negatively. In addition, there will likely be a negative impact on inventory turns for the next several quarters as a result of the WiNetworks acquisition, due to relatively high existing WiNetworks inventory levels coupled with slower revenues.

Accounts payable and accrued liabilities decreased \$1.0 million to \$6.6 million at the end of Q1-FY11 from \$7.6 million at the end of fiscal 2010.

Cash Provided by (used in) Operating Activities

The Company generated \$2.3 million cash in operating activities in Q1-F11 as compared to using \$2.2 million in the same period last fiscal year. For Q1-F11, \$1.2 million was provided through operating performance. Approximately \$1.8 million cash was provided by non-cash items, offset by \$0.7 million cash used through the net change in current non-cash working capital. In the same period in the last fiscal year, \$2.2 million cash was used by operating activities. Approximately \$0.9 million was provided through operating performance. The balance related to \$0.8 million provided by non-cash items, offset by \$3.9 million cash used through the net change in current non-cash working capital.

Investing Activities

Additions of capital assets were \$1.0 million for Q1-F11 compared with \$1.2 million for the same period in the last fiscal year. These additions represent continued investment by the Company in hardware, software and tooling as well as office and information technology infrastructure. See "Capital Resources."

Financing Activities

During Q1-F11 the Company issued 12,480 common shares upon exercise of employee stock options for net proceeds of approximately \$57,000. Also during Q1-F11 the Company repaid capital lease obligations of approximately \$26,000. There were no other financing activities during the quarter.

During Q1-F10 the Company issued 250,000 common shares for net proceeds of \$1.5 million pursuant to the exercise of a share purchase warrant held by Korona Group Ltd. During this period the

Company also issued 33,642 common shares upon exercise of employee stock options for net proceeds of approximately \$206,000.

The Company also has a credit facility from a chartered financial institution as well as outstanding capital leases under which periodic payments are made. See "Contractual Obligations" and "Capital Resources."

Outstanding Share Capital

The Company's authorized share capital is comprised of an unlimited number of common shares of which there are 12,156,938 outstanding as of the date of this MD&A.

Financial Instruments

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

The Company is subject to financial risk related to earnings and expenses that arises from fluctuations in foreign exchange rates. From time to time the Company enters into forward foreign exchange contracts to mitigate the risk of fluctuations in foreign currencies.

Contractual Obligations

The majority of the Company's contractual obligations consists of current and long-term capital and operating lease obligations. The Company also accrues warranty costs regarding the five year warranty associated with the sale of its products. As at June 30, 2010 the Company had long-term liabilities of \$1.3 million. This compares to long-term liabilities of \$1.4 million as at March 31, 2010.

Capital Resources

Future capital expenditures will continue to be funded through a combination of internally generated cash flows and capital lease financing. Capital expenditures will continue to include a mix of computer hardware, software, test equipment, tooling, leasehold improvements and office furniture as the Company continues to invest in its office and IT infrastructure. .

The Company also has a credit facility from a chartered financial institution comprising a \$0.94 million (Cdn \$1.0 million) revolving demand facility that is secured by certain of our assets. The facility is available for working capital requirements and general corporate purposes. As at June 30, 2010 there were no borrowings outstanding under the facility. During fiscal 2010, the Company issued performance guarantees in favour of a customer for a total of approximately \$139,000 and a portion of the revolving demand facility will be allocated for these guarantees. The guarantees expire in 2013 and 2014.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than those disclosed under "Contractual Obligations" and "Financial Instruments".

Transactions with Related Parties

The Company did not enter into any transactions with related parties during Q1-FY11 or during fiscal year 2010.

Limitation on Scope of Design of DC&P and ICFR

The CEO and CFO have limited the scope of the Company's disclosure controls and procedures and the design of internal controls over financial reporting as of June 30, 2010 to exclude the controls, policies and procedures of WiNetworks Ltd., acquired by the Company during Q2-F10. WiNetworks Ltd. will be included within the scope of the Company's disclosure controls and procedures and the design of internal controls over financial reporting within one year of the date of acquisition.

Summary Financial Information for WiNetworks Ltd. for the Period Ending June 30, 2010					
	(Unaudited)	Three months ended June 30, 2010		From acquisition date of September 17, 2009 to March 31, 2010	
	Revenue	\$ 642	(1)	\$ 1,551	(2)
	Loss before discontinued operations and extraordinary items	\$ 1,308		\$ 2,344	
	Net loss for the period	\$ 1,308		\$ 2,344	
		As at June 30, 2010			
	Current assets	\$ 4,341			
	Non-current assets	\$ 1,879			
	Current liabilities	\$ 9,124	(3)		
	Non-current liabilities	\$ 535			
(1)	Includes intercompany sales of \$289 to parent company, RuggedCom Inc.				
(2)	Includes intercompany sales of \$653 to parent company, RuggedCom Inc.				
(3)	Includes intercompany payable of \$7,727 to parent company, RuggedCom Inc.				

Selected Consolidated Quarterly Information

(In thousands, except share amounts, data expressed as percentages and per share data)

(Unaudited)	Fiscal 2011		Fiscal 2010				Fiscal 2009		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	
Revenue	\$ 19,990	\$ 19,382	\$ 20,600	\$ 16,740	\$ 16,017	\$ 17,416	\$ 15,821	\$ 14,385	
Cost of goods sold	<u>8,064</u>	<u>8,023</u>	<u>8,248</u>	<u>6,847</u>	<u>6,940</u>	<u>6,371</u>	<u>5,420</u>	<u>5,594</u>	
Gross margin	11,926	11,359	12,352	9,893	9,077	11,045	10,401	8,791	
Gross margin %	59.7%	58.6%	60.0%	59.1%	56.7%	63.4%	65.7%	61.1%	
Operating expenses:									
Research and development	2,918	2,901	2,536	1,780	2,025	1,414	1,191	1,156	
Sales and marketing	3,989	3,792	3,942	3,485	2,978	3,022	2,666	2,513	
General and administrative	2,401	2,358	2,602	1,808	1,953	1,518	1,346	1,238	
Investment tax credits	(499)	(572)	(344)	(199)	(187)	(410)	(139)	(404)	
Foreign exchange loss (gain)	(533)	487	335	998	531	45	(595)	(384)	
Amortization	<u>1,287</u>	<u>1,165</u>	<u>1,002</u>	<u>508</u>	<u>393</u>	<u>307</u>	<u>271</u>	<u>329</u>	
Total operating expenses	<u>9,563</u>	<u>10,131</u>	<u>10,073</u>	<u>8,380</u>	<u>7,693</u>	<u>5,896</u>	<u>4,740</u>	<u>4,448</u>	
Net interest income (expense)	<u>31</u>	<u>(11)</u>	<u>25</u>	<u>38</u>	<u>63</u>	<u>142</u>	<u>303</u>	<u>382</u>	
Earnings before income taxes	2,394	1,217	2,304	1,551	1,447	5,291	5,964	4,725	
Provision for income taxes - current	985	747	1,001	492	505	1,470	1,829	1,523	
Provision (recovery) for income taxes - future	<u>204</u>	<u>(632)</u>	<u>110</u>	<u>54</u>	<u>57</u>	<u>403</u>	<u>153</u>	<u>(3)</u>	
Net earnings	<u>\$1,205</u>	<u>\$1,102</u>	<u>\$1,193</u>	<u>\$1,005</u>	<u>\$885</u>	<u>\$3,418</u>	<u>\$3,982</u>	<u>\$3,205</u>	
Net Earnings Per Common Share:									
Basic	\$ 0.10	\$ 0.09	\$ 0.10	\$ 0.08	\$ 0.07	\$ 0.29	\$ 0.34	\$ 0.27	
Diluted	\$ 0.10	\$ 0.09	\$ 0.10	\$ 0.08	\$ 0.07	\$ 0.28	\$ 0.33	\$ 0.26	
Weighted Average Number of Common Shares Outstanding									
Basic	12,147,149	12,139,771	12,115,981	12,098,002	11,896,306	11,804,347	11,798,435	11,763,504	
Diluted	12,399,988	12,553,459	12,463,263	12,574,050	12,623,918	12,417,319	12,251,346	12,356,833	
Other data:									
EBITDA ⁽¹⁾	\$ 3,650	\$ 2,393	\$ 3,281	\$ 2,021	\$ 1,777	\$ 5,456	\$ 5,932	\$ 4,672	
EBITDA Margin ⁽¹⁾ %	18.3%	12.3%	15.9%	12.1%	11.1%	31.3%	37.5%	32.5%	

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures" above.

Net Earnings to EBITDA Reconciliation

(Unaudited)	Fiscal 2011		Fiscal 2010				Fiscal 2009		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	
Net earnings	\$1,205	\$1,102	\$1,193	\$1,005	\$885	\$3,418	\$3,982	\$3,205	
Net interest income	(31)	11	(25)	(38)	(63)	(142)	(303)	(382)	
Taxes	1,189	115	1,111	546	562	1,873	1,982	1,520	
Amortization	<u>1,287</u>	<u>1,165</u>	<u>1,002</u>	<u>508</u>	<u>393</u>	<u>307</u>	<u>271</u>	<u>329</u>	
EBITDA^{(1) (2)}	<u>\$3,650</u>	<u>\$2,393</u>	<u>\$3,281</u>	<u>\$2,021</u>	<u>\$1,777</u>	<u>\$5,456</u>	<u>\$5,932</u>	<u>\$4,672</u>	

Notes:

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures" above.

(2) EBITDA includes investment tax credits.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The significant areas requiring management's estimates include the estimates of the allowance for doubtful accounts, allowance for inventory obsolescence, the estimated useful lives of long-lived assets, the value of future income tax assets and liabilities, accruals for warranty and employee-related liabilities, and assumptions relating to the fair value of stock-based compensation, warrants and financial instruments.

Revenue Recognition

The Company derives revenue from the sale of Ethernet based networking products, which includes embedded software and a license to use said software, post contract customer support, customer services and product warranties. Software is considered to be incidental to the product. Post contract customer support consists of on-site support. Services range from installation and training to basic consulting. Revenue is recognized when persuasive evidence of an arrangement exists, shipment has occurred, there are no significant remaining vendor obligations, collection of receivables is probable and the fee is fixed and determinable. The Company's business agreements contain multiple elements, however to date revenue from multiple elements has not been significant. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element. For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the relative selling price method of the separate units of accounting. These elements may include one or more of the following: hardware, software, installation, and other professional service offerings. 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 price, and if both are not available, estimated selling prices are used. The undelivered portion of the arrangement fee is 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.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria, as services are rendered.

Shipping and handling costs borne by the Company are recorded in costs of goods sold. Shipping and handling costs charged to customers are recorded as a reduction of cost of goods sold and recorded as revenue.

Allowance for Doubtful Accounts

The Company's accounts receivable balance as at June 30, 2010 was \$12.0 million compared to \$13.5 million at March 31, 2010. The allowance for doubtful accounts was \$67,000 as at June 30, 2010 compared to \$44,000 as at March 31, 2010.

The allowance for doubtful accounts represents management's best estimate of potential losses that may be incurred if customers are unable to pay for products and services provided by the Company. Management regularly reviews its accounts receivable and makes an assessment as to the collectibility of each receivable. For those amounts deemed to be uncollectible, an allowance is recorded on a by-account basis.

Inventory

Inventories are recorded at the lower of cost or market value, cost being determined on an average cost basis. The cost of finished goods and work-in-process is comprised of material, labour and manufacturing overhead.

Warranty Costs

The Company's products have an associated five-year product warranty. A liability for the expected cost of warranty related claims is established when products are sold and the related revenue is recognized. The amount of the warranty liability accrued reflects an estimate of the expected future costs of honouring obligations under the warranty. In estimating the warranty liability, anticipated replacement costs and associated labour to correct the product's failure are considered. Should future product failure rates and/or replacement costs differ from these estimated levels, revisions to the warranty liability may be required.

Investment Tax Credits

The Company is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development. Tax incentives refundable to the Company are recorded when the qualifying expenditure is incurred and there is a reasonable assurance that the refund will be received.

Research and Development Costs

Research and development costs incurred prior to establishing the technological feasibility of products are expensed as incurred. Once the technological feasibility is established, direct costs incurred to develop the product, net of investment tax credits received, are capitalized until the product is available for general release. To date, products developed have had a very short time frame between technological feasibility and commercialization. As a result, the Company has expensed all related costs as incurred.

Stock-based Compensation

The Company reports and records all stock-based transactions following the guidelines of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments." The guidelines use a fair value methodology for recording all stock-based awards to employees issued or altered in the year. The Black-Scholes option pricing model is

used to determine the fair value. The fair value of stock options and warrants are determined at the date of grant and charged to operations over the period of vesting.

Foreign Currency Translation

For foreign currency balances and integrated subsidiaries, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date and non-monetary assets and liabilities are translated at the rate of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses are translated into Canadian dollars, the company's functional currency, at the monthly average exchange rates. Provisions for amortization are translated at the same rate as the related items.

Income Taxes

The Company accounts for income taxes under the liability method and records future income tax assets and liabilities that reflect the net income tax effects of temporary differences between carrying amounts for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are established to the extent that it is more likely than not that they will not be realized.

ACCOUNTING CHANGES

In January 2009, The Canadian Institute of Chartered Accountants (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 date of acquisition. The standard also states that the acquisition-related costs will be expensed as incurred and that the restructuring charges will be expensed in the periods after the acquisition date. This new Section 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.

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.

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, require 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.

International Financial Reporting Standards (IFRS)

In February 2008, Canada’s Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged with IFRS, as issued by the International Accounting Standards Board (IASB). For its fiscal 2012 interim and annual financial statements, the Company will be required to report under IFRS and to provide IFRS comparative information for the 2011 fiscal year.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. As part of the IFRS conversion project, the Company has

established an implementation team. The Company has also engaged an external advisor to assist in the conversion to IFRS.

The conversion project consists of three phases:

Scoping and Diagnostic Phase – This phase involves a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters and a high-level assessment of potential consequences for financial reporting, business processes, internal controls and information systems.

Design and Solutions Development Phase – This phase involves prioritizing accounting treatment issues and preparing a conversion plan, quantifying the impact of conversion to IFRS, reviewing and approving accounting policy choices, performing a detailed impact assessment and designing changes to systems and business processes, developing IFRS training material and drafting IFRS financial statement content.

Implementation and Post-Implementation Review Phase – This phase involves embedding changes to systems, business processes and internal controls; determining the opening IFRS transition balance sheet and tax impacts; conducting parallel accounting under Canadian GAAP and IFRS; and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements. This phase also involves conversion assessment, evaluating improvements for a sustainable operational IFRS model, and testing the internal controls environment.

The Company has substantially completed the diagnostic phase and the project design phase, and is continuing to develop solutions and execute its project implementation strategy. Initial training has been given to key employees, and further investments in training and resources will be made throughout the transition to facilitate a timely and efficient changeover to IFRS.

Management has assessed the exemptions from full retrospective application available under IFRS 1, “First-Time Adoption of International Financial Reporting Standards”, and their potential impact on the Company’s financial position.

On adoption of IFRS, the exemptions being considered by the Company that could result in material impacts are as follows:

Exemption	Application of Exemption
Business combinations	The Company is currently evaluating whether to restate business combinations that occurred prior to January 1, 2010
Net book value as deemed cost available for property, plant and equipment (IAS 16), investment property (IAS 40) and intangible assets (IAS 38)	The Company is considering using the net book value at transition for the majority of its equipment to value its property and equipment. Management is still in the process of determining fair value on certain key equipment to assess whether to record these assets at fair value at the transition date as allowed by IFRS 1. The Company will use depreciated cost to value property, plant and equipment subsequent to the transition date.
Leases (IFRIC 4, “Determining whether an Arrangement Contains a Lease”)	The Company has made an assessment to determine whether arrangements existing at the date of transition to IFRS contain a lease on the basis of facts and circumstances existing at the transaction date. The Company expects that all operating lease

	arrangements under Canadian GAAP will continue to be assessed as operating leases on adoption.
Cumulative transaction differences (IAS 21, “The Effects of Changes in Foreign Exchange Rates”)	The Company is currently evaluating whether to reset all cumulative translation gains and losses to zero in opening retained earnings at April 1, 2010.

Management is in the process of quantifying the expected material differences between IFRS and the current accounting treatment under Canadian GAAP. Differences with respect to recognition, measurement, presentation and disclosure of financial information are expected to be in the following key accounting areas:

Key Accounting Area	Differences with Potential Impact to the Company
Presentation of Financial Statements (IAS 1)	<ul style="list-style-type: none"> • Additional disclosures required in the notes to the financial statements, as well as a format for actual statements will change.
Property and Equipment (IAS 16)	<ul style="list-style-type: none"> • Evaluating impact of componentization on accounting policy • All significant components of furniture and fixtures, office equipment and computer hardware to be amortized according to their useful lives determined in accordance with IFRS
Impairment of Assets (IAS 36)	<ul style="list-style-type: none"> • Grouping of assets in cash-generating units (CGUs) on the basis of independent cash inflows for impairment testing purposes, using a discounted cash-flow method in a single-step approach • Goodwill is allocated to and tested in conjunction with its related CGU • Under certain circumstances, previous impairment taken (other than goodwill) is required to be reversed • The Company is currently in the process of defining its CGUs
Income Taxes (IAS 12) (subject to adoption at transition of a revised IAS 12 standard)	<ul style="list-style-type: none"> • Recognition and measurement criteria for deferred tax assets and liabilities may differ, as the underlying assets and liabilities vary.
Share-Based Payments (IFRS 2)	<ul style="list-style-type: none"> • Liabilities related to share-based payments made to employees that call for settlement in cash or other assets recognized at fair value at initial grant date and re-measured at fair value at the end of each subsequent reporting • Each installment is accounted for as a separate arrangement • This will cause a measurement difference.

Key Accounting Area	Differences with Potential Impact to the Company
Provisions and Contingencies (IAS 37)	<ul style="list-style-type: none"> • Different threshold used for recognition of a contingent liability could have an impact on the timing of when a provision may be recorded. • Different disclosure will require certain items to be disclosed differently.
Reporting and functional currency	<ul style="list-style-type: none"> • The Company is in the process of reviewing what its functional currency would be under IFRS while currently it is Canadian dollars under Canadian GAAP.

This is not an exhaustive list of all the significant impacts that could occur during the conversion to IFRS.

Additionally, the Company has prepared a preliminary IFRS financial statement format in accordance with IAS 1, “Presentation of Financial Statements,” and is in the process of analyzing the implications of the new policy choices. The effects on information technology, data systems and internal controls are ongoing and the complete impact is still being assessed. The Company does not expect that significant modifications will be necessary on conversion.

At this time the comprehensive impact of the changeover on the Company’s future financial position and results of operations is not yet determinable.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Company’s consolidated financial statements can only be measured once all the applicable IFRS standards at the conversion date are known.

The Company’s IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development or in light of new information or other external factors that could arise between now and when the changeover is completed.

Risk and Uncertainties

The risks and uncertainties discussed below are not the only ones the Company faces. Additional risks and uncertainties not presently known to it or that the Company currently considers immaterial also may impair its business operations and cause the price of its common shares to decline. If any of the following risks actually occur, its business may be harmed and its financial condition and results of operations may suffer significantly.

Competition

The market for the Company's products is highly competitive. The Company has experienced, and expects to continue to experience, substantial competition from numerous competitors whom it expects to continue to improve their products and technologies. Competitors may announce and introduce new products, services or enhancements that better meet the needs of end-users or changing industry standards, or achieve greater market acceptance due to pricing, sales channels or other factors. Competitors may be able to respond more quickly than RuggedCom to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products.

The Company competes with a wide range of competitors of varying sizes. New competitors or alliances among competitors could emerge. Many of the Company's competitors and potential competitors have significantly greater financial, technical, marketing or service resources than RuggedCom with which to pursue research and development, marketing and distribution of their products. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition than RuggedCom.

Certain of RuggedCom's original equipment manufacturers have or could acquire the internal capabilities to manufacture their own solutions competitive to RuggedCom's rather than reselling the Company's products, which could result in a reduction in its sales.

While many of the Company's direct competitors today are relatively small, consolidation is taking place in the industry resulting in competitors who are larger and better capitalized and therefore have greater resources. In addition, if two or more of the Company's competitors were to merge or partner, the change in the competitive landscape could adversely affect the Company's ability to compete effectively.

If RuggedCom's competitors offer deep discounts or more favourable purchase terms on certain products or services, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any changes would likely reduce its margins and could adversely affect its operating results, particularly if it is unable to affect the changes with a corresponding increase in the quantity of sales or through lower spending. In addition, its level of product gross margin may not be sustainable as it enters new geographic regions, adjusts its product mix or if it experiences increased warranty costs.

Growth in Key Markets

The overall market for rugged communications networking solutions has experienced significant growth in the past few years. There can be no assurance that the market for its solutions will continue to grow or grow as quickly as it currently anticipates, that firms in its target markets will adopt its solutions, or that it will be able to establish additional markets for its solutions.

Growth Management

The growth of the Company's operations places a strain on managerial, sales, financial and human resources personnel as well as its physical plant. The Company's ability to succeed will depend in large part upon its ability to manage future growth to successfully expand all aspects of its business in a timely and cost effective manner consistent with the sales growth the Company experiences.

Dependence on Electric Power Industry

The Company currently derives approximately two-thirds of its revenue from sales to the electric power market and it expects revenue from these sales to continue to account for a substantial portion of its revenue for the foreseeable future. The Company is highly dependent for its sales on the ongoing electric power market migration to Internet Protocol-based communications networks throughout the non-office environment and there can be no assurance that the migration will continue. For example, as the electric power market is a regulated industry, the migration to Internet Protocol-based networks could be adversely affected by legislative developments.

Impact of the Global Financial Crisis

Recent events in the global financial markets have created a challenging environment for many businesses. Events seemingly unrelated to us or to our industry may adversely affect us over the course of time. It is possible that credit contraction in the financial markets and reduced economic activity may adversely affect our customer base, which could result in the postponement or cancellation of customers' projects. As a result, these customers may need to reduce their purchases of our products or services and we may experience greater difficulty in receiving payment for the products and services that these customers purchase from us. These events, or any other events caused by volatility in world financial markets or a decline in economic growth, may have a material adverse effect on the Company's business, operating results and financial condition.

Currency Fluctuations

The Company enters into transactions in multiple currencies and is subject to gains and losses due to fluctuations between those currencies. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. A substantial portion of the Company's revenue is earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the US dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations internationally so it may be subject to additional gains and losses against additional currencies. The Company does not currently have a foreign exchange hedging program in place. However, in the future, it may establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, it may not hedge its entire exposure to any one foreign currency and it may not hedge its exposure at all with respect to certain foreign currencies.

Acquisitions

The Company acquired WiNetworks Ltd. on September 17, 2009 and may engage in additional selective acquisitions. There is a risk that it will not be able to identify suitable acquisition candidates available for sale at reasonable prices. It is likely to face competition for acquisition candidates from other parties including those that have substantially greater available resources. Acquisitions may involve a

number of other risks, including: diversion of management's attention; disruption to its ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development. In addition, if the Company proceeds with an acquisition, its available cash may be used to complete the transaction, diminishing its liquidity and capital resources, or shares may be issued which could cause significant dilution to existing shareholders.

Regulation

Certain components of the Company's products may be subject to current or future regulation, including relating to environmental protection, for example, lead solder and wireless solutions. Regulatory agencies may make rulings or adopt new standards with which its solutions may need to be compliant. The timing and nature of these rulings or adoption of new standards may impact future sales to the Company's customers, its ability to conform its solutions and/or to retain its market position.

In addition, in the future the Company may be required to comply with substance bans and product/component take-back requirements that would make the Company responsible for recycling and disposing of certain of its products/components that it has sold.

Reliance on Key Personnel

The Company depends on the services of its senior management and key professional, technical, sales, marketing and other specialized personnel to develop, market and support its solutions and develop the business. Most of its employees are not subject to non-competition restrictions that would prohibit them from leaving the Company to immediately join or form competitive businesses. The Company's success is highly dependent on its continuing ability to identify, hire, train, motivate and retain appropriate personnel. Competition for these personnel can be intense, and the Company cannot provide assurance that it will be able to attract or retain them. To do so, it may be necessary for the Company to materially increase the compensation it pays.

Reliance on Third-Party Suppliers

The Company relies on third-party suppliers, in some cases sole suppliers, to provide components, such as processor chips, necessary for the manufacture of its products. It depends on these suppliers to allocate to the Company a portion of their manufacturing capacity sufficient to meet its needs, to produce components of acceptable quality and to deliver those components to the Company on a timely basis at acceptable prices. The Company is not a major customer of any of its key suppliers and consequently they may be unwilling or unable to devote sufficient resources to meet the Company's requirements. Should a shortage of components occur (e.g. due to production interruption or a worldwide shortage of certain parts), a supplier may limit the number of components it may purchase. Additionally, a supplier may determine to cease production of components supplied to the Company. If it is unable to obtain sufficient allocations of these components in a timely manner, or a supplier ceases production of any if the components it relies on, production and shipment of products will be delayed. Reliance on third-party suppliers also reduces its control over production costs, delivery schedules, reliability and quality of materials.

Manufacturing and Reliance on Contract Manufacturers

The Company has one manufacturing and assembly facility which is located in Concord, Ontario at which final assembly and testing of most of its products is completed. Should the operation of the facility be interrupted for a significant period of time for any reason, its ability to fulfill orders in a timely fashion will be significantly adversely affected.

If any of the Company's outsourced manufacturers are unable or unwilling to continue manufacturing its products in required volumes and quality levels, the Company will have to identify, qualify, select and implement acceptable alternative manufacturers, which could be time consuming and costly. In addition, an alternate source may not be available to the Company or may not be in the position to satisfy the Company's production requirements at commercially reasonable prices and quality. Therefore, any significant interruption in contract manufacturing would result in the Company being unable to deliver the affected products to meet its customer orders.

Reliance on Third Party Channel Partners

The Company is dependent upon its ability to establish and develop new relationships and to build on existing relationships with channel partners including manufacturer's representatives, distributors, original equipment manufacturers, systems integrators and consultants. It currently relies and expects to rely upon these relationships in the future to sell or facilitate the sale of a material portion of its solutions. These third parties may provide the Company with direct or indirect customer referrals, cooperate with the marketing of its products and integrating its products in end-users' systems and infrastructure or include the Company as a specified supplier in their projects. It cannot provide assurance that it will be successful in maintaining or advancing its relationships with them. In addition, it cannot provide assurance that those with whom it currently has relationships will act in a manner that will promote the success of its solutions.

Some channel partners also sell products and services of the Company's competitors.

Some of the Company's competitors have been acquired by certain original equipment manufacturers with whom the Company has relationships, which could result in products and services of its competitors being favoured by them.

Protection of the Company's Intellectual Property

The Company's success depends in part on its ability to protect its rights in its intellectual property. The Company relies on various intellectual property protections, including patents, copyright, trade-mark and trade secret laws and contractual provisions, to preserve its intellectual property rights. Despite these precautions, it may be possible for third parties to obtain and use RuggedCom's intellectual property without its authorization. Policing unauthorized use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of Canada and the United States. Furthermore, many key aspects of networking technology are governed by industry wide standards, which are freely available to all market entrants.

To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of its management, cause significant delays and materially disrupt the conduct of its business.

Rapid Technological Change

The markets for the Company's products are characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction by competitors of products embodying new technology and the emergence of new industry standards can render RuggedCom's existing products obsolete and unmarketable and can exert price pressures on existing products. It is critical to the Company's success that it be able to anticipate and react quickly to changes in technology or in industry standards and successfully develop and introduce new, enhanced and competitive products on a timely basis. The Company cannot give assurance that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or

enhanced existing products by others will not render the Company's products obsolete. The process of developing new technology is complex and uncertain, and, if RuggedCom fails to accurately predict customers' changing needs and emerging technological trends, its business could be harmed. The Company must commit significant resources to developing new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, and result in increased operating expenses.

Product Defects and Liability Claims

The Company is subject to proceedings and claims that may arise in the ordinary conduct of the business, which could include product and service warranty claims, which could be substantial. The Company's products are highly complex and sophisticated, and could contain design defects or software errors that are difficult to detect and correct. The Company provides product warranties that typically run for five years. If its products fail to perform as warranted and it fails to resolve product quality or performance issues in a timely manner, sales may be lost and it may be forced to pay damages. In addition, because its products are sold and marketed in different countries, the products must function in and meet the requirements of many different environments and be compatible with different systems. Any failure to meet customer requirements could materially affect its business, results of operations and financial condition. The occurrence of product defects and the inability to correct errors could result in the delay or loss of market acceptance of its products, material warranty expense, diversion of engineering and other resources from its product development efforts, and the loss of credibility with its customers, manufacturer's representatives, distributors, value added resellers, systems integrators, original equipment manufacturers and end-users, any of which could have a material adverse effect on the Company's business, operating results and financial condition.

The Company does not currently maintain product liability insurance coverage. The Company has not experienced a material product liability claim to date; however, if that claim were to arise it would likely be substantial in light of the use of its products in mission critical applications. A successful product liability claim could result in significant monetary liability and could seriously disrupt or harm its business.

International Risk

The Company's international operations are significant and it intends to continue to expand these international operations. RuggedCom's foreign operations face additional specific local risks, which may adversely affect the Company, including: changes in legal and regulatory requirements (including tariffs and other trade barriers); less favourable intellectual property laws; any loss of sales personnel in one of RuggedCom's small foreign offices that could result in a significant loss of sales in that foreign country; changes in local tax rates and other potentially adverse tax consequences (including the cost of repatriation of earnings); collectibility of accounts in foreign jurisdictions; and burdens of complying with a wide variety of foreign laws, including changing import and export regulations.

The Company believes that its future growth depends in large part on its ability to increase its business in international markets. This will require significant management attention and financial resources, including capital to hire additional personnel and establish additional international facilities.

Economic and Geopolitical Uncertainty

The market for RuggedCom's solutions depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond the Company's control. In addition, acts of terrorism and the outbreak of hostilities, disease, and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or

geopolitical uncertainties may cause end-users to delay or cancel projects, reduce their overall information technology budgets or reduce or cancel orders for the Company's solutions, which could have a material adverse effect on its business, results of operations and financial condition.

Fluctuations in Quarterly Results

The Company's quarterly operating results have fluctuated in the past and may fluctuate significantly in the future depending on factors such as seasonality, demand for its products, the size and timing of orders, progress on implementation of projects, the number, timing and significance of new product announcements by the Company and its competitors, the ability to develop, introduce and market new and enhanced versions of products on a timely basis, the level of product and price competition, changes in operating expenses, changes in the sales incentive strategy, sales personnel changes and general economic factors, among others. A significant portion of the Company's expenses are based on expectations of future revenue and, therefore, is relatively fixed in the short-term. Accordingly, if revenue levels are below expectations, operating results are likely to be adversely affected.

The Company relies on individual purchase orders for product sales to customers and has no long-term customer supply contracts providing for specified sales. Because its quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of its sales prospects into revenue could cause the Company to plan or budget inaccurately, and those variations could adversely affect its financial results.

Dependence on Certain Licensed Intellectual Property

The Company licenses certain technologies used in its products from third parties, including as part of ROS (Rugged Operating System). The termination of any of these licenses, or the failure of the licensors to maintain or update their products adequately, could delay its ability to ship solutions while it seeks to implement alternative technology offered by other sources that may require significant unplanned investments. In addition, alternative technology may not be available, and even if it is available it may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licenses relating to one or more of its solutions or relating to current or future technologies to enhance the Company's product offerings. There is a risk that the Company will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

Infringement of Intellectual Property Rights

While the Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of the Company's competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used in the Company's solutions. Some of these patents may grant very broad protection to the owners of the patents. The Company has not undertaken a review to determine whether any existing third party patents or the issuance of any third party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in its target markets, the overlap in functionality of these products and the prevalence of products. The Company may become subject to these claims either directly or through indemnities against these claims that it routinely provides to its end-users, manufacturer's representatives, distributors, value added resellers, systems integrators and original equipment manufacturers.

Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish the Company's proprietary rights. Some of its competitors have, or are

affiliated with companies having, substantially greater resources than RuggedCom and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than RuggedCom. Regardless of their merit, any such claims could be time consuming to evaluate and defend; result in costly litigation; cause product shipment delays or stoppages; divert management's attention and focus away from the business; subject the Company to significant liabilities and equitable remedies, including injunctions; require the Company to enter into costly royalty or licensing agreements; and require the Company to modify or stop using infringing technology.

The Company may be prohibited from developing or commercializing certain technologies and products unless it obtains a license from a third party. There can be no assurance that it will be able to obtain any such license on commercially favourable terms, or at all. If it does not obtain such a license, it could be required to cease the sale of certain of its solutions.

Use of Open Source Software

The Company uses certain open source software (such as Linux) in the development of certain of its software products, which are not maintained or supported by the original developers thereof. This open-source software was developed originally by third parties over whom the Company has no control. The Company has no assurances that the Linux operating system and the Company's related components do not infringe on the intellectual property rights of others and the Company could be exposed to infringement claims and liability in connection with the use of such open source software. The Company conducted no independent investigation to determine whether the sources of that software have the rights necessary to permit the Company to use this software free of claims of infringement by third parties. The Company could be required to replace certain components with internally developed or commercially licensed equivalents, which could delay product development plans, interfere with its ability to support its customers and/or require the Company to pay licensing fees. Certain open source software licenses provide that any software that makes use of or incorporates components distributed under that license will itself become subject to the same general distribution rights and other terms of that license. As a result, there is a risk that third parties, including RuggedCom's competitors, could have the right to use and distribute certain elements of the Company's software products which is based on open-source software.

Health and Safety

In recent years there has been publicity regarding the potentially negative direct and indirect health and safety effects of electromagnetic emissions from wireless equipment sources, including allegations that these emissions may cause cancer. The Company's wireless communications products emit electromagnetic radiation. Health and safety issues related to its products may arise that could lead to litigation or other actions against the Company or to regulation of certain of its product components. The Company may be required to modify its technology and may not be able to do so. It may also be required to pay damages that may reduce its profitability and adversely affect its financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect the Company's ability to market certain of its products and, in turn, could harm its business and results of operations.

Transfer Pricing

The Company conducts business operations in various jurisdictions and through legal entities in Canada, United States, Germany and Israel. RuggedCom and its wholly-owned subsidiaries, RuggedCom (USA) Inc., RuggedCom Deutschland GmbH i. Gr. and WiNetworks Ltd., provide solutions to, and may from time to time undertake certain significant transactions with, other currently existing or new subsidiaries in different jurisdictions. The tax laws of these jurisdictions, including Canada, have detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles and that contemporaneous documentation must exist to support that pricing. The taxation authorities in the jurisdictions where it carries on business could

challenge RuggedCom's arm's length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge the Company's transfer pricing policies, its income tax expense may be adversely affected and it could also be subjected to interest and penalty charges. Any such increase in its income tax expense and related interest and penalties could have a significant impact on its future earnings and future cash flows.

Other Tax Matters

Although management is of the view that all expenses and tax credits claimed by the Company, including research and development expenses and investment tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the taxation authorities successfully challenge such expenses or the correctness of such income tax credits claimed, the Company's operating results could be adversely affected. If the taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, its operating results will be adversely affected.

The majority of the Company's research and development activities are conducted at its headquarters in Concord, Ontario. The Company participates in government programs with both the federal Government of Canada and the Government of Ontario that provide investment tax credits based upon qualifying investment expenditures. These expenditures primarily consist of the salaries of the persons conducting research and development activities. If these investment tax credits are reduced or eliminated, the Company's business, financial condition and results of operations may be adversely affected.